KPN (KPN.AS)

INCREASE TARGET PRICE

Rating	**OUTPERFORM***
Price (02 May 07)	12.35 (Eu)
Target price (12M)	(from 11.00) 13.00 (Eu)
Market cap. (Eu m)	23,818
Enterprise value (Eu m)	32,977

** Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*

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Still some upside potential

We are reiterating the Outperform rating on KPN and raising our price target to €13.0 (from €11.0). The rating is driven by 3 factors—1) execution of KPN's all-IP strategy; 2) positive revenue and profitability trends at e-plus; and 3) valuation.

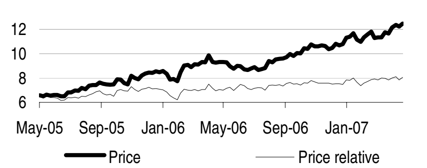
KPN's all-IP strategy is progressing well with testing currently taking place in Amsterdam and The Hague. Dutch unbundlers may now have to accept becoming wholesalers of KPN's VDSL products in the future with less scope for these unbundlers to differentiate on service or price. We believe the move to all-IP could put less pressure on broadband price cuts—a positive for KPN.

At eplus we are forecasting 2007 service revenue growth of around 9% and medium-term EBITDA margins rising to 35% (from 30% now) driven by e-plus's low-subsidy strategy (targeting the VFM segment through sub-brands) and the recent signing of a network outsourcing deal. In addition, from our experience of trends in Denmark, Finland and Switzerland we could see a rebound in German mobile market growth trends, over the next two years driven by further increases in elasticity.

In our view, the main risk to KPN forecasts is from regulation. The original OPTA proposal to reduce KPN's Dutch MTR to €0.055 per minute (from €0.11 currently) by mid-2008 was rejected. A new decision is expected before 1 July 2007. Within our forecasts we are assuming a worst-case scenario of a cut to €0.055 by mid-2008 but clearly any delay to or watering down of the new cuts, would provide upside to our Dutch mobile forecasts. On roaming, as stated previously, we believe the risk from roaming regulation is in our forecasts, although this remains uncertain in the absence of company guidance.

Our 2007E EBITDA forecast rises 3.7% due to an increase in our wireline margin from 35.8% to 38.0%, with medium-term EBITDA forecasts broadly unchanged due to lower Dutch mobile EBITDA forecasts from regulation offsetting wireline margin improvement. Our full DCF is €14.1 (before minority discount) whilst our LBO valuation is €13.70, suggesting no bid premium in the stock currently. Our price target rises to €13 representing a pre-bid valuation, but upside could be greater than this if M&A trends in the sector continue.

Share price performance



The price relative chart measures performance against the Europe Dow Jones Stoxx index which closed at 428.56 on 02/05/07
On 02/05/07 the spot exchange rate was Eu 0.74 /US$1

Performance over	1M	3M	12M
Absolute (%)	-22.6	-15.1	-0.5
Relative (%)	-25.9	-19.1	-15.4

Financial and valuation metrics

Year	12/05A	12/06A	12/07E	12/08E
Headline Revenue (Eu m)	11,886	12,047	12,412	12,422
Headline EBITDA (Eu m)	4,724	4,837	4,983	4,915
Net income (Eu m)	1,622.6	1,583.0	1,508.6	1,532.6
CS adj. EPS (Eu)	0.73	0.79	0.80	0.86
ROIC (%)	10.8	10.3	9.7	9.7
P/E (x)	19.0	14.6	15.4	14.3
P/E rel (%)	81.0	83.5	104.6	90.3
EV/EBITDA (x)	7.1	6.9	6.8	6.9

Dividend 2006 (Eu)	0.50	IC (12/07E, Eu m)	15,571.55
Dividend yield (%)	5.4	EV/IC (12/07E, x)	1.7
Net debt (12/07E, Eu m)	9,156.3	Current WACC (12/07E, %)	—
Net debt/equity (12/07E, %)	-4,660.2	Free float (%)	91.0
Book value/share (12/06, Eu)	—	Number of shares (m)	1,928.55

Source: FTI, Company data, Datastream, Credit Suisse Securities (EUROPE) LTD. Estimates

KPN now consumer focused

KPN has shifted its focus to one that is customer-centric from a product focus. As such its Dutch business is now organized into four new divisions and a new division has been created within the Mobile International business called Mobile Wholesale Netherlands in order to stimulate future growth in wholesale. The Dutch business is now organised into the following divisions:

- Consumer;
- Business;
- Wholesale and operations; and
- IT Netherlands;

In essence the Dutch retail unit has been absorbed into the Dutch fixed business but with the Dutch wholesale mobile business spun off into the International Mobile Division. The company will continue to report under the old reporting format together with the new format until investors are more familiar with the new reporting lines. In this report we set out our financial forecasts under the old reporting format although we will move to publishing our financial forecasts under the new format in due course.

KPN committed to distribution in absence of acquisitions

KPN remains committed to distributing 100% of its FCF in the absence of any alternative uses of cash and has indicated that it is set to continue with its 50/50 buyback/dividend strategy. We believe (based on discussions with the Credit Suisse credit research team) KPN could maintain leverage at over 3.0x times net debt to EBITDA in order to maintain a credit rating equivalent to at least BBB. This would imply further debt headroom of over €4bn which we believe gives the company potential M&A options—both “asset-heavy” and “asset-light”.

In our view, potential “asset-heavy” acquisitions that KPN might be interested in considering could include TDC-owned Sunrise in Switzerland following the private-equity acquisition of TDC and the recently sold BITE (Latvian and Lithuanian) mobile assets and potentially ONE in Austria, which recent press reports have stated is back up for sale following the breakdown in talks between owner E.ON and FT in mid-2006. Such acquisitions would allow KPN to expand its mobile footprint and replicate its low-subsidy strategy as seen with e-plus. “Asset-light” opportunities could include the potential launch of MVNO businesses in France, Poland, and Spain, in our view.

All-IP network plan progressing well

Following KPN’s regulatory approval of its all-IP network plan, over the next few years the company plans to spend €1-1.5bn building a nationwide VDSL network, largely funding it by closing its legacy copper network and selling the majority of its local exchanges. A strong cable presence in the Netherlands is the one reason for the approval being granted. As a result of shutting down the majority of its exchanges, KPN hopes to realise real estate disposal proceeds of up to €1bn which we discuss in more detail later in this report.

As we have highlighted in recent research the all-IP strategy threatens the current business model of the country’s unbundlers who may have to accept becoming wholesalers of KPN’s VDSL products with less scope to differentiate on service or price. In theory, unbundlers could unbundle KPN’s street cabinets but with more than 20,000 street cabinets currently planned this option looks economically unviable based on Analysys research.

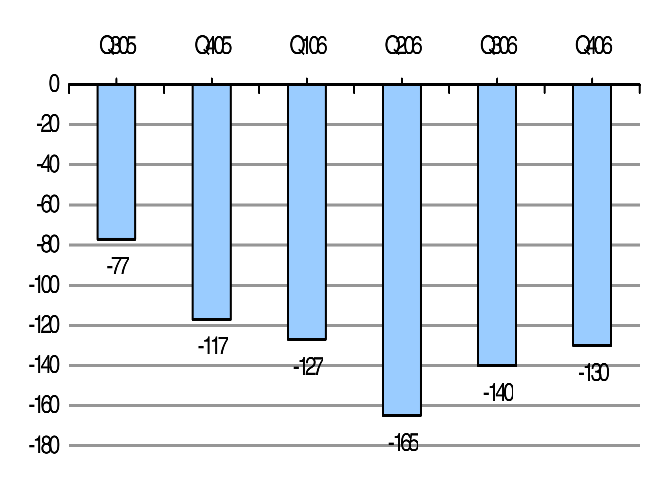
OPTA is urging KPN to offer the Dutch unbundlers competitive Fibre wholesale terms to be agreed on a commercial basis but sufficiently attractive to allow existing unbundlers to make an acceptable return. Furthermore, OPTA is keen to see KPN provide greater clarity on these terms to KPN's competitors in the coming months, possibly by the end of Q2 2007. Meanwhile, KPN is currently conducting testing on its all IP-network in Amsterdam and The Hague.

Negative wireline trends to continue but in our forecasts

Net line loss showing signs of stabilisation

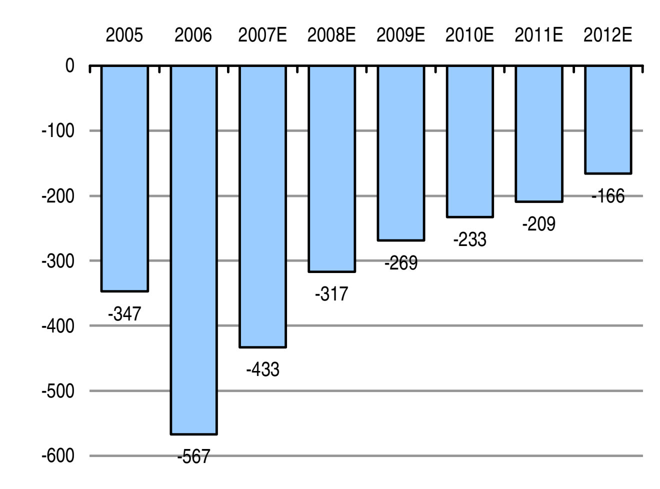
Line loss at KPN is one of the major factors that has negatively impacted the company's consumer revenue trends (Figure 1). However, over the past two quarters, the negative retail line loss trend has reduced slightly. In Q3 2006 and Q4 2006 we saw a slight reduction in the net loss as an acceleration in naked DSL subscriptions (Figure 3) offset PSTN and ISDN line loss.

Figure 1: KPN historic quarterly retail line loss
Number of lines



Source: Company data

Figure 2: KPN wireline retail line loss forecasts
Number of lines



Source: Company data, Credit Suisse estimates

In mid 2005, KPN announced the intention to launch a naked DSL/VoIP product. Although initially targeted at the country's mobile-only households, KPN is increasingly targeting its full customer base in a move to mitigate net line loss to cable and ULL. With 114,000 naked DSL adds in Q3 and a further acceleration in naked DSL adds in Q4 2006 to 247,000, this strategy appears to be working, although as a result there has been an increasing decline in consumer call minutes on the KPN network (as more PSTN traffic switches to VoIP over DSL).

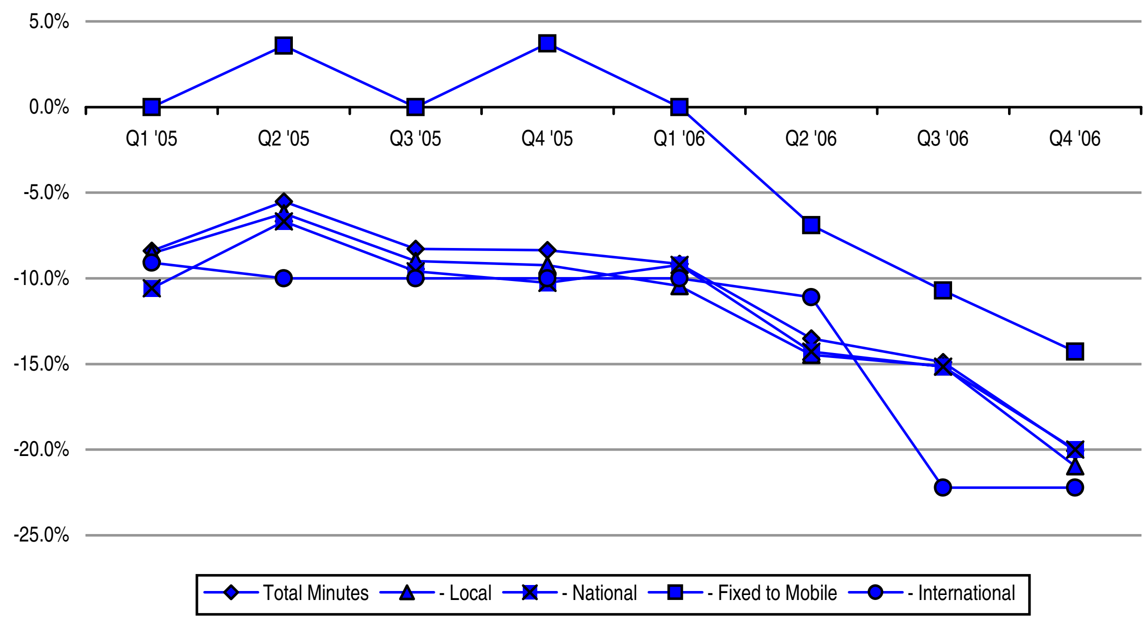
Figure 3: Naked DSL uptake
000s

	Q2 '05	Q3 '05	Q4 '05	Q1 '06	Q2 '06	Q3 '06	2006	2007E	2008E	2009E	2010E
Naked DSL subscribers	0	2	13	73	156	270	517	900	1,050	1,150	1,250
% of total KPN consumer lines	0.0%	0.0%	0.3%	1.5%	3.3%	5.9%	11.6%	22.2%	28.5%	34.1%	40.0%

Source: Company data, Credit Suisse estimates

We currently believe the negative retail line loss trend is adequately reflected in our forecasts going forward. Furthermore, we also believe we are sufficiently cautious in our consumer voice volume assumptions going forward. We forecast a year on year reduction in voice minutes in 2007 of around 21% compared to a 14% reduction in 2006 with the year on year decline accelerated over 2006 (Figure 4). Including dial-up minutes we estimate total consumer minutes will decline around 24% in 2007 compared to 23.0% in 2006. From 2008 we estimate voice call volumes fall around 20% per annum.

Figure 4: Consumer voice volume trends
Change year on year



Source: Company data

Figure 5: KPN: Year on year traffic volume forecasts (consumer)

KPN Minutes yoy	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Internet dial-up	-61.6%	-50.8%	-59.4%	-50.0%	-25.0%	-15.0%	-10.0%	-5.0%	-5.0%
Local	-46.8%	-8.3%	-15.1%	-22.0%	-22.0%	-20.0%	-20.1%	-20.2%	-17.5%
National	-62.4%	-9.3%	-14.5%	-20.7%	-20.8%	-20.9%	-21.1%	-17.5%	-17.5%
Fixed to Mobile	-56.2%	1.8%	-8.0%	-16.1%	-16.2%	-16.3%	-16.5%	-13.0%	-13.0%
International	-64.0%	-9.8%	-16.2%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%	-22.0%
Total voice (yoy)	**-53.5%**	**-7.7%**	**-14.3%**	**-21.0%**	**-21.0%**	**-19.8%**	**-19.9%**	**-18.6%**	**-17.0%**
Total KPN Fixed Mins (yoy)	**-56.4%**	**-21.0%**	**-23.0%**	**-23.9%**	**-21.3%**	**-19.5%**	**-19.3%**	**-17.6%**	**-16.0%**

Source: Company data, Credit Suisse estimates

Headline Broadband pricing trends

For KPN, headline broadband pricing has remained unchanged since early 2004. However, over that period we have seen a fall in implied DSL ARPU, which we estimate fell 9.5% y/y in 2006. The reason for the decline has been the changing mix towards low-end packages and the move to bundled packages over the past three years. We forecast a slowdown in DSL ARPU declines due to a more stable mix in the future. In addition, we believe that as the competitive threat from unbundling recedes, KPN will generally face only one significant competitor in the cable operators. As a result, we believe standalone pricing trends can remain relatively stable going forward (Figure 6).

Figure 6: KPN DSL pricing assumptions (excluding VoIP and IPTV)
Eu in millions, unless otherwise stated

KPN ISP DSL	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
- Slim/Time (1000 kbit/s down - 128 kbit/s up)									
Speed (kbps)	288	288	1,000	1,000	2,000	2,000	2,000	2,000	2,000
Share of subscriptions	2%	4%	7%	9%	10%	10%	10%	10%	10%
Subs (av. in year)	14	48	124	202	251	264	273	279	284
Monthly charge	15.00	15.00	15.00	15.00	14.63	14.26	13.90	13.56	13.22
Change		0%	0%	0%	-3%	-3%	-3%	-3%	-3%
Revenues	3	9	22	36	44	45	46	45	45
- % Go (1500 kbit/s down - 256 kbit/s up)									
Speed (kbps)	416	800	1,500	2,000	4,000	6,000	6,000	8,000	8,000
Share of subscriptions	23%	35%	47%	50%	50%	50%	50%	50%	50%
Subs (av. in year)	161	424	829	1,124	1,257	1,318	1,365	1,397	1,421
Monthly charge	18.45	18.45	18.45	18.45	18.45	18.45	18.45	18.45	18.45
Change		0%	0%	0%	0%	0%	0%	0%	0%
Revenues	36	94	184	249	278	292	302	309	315
- % Lite (1,600 kbit/s down - 512 kbit/s up)									
Speed (kbps)	1,120	1,600	1,600	2,200	6,000	8,000	8,000	8,000	10,000
Share of subscriptions	49%	42%	34%	30%	30%	30%	30%	30%	30%
Subs (av. in year)	344	508	600	675	754	791	819	838	853
Monthly charge	25.17	25.17	25.17	25.17	25.17	25.17	25.17	25.17	25.17
Change		0%	0%	0%	0%	0%	0%	0%	0%
Revenues	104	154	181	204	228	239	247	253	258
- % Basic (3,200 kbit/s down - 768 kbit/s up)									
Speed (kbps)	2,240	3,200	3,200	4,000	6,000	8,000	12,000	16,000	16,000
Share of subscriptions	23%	16%	10%	9%	8%	8%	8%	8%	8%
Subs (av. in year)	161	194	176	202	201	211	218	223	227
Monthly charge	41.97	41.97	41.97	41.97	40.92	39.90	38.90	37.93	36.98
Change		0%	0%	0%	-3%	-3%	-3%	-3%	-3%
Revenues	81	98	89	102	99	101	102	102	101
- % Extra (8,000 kbit/s down - 1,024 kbit/s up)									
Speed (kbps)	4,480	8,000	8,000	12,000	16,000	16,000	20,000	32,000	32,000
Share of subscriptions	3%	3%	2%	2%	2%	2%	2%	2%	2%
Subs (av. in year)	21	36	35	45	50	53	55	56	57
Monthly charge	62.98	62.98	62.98	62.98	61.41	59.87	58.37	56.91	55.49
Change		0%	0%	0%	-3%	-3%	-3%	-3%	-3%
Revenues	16	27	27	34	37	38	38	38	38
Total retail broadband revenues	**239**	**381**	**503**	**625**	**686**	**715**	**735**	**748**	**756**
Implied BB ARPU	28.4	26.2	23.7	23.2	22.7	22.6	22.4	22.3	22.2
Change YoY		-7.7%	-9.5%	-2.4%	-1.8%	-0.7%	-0.6%	-0.6%	-0.6%

Source: Company data, Credit Suisse estimates

IPTV launched in February

KPN launched its IPTV service in February over ADSL2+ giving it IPTV coverage of around 60% of Dutch households. The IPTV product is branded “Mine” and offers around 70 channels for €19.95 per month including VAT. This does not include premier channels, for example, Dutch premiership football which costs an additional €5-6 per month. Speeds of more than 1.5MBps are needed to run IPTV. KPN also continues to offer its DVB-T service (“Digitenne”) for €13.95 per month (inc. VAT) or around €8.0 per month (inc. VAT) for its existing customers. Digitenne offers 25 basic channels.

Triple-play access pricing comparison

In Figure 7 we set out a comparison of triple-play access pricing (no voice call charges included) in the Dutch broadband market. Assuming that KPN's IPTV product represents the best comparison with the cable operators in terms of number of channels offered then on a 1.5MBps/2MBps triple play offering KPN is charging around €54.90 per month inc. VAT compared to the cable operator, UPC at around €50. It is interesting that KPN is even addressing the "Value-for-money" segment by offering a low cost triple play access offering for €27.90 under its HetNet brand which offers the user broadband/VoIP access at off-peak times only.

Figure 7: Triple play access pricing for equivalent 2MBps line
Eu in millions, unless otherwise stated

	Broadband VoIP	DVB-T	IPTV	Cable TV	Triple-play access
KPN (InternetPlus) Go*	34.95	7.95			42.9
KPN (InternetPlus) Go*	34.95		19.95		54.9
KPN (HetNet) **	19.95	7.95			27.9
UPC (42 TV channels)	29.95			17.99	47.9
UPC (100 TV channels)	29.95			19.99	49.9
Tele2 Neths (40 channels)	29.95		7.95		37.9
Tele2 Neths (70 channels)	29.95		14.95		44.9

Source: Company data. All prices include VAT and exclude promotions.

** Bundle represents around a €5 saving on standalone monthly line rental plus Go DSL package.*

*** DSL/VoIP access only available at certain time representing "Value-for-money" offering*

Negative wireline revenue trends in our forecasts

In conclusion we believe that our consumer wireline revenue forecasts set out in Figure 9 contain suitably conservative assumptions on line loss and consumer volume trends while we believe standalone broadband pricing can remain stable going forward with KPN placing a greater emphasis on bundled triple-play products going forward following KPN's recent IPTV launch. We forecast voice access revenues to fall 21% in 2007 and around 15-18% from 2008, voice traffic revenues to fall 19% in 2007 and decline 15%-19% in 2008-10E. Consumer Internet (DSL and Naked DSL) revenues we see growing 4% in 2007 and 2008 (boosted by the acquisition of Tiscali Neths) while other revenue (including IPTV) forecasts grow by 50% in 2007 and 25% in 2008 from €61m in 2006.

Figure 8: Consumer revenue forecasts
Eu in millions, unless otherwise stated

Fixed Division - revenues	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Consumer								
Voice access	1,031	892	707	579	496	428	366	311
yoy%	-6%	-13%	-21%	-18%	-14%	-14%	-14%	-15%
Voice traffic	643	571	463	377	313	264	231	206
yoy%	-3%	-11%	-19%	-19%	-17%	-15%	-13%	-11%
Voice total	**1,674**	**1,463**	**1,171**	**956**	**809**	**692**	**597**	**518**
yoy%	-5%	-13%	-20%	-18%	-15%	-14%	-14%	-13%
Internet (DSL&Naked DSL)	699	738	898	1,035	1,086	1,118	1,141	1,158
yoy%	4%	4%	4%	4%	2%	1%	1%	1%
Other (including IPTV)	11	61	92	114	126	138	152	167
yoy%	450%	455%	50%	25%	10%	10%	10%	10%
Total Consumer revenues	**2,384**	**2,262**	**2,160**	**2,105**	**2,020**	**1,949**	**1,890**	**1,843**
yoy%	-2.4%	-5.1%	-4.5%	-2.5%	-4.0%	-3.5%	-3.0%	-2.5%

Source: Company data, Credit Suisse estimates

Figure 9: KPN wireline forecasts
Eu in millions, unless otherwise stated

Fixed Division - P&L	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
REVENUES											
Consumer											
Voice total	1,674	1,463	1,171	956	809	692	597	518	454	401	352
yoy%	-5%	-13%	-20%	-18%	-15%	-14%	-14%	-13%	-12%	-12%	-12%
Internet	699	738	898	1,035	1,086	1,118	1,141	1,158	1,169	1,178	1,186
yoy%	4%	4%	4%	4%	2%	1%	1%	1%	101%	201%	301%
Other	11	61	92	114	126	138	152	167	184	203	223
yoy%	450%	455%	50%	25%	10%	10%	10%	10%	10%	10%	10%
Total Consumer	**2,384**	**2,262**	**2,160**	**2,105**	**2,020**	**1,949**	**1,890**	**1,843**	**1,807**	**1,781**	**1,761**
yoy%	-2.4%	-5.1%	-4.5%	-2.5%	-4.0%	-3.5%	-3.0%	-2.5%	-2.0%	-1.4%	-1.2%
Business											
Voice	1,238	1,086	953	836	733	643	564	495	434	381	334
Connectivity	736	696	675	655	635	616	598	580	562	545	529
IMS	410	417	434	451	465	478	493	508	523	539	555
Entercom	406	436	458	481	505	530	556	584	613	644	676
Other	-137	-105	-89	-85	-85	-85	-85	-85	-85	-85	-85
Total Business	**2,653**	**2,530**	**2,430**	**2,337**	**2,253**	**2,183**	**2,126**	**2,082**	**2,048**	**2,024**	**2,009**
yoy%	-10.0%	-4.6%	-4.0%	-3.8%	-3.6%	-3.1%	-2.6%	-2.1%	-1.6%	-1.2%	-0.7%
Wholesale and ops											
Carrier Services	4,182	3,962	4,062	4,062	3,960	3,861	3,764	3,670	3,579	3,489	3,402
yoy%	-5%	-5%	3%	0%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
Other	1,429	1,379	1,345	1,311	1,278	1,246	1,215	1,185	1,155	1,126	1,098
yoy%	-2%	-4%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
Intercompany within wholesale	-626	-612	-606	-606	-606	-606	-606	-606	-606	-606	-606
yoy%	4%	-2%	-1%	0%	0%	0%	0%	0%	0%	0%	0%
Total wholesale and ops	**4,985**	**4,729**	**4,800**	**4,766**	**4,632**	**4,501**	**4,373**	**4,249**	**4,127**	**4,009**	**3,894**
yoy%	-5.2%	-5.1%	1.5%	-0.7%	-2.8%	-2.8%	-2.8%	-2.8%	-2.9%	-2.9%	-2.9%
Other	-3,139	-2,913	-2,800	-2,691	-2,616	-2,542	-2,470	-2,399	-2,331	-2,264	-2,199
yoy%	-8%	-7%	-4%	-4%	-3%	-3%	-3%	-3%	-3%	-3%	-3%
Total Fixed Revenues	**6,883**	**6,608**	**6,590**	**6,518**	**6,290**	**6,091**	**5,920**	**5,774**	**5,652**	**5,551**	**5,465**
yoy%	-5.1%	-4.0%	-0.3%	-1.1%	-3.5%	-3.2%	-2.8%	-2.5%	-2.1%	-1.8%	-1.5%
EBITDA											
Consumer	380	269	257	250	240	232	225	219	215	212	209
yoy%	-4%	-29%	-5%	-3%	-4%	-4%	-3%	-3%	-2%	-1%	-1%
margin %	15.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
Business	358	349	335	316	304	295	287	281	276	273	271
margin %	13.5%	13.8%	13.8%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
Wholesale and ops	2,038	1,928	1872	1811	1737	1688	1640	1593	1548	1503	1460
yoy%	-10%	-5%	-3%	-3%	-4%	-3%	-3%	-3%	-3%	-3%	-3%
margin %	40.9%	40.8%	39.0%	38.0%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%
Other	16	28	42	53	58	64	70	77	85	93	102
yoy%	78%	75%	50%	25%	10%	10%	10%	10%	10%	10%	10%
Total Fixed EBITDA	**2,792**	**2,574**	**2,506**	**2,430**	**2,339**	**2,278**	**2,222**	**2,170**	**2,124**	**2,082**	**2,043**
yoy%	-10.5%	-7.8%	-2.6%	-3.1%	-3.7%	-2.6%	-2%	-2%	-2%	-2%	-2%
Total Fixed Margin	40.6%	39.0%	38.0%	37.3%	37.2%	37.4%	37.5%	37.6%	37.6%	37.5%	37.4%

Source: Company data, Credit Suisse estimates

Dutch mobile consolidation remains a possibility

There have been widespread press reports that FT's Orange Netherlands operation is up for sale—FT has stated publicly that it is reviewing its position in the Netherlands. Dutch newspaper Het Financieele Dagblad reported in February that were are five interested parties interested in buying Orange Netherlands, citing DT as the front-runner, but adding that Liberty Global (which owns the leading Dutch cable operator), Cinven (owner of other cable operators), Warburg Pincus, Vodafone and a consortium of Rabo Capital, Providence and Carlyle were also interested. Les Echos reported last week that DT and Providence were now the front-runners.

DT's Dutch business lacks scale (market share of 17% and EBITDA margins of around 14%) so combining it with Orange Neths (gaining a combined market share of around 27%) would likely increase the margins of the combined business and generate value for DT, in our view. On an LBO model we believe Orange Netherlands could be worth up to €1.4bn (Figure 10) to a potential private equity bidder. This valuation assumes Orange Netherlands could be sold in three years time for 8.5 times EV/EBITDA. However, we believe that DT could afford to outbid private equity interest due to synergies of combining the two operations.

Implications for KPN

For KPN, clearly DT buying Orange Neths is much more preferable than private equity or the cable operators acquiring Orange Netherlands. We see DT as the more likely winner, but this is not guaranteed.

Figure 10: Orange Netherlands LBO valuation: €1.37bn

Eu in millions, unless otherwise stated

Orange Netherlands LBO

Eu m	2008E	2009E	2010E	2011E	2012E	2013E
Net Revenues	**636**	**649**	**662**	**675**	**688**	**701**
EBITDA						
Orange Neth	153	162	166	169	172	175
Group EBITDA	**153**	**162**	**166**	**169**	**172**	**175**
Group EBITDA margin	24.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Core asset costs	483	487	497	506	516	526
Reduction to core assets costs	**0.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Group EBITDA with improvement	**153**	**172**	**175**	**179**	**182**	**186**
	24.0%	26.5%	26.5%	26.5%	26.5%	26.5%
Group EBITDA in scenario	**153**	**172**	**175**	**179**	**182**	**186**
Group EBITDA margin in scenario	24.0%	26.5%	26.5%	26.5%	26.5%	26.5%
Capex						
Orange Neth	-76	-78	-79	-81	-83	-84
Group Capex	**-76**	**-78**	**-79**	**-81**	**-83**	**-84**
Group Capex/Sales	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%
Improvement to Capex	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Group Capex with improvement	**(76)**	**(78)**	**(79)**	**(81)**	**(83)**	**(84)**
Group Capex in scenario	**(76)**	**(78)**	**(79)**	**(81)**	**(83)**	**(84)**
Group Capex/Sales in scenario	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%	-12.0%
EBITDA - Capex	**76**	**94**	**96**	**98**	**100**	**102**
Tax Cash Due	-24	-30	-30	-31	-31	-32
Changes in working capital						
Other operational cashflows						
FCF (pre-interest)	**52**	**64**	**66**	**67**	**68**	**70**
Senior Debt and Second Lien Interest	-57	-56	-54	-52	-50	-47
Subordinated Debt	-13	-13	-13	-13	-13	-13
Cash interest	**-70**	**-69**	**-67**	**-65**	**-63**	**-60**
Non-cash interest (Shareholders Funds)	-7	-15	-16	-17	-18	-19
Tax Shield	**24**	**26**	**26**	**26**	**26**	**25**
FCF (post-interest)	**7**	**22**	**25**	**28**	**31**	**34**

Last updated:	**30/04/07**	
Sale Price Inputs		
Sale EV/EBITDA of:		
Implied entry multiple for core assets	9.0x	
Exit multiple for core assets	8.5x	
Capital Structure Inputs		
Total Amount Paid	**1,368**	
EV/EBITDA Price Paid	9.0x	
Debt on acquisition	0	
Professional fees	10	
Debt	70%	958
Equity	30%	410
Stake to be acquired	100%	
Debt		
Senior Debt A	65%	622
Senior Debt B	15%	144
Subordinated Debt	20%	192
Total (Check)	100%	958
Equity		
Shareholders Loans	50%	205
Normal Equity	50%	205
Base Rate	4.3%	
Interest Rates	**Premium**	**Rate**
Senior Debt A	2.50%	6.80%
Senior Debt B	6.00%	10.30%
Senior Debt blended rate	3.16%	7.46%
Subordinated Debt		6.75%
Shareholders Loans		7.00%
Debt/EBITDA		
Debt/EBITDA end 2008E	6.2x	
Debt/EBITDA end 2009E	5.4x	
Debt/EBITDA end 2010E	5.2x	
IRR of cashflows	**20.0%**	

Source: Credit Suisse estimates

Dutch MTR decision expected before 1 July

Last summer, OPTA announced a two-year plan to halve mobile termination rates in the Netherlands. KPN estimate that a 50% cut would negatively impact KPN Mobile Netherlands revenues by around €80m and negatively impact EBITDA by €40m.

KPN objected in the courts on three grounds—1) the size of the proposed cuts; 2) the proposed growing (relative) asymmetry between large and small operators; and 3) the lack of differentiation between Telfort and KPN termination. KPN won on all three counts. OPTA was required to carry out a new market review which it started in January with its findings due to be reported prior to 1 July with a new rate likely to be imposed from 1 July.

In KPN's view, it is doubtful whether OPTA could implement the original 50% cut on the same timeframe—in effect a halving of the termination rate over a period of 15 months. Furthermore, since the original proposal was thrown out by the Dutch Court we have had the UK regulator, Ofcom, announce long-term rates of 5.3p per minute (€0.075 per minute) by March 2011, substantially above the €0.055 OPTA originally proposed. The new OPTA proposal may at least suggest a new timetable for cuts.

We set our ARPU forecasts for KPN Mobile Netherlands in Figure 12. We forecast KPN Netherlands ARPU to fall 4.4% year on year in 2007E and to fall 8.5% in 2008E. This follows a year on year decline of 3.3% in 2006 following a 15% termination rate cut in Q4 2005 and the integration of Telfort in Q4 2005. Within our ARPU model we have assumed roaming cuts are implemented as set out in more detail later in this report and a worst-case decision on an announced MTR cut—we assume that OPTA imposes cuts of around 30% from both 1 July 2007 and 1 July 2008 in order to bring down KPN's MTR to €0.055 by 1 July 2008 i.e. the original proposal. We see upside to our KPN mobile Neths forecasts on a delayed or watered down proposal. Our year on year growth forecasts for KPN Mobile Neths service revenues are 2.7% and minus 5.2% in 2007E and 2008E, respectively.

ARPU was down 6.3% year on year in Q3 2006 compared to down 3.3% in Q2 2006 and flat year on year in Q1 (Figure 11). However, despite this Q4 2006 blended ARPU was flat as the year on year comparison was not effected by the Q4 2005 termination rate cut.

Figure 11: KPN Netherlands quarterly ARPU
euros, unless otherwise stated

Quarterly ARPU KPN Neths	Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06	Q4 06
ARPU	28.0	30.0	32.0	29.0	28.0	29.0	30.0	29.0
Change YoY					0.0%	-3.3%	-6.3%	0.0%

Source: Company data

We believe year on year ARPU declines of 4.4% and 8.5% for 2007E and 2008E, respectively, are suitably conservative as they assume roaming regulation in H2 2007 and a worst-case scenario on the upcoming termination rate cut decision—that rates cuts of 30% are proposed on both 1 July 2007 and 1 July 2008 in order to bring KPN Mobile Neths rate is brought down to €0.055 per minute from €0.11 currently.

Figure 12: KPN Mobile Netherlands: Detailed ARPU model

Euros unless otherwise stated

Blended ARPU	2005A	2006A	2007F	2008F	2009F	2010F
Blended ARPU	**30.0**	**29.0**	**27.7**	**25.4**	**24.7**	**24.6**
Change	**-6.3%**	**-3.3%**	**-4.4%**	**-8.5%**	**-2.8%**	**-0.2%**
Data revenue	4.2	4.6	5.0	5.1	5.4	5.9
% from data	14.0%	16.0%	18.0%	20.0%	22.0%	24.0%
Voice ARPU	25.8	24.4	22.7	20.3	19.2	18.7
Blended total voice MOU	123	132	144	158	174	189
Rev/minute	0.21	0.18	0.16	0.13	0.11	0.10
Roaming revenue	3.0	2.9	2.2	1.4	1.4	1.4
% roaming total ARPU	10.0%	10.0%				
Roaming minutes per month	3.0	2.9	2.8	2.8	3.0	3.2
Roaming rev/min	1.00	1.00	0.78	0.49	0.47	0.45
Of which............						
Customer Outgoing	2.1	2.0	1.7	1.2	1.2	1.2
% Total roaming	70.0%	70.0%				
Revenue per minute	1.00	1.00	0.73	0.45	0.43	0.41
Change in price			-27.5%	-37.9%	-5.0%	-5.0%
Minutes	2.1	2.0	2.3	2.6	2.8	2.9
Organic growth			2.5%	2.5%	2.5%	2.5%
Price driven growth			11.7%	9.5%	3.0%	4.0%
Blended Elasticity			0.43	0.25	0.60	0.80
Customer incoming	0.9	0.9	0.5	0.2	0.2	0.2
% Total roaming	30.0%	30.0%				
Rev/minute	0.80	0.80	0.48	0.20	0.20	0.20
Change			-39.7%	-58.5%	0.0%	0.0%
Minutes	1.1	1.1	1.1	1.1	1.1	1.1
Termination revenues	4.5	3.9	3.4	2.4	2.1	2.1
% termination voice ARPU	17.5%	15.0%	14.7%	12.0%	10.8%	11.3%
Termination minutes	35.0	35.0	35.9	36.8	37.7	38.6
Organic/cyclical factors			2.5%	2.5%	2.5%	2.5%
Termination rate (per min)	0.129	0.110	0.094	0.066	0.055	0.055
Change in termination rate	-16.2%	-14.7%	-15.0%	-29.4%	-16.7%	0.0%
Outbound revenue	18.3	17.6	17.2	16.5	15.8	15.2
% outbound of voice	70.9%	72.3%				
Outbound minutes per month	85.0	94.1	104.9	118.5	133.4	146.7
Growth	3.9%	10.7%	11.5%	12.9%	12.6%	10.0%
Outbound rev/min	0.22	0.19	0.16	0.14	0.12	0.10
Blended rev/min change			-12.5%	-15.0%	-15.0%	-12.5%
Organic/cyclical growth factors			0.0%	0.0%	0.0%	0.0%
Implied elasticity			0.92	0.86	0.84	0.80

Source: Company data, Credit Suisse estimates

e-plus targeting double-digit growth in 2007

KPN is targeting double-digit service revenue growth for e-plus in 2007 and believes that a similar level of growth could be maintained beyond 2007. To achieve this e-plus continues to pursue a strategy of targeting value segments, particularly through its sub-brands—e-plus currently has around 4.3m subscribers on these sub-brands which include Simyo, Aldi, BASE and Medion. Future MVNO deals are possible for e-plus (for example with German broadband partners) although KPN believes it would be difficult to see any MVNO deal that would provide the high levels of subscriber take-up that the Aldi sub-brand has delivered so far. The operator continues to offer good value tariffs e.g. BASE flat-fee for €25 and a homezone tariff.

e-plus outsourcing deal to drive medium-term margins to 35%

In Figure 13 we compare our margin forecasts with other German mobile operators. For Vodafone, T-Mobile and O2 we assume falling 2007E EBITDA margins (FYMar08E for Vodafone and O2) of around 2.5pp and then broadly flat going forward for T-Mobile and Vodafone but rising to 30% in the long-term for O2 Germany as it continues to gain scale. Our forecasts for e-plus for 2007 show the opposite trend with a slight year on year increase in 2007E EBITDA margin by 0.7pp and margins rising 1pp per year from 2008E and peaking at 35%. We believe these forecasts are achievable given e-plus's low-subsidy strategy in the German mobile market (targeting the "value-for-money" through various sub-brands) and the February 2007 signing of a network operation and maintenance outsourcing deal with Alcatel-Lucent. The company did not comment on potential cost savings from the deal but the Financial Times reported at the time that the NPV of cost savings could be around €1.5bn. KPN had previously discussed a restructuring of e-plus, and we now include outsourcing in our e-plus forecasts with medium-term EBITDA margins rising to 35% from 31.3% reported in FY2006.

Figure 13: German mobile: EBITDA margin forecasts for all operators

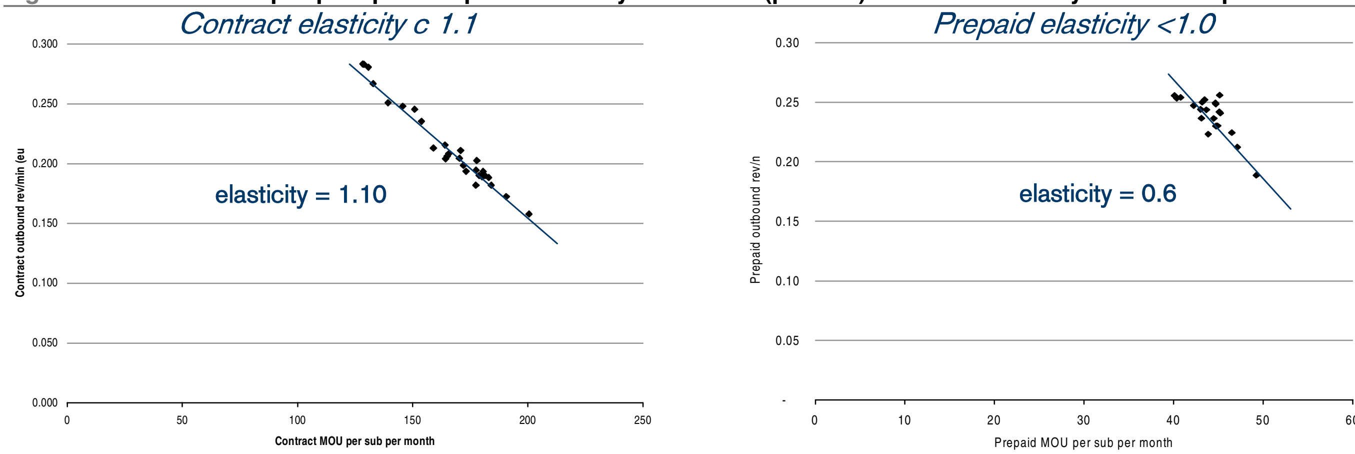
	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
e-plus	24.1%	31.3%	32.0%	33.0%	34.0%	35.0%	35.0%	35.0%
T-Mobile Germany	41.8%	40.2%	37.6%	37.9%	38.1%	38.1%	38.0%	38.0%
Vodafone Germany	47.0%	43.4%	40.8%	41.2%	41.7%	41.8%	41.9%	
O2 Germany	22.1%	22.3%	19.5%	23.3%	25.8%	28.4%	30.0%	29.6%

Source: Company data, Credit Suisse estimates

German mobile elasticity to drive rebound in H2 2007

In Figure 15 we outline price German mobile price cuts that we have observed over the past two years. The German prepaid price war started in H1 2005 when Germany suffered a pre-paid price war, with e-plus introducing pre-paid sub-brand and resellers (e.g. simyo, Aldi) on disruptive prices. Since the beginning of 2006 however, Vodafone Germany adjusted its pre-paid prices down in late Q3 2006, but otherwise most of the price cutting has been on contract.

Figure 14: **Contract vs. pre-paid price implied elasticity of demand (per SIM) over the last five years in European mobile**



Source: Credit Suisse research

As we discussed in our 2007 telecom outlook we concur with the general view that mobile elasticity in Europe is improving by shifting price cutting to contract. Indeed, we estimate a price elasticity per SIM on contract of around 1.1 (suggesting the recent contract price cutting is going to accelerate market growth) as set our in Figure 14, compared to an estimate of just 0.6 on prepaid. Markets that have seen a continued decline in the pre-paid mix through contract price cutting (e.g. Spain) has seen multi-year high single digit growth.

Figure 15: German mobile price cuts over the past two years

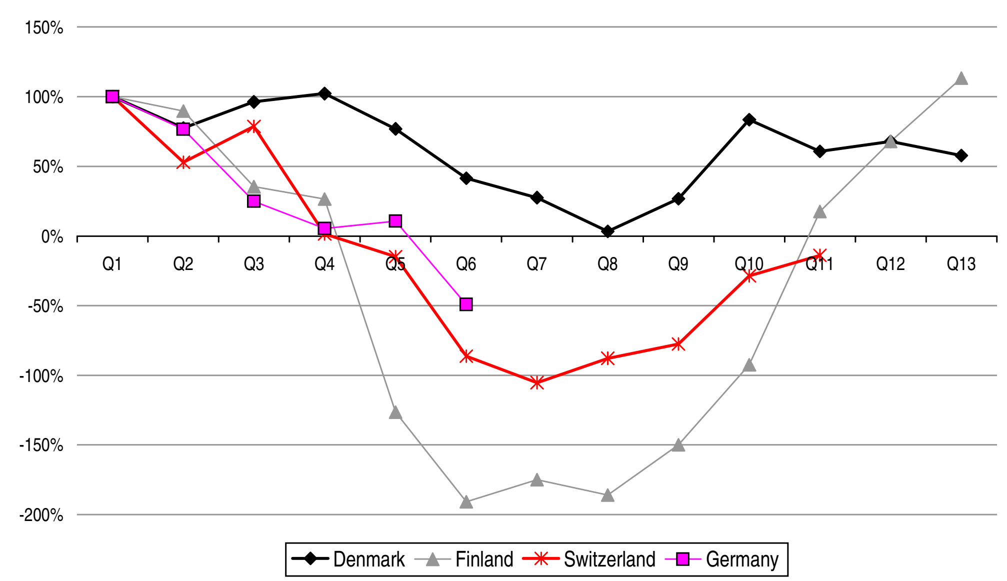
Date	Company	Contract/ Prepaid	New tariff or offer
2005			
01-Jun	KPN (e-plus)	Prepaid	Simyo offers calls to all phones in Germany for a flat €0.19 per minute. SMS €0.19 per message.
28-Jul	KPN (e-plus)	Contract	BASE contract tariff launched. SIM-only contract tariff, with a 12-month contract (24 months is standard in Germany) and no handset subsidy. Monthly fee of €25 gives unlimited fixed and on-net calls. Calls to other mobile networks are €0.25 per minute and SMS costs €0.19 per message. Billing on-line.
02-Aug	T-Mobile	Prepaid	T-Mobile launches web-based SIM-only prepaid offer called "Xtra Click&Go". Calls cost €0.15 per minute to other T-Mobile customers and €0.30 per minute to other German mobile networks.
31-Aug	Vodafone	Contract	2 in 1 upgraded Zuhause homezone product launched. Previously, Zuhause voice customers were taking 2 mobile handsets, one for home at a cheap rate and one for outside. Now upgraded to allow one phone switching seamlessly. Costs €20/month for extra 1000 minutes of call allowance for calls to fixed line numbers from the homezone. Outside the homezone normal mobile tariffs apply.
02-Sep	Vodafone	Prepaid	Flat rate pre-paid tariff promotion lasting until end January 2006. Costs €0.39 for the first minute to fixed line or on-net then free afterwards. Costs €1.50 per month debited from prepaid balance.
21-Sep	Vodafone	Prepaid	Call Ya Compact' online prepaid tariff launched. €0.15 per minute on-net, €0.30 per minute to fixed and off-net mobile, SMS €0.15 per message. Purchase Call Ya Compact for € 19.95 on the Internet includes €10 of free calls.
01-Nov	KPN (e-plus)	Prepaid	Simyo offers calls to all phones in Germany for a flat €0.16 per minute, €0.06 to other Simyo. SMS €0.11 per message.
01-Dec	Tchibo	Prepaid	Lowers prepaid tariff €0.05 on-net, €0.25 off net
05-Dec	Aldi	Prepaid	SIM-only offer by Aldi. €0.15 per minute for peak and off-peak voice.
09-Dec	T-Mobile	Prepaid	Web-based pre-paid tariff cut. Now offering €0.05 per minute on-net calls from €0.15 per minute previously and €0.05 per SMS (from €0.15 per message previously.
09-Dec	Klarmobile	Prepaid	Klarmobile (MVNO of Mobilcom) cuts its pre-paid tariffs for its SIM-only offer - now offering free calls on-net.
20-Dec	Vodafone	Prepaid	"Call ya Compact" tariffs cut. Cost of an on-net call is now €0.05 per minute (from €0.15 per minute) while off-net calls and fixed calls now cost €0.25 per minute (from €0.30 per minute).
2006			
11-Jan	T-Mobile	Contract	DT announces new homezone tariff "T-Mobile@Home" offering users cheaper calls from a zone around 2km wide around their home or work. T-Mobile@home costs €4.95 per month, with no inclusive minutes. Fixed-line number for your mobile. €0.04 per minute on-net and to fixed when calling within the 2km zone.
23-Aug	Vodafone	Prepaid	"HappyEvening", "HappyWeekend" & "MyCard SMS-Packets" prepay offers launched. HappyWeekend (€6 allows 1,000 minutes of on-net and fixed calls (Sat and Sun)) and HappyEvening (€9 offers 1,000 minutes between 8pm and 8am) cards cost €15.
29-Aug	T-Mobile	Contract	Relax bundles revised - Relax 400 reduced to €49 pm from €54 pm. New Relax 1000 tariff for €59 per month replacing existing €79 per month Relax 600 tariff.
29-Aug	T-Mobile	Contract	New Max contract tariff. For €35 pm on-net and fixed calls are free, and on-net text free.
29-Aug	T-Mobile	Prepaid	New Xtra Smart prepaid tariff. If a user tops up at least €30 per month, for the next month calls to T-Mobile and fixed networks cost €0.09 per minute while calls to other mobiles will cost €0.29 per minute. Otherwise, calls are €0.49 and €0.29 per minute respectively.
26-Sep	Vodafone	Contract	CombiPackages launched: 60 mins for €24.95, 120 mins for €34.95, 240mins for €49.95, 480 mins for €69.95 & 1200 mins for €89.95. Includes minutes to fixed lines, Vodafone's network & to other mobile networks.
26-Sep	Vodafone	Contract	SuperFlat: €34.95 with SIM only which gives free on-net & calls to fixed line. €44.95 including a subsidised phone. Both offered on minimum 24-month contracts.
06-Oct	Vodafone	Prepaid	CallYaComfort prepaid revamp: Calls to Vodafone and fixed line numbers in Germany for as low as 9c/min, depending on how much the customer tops up every month (40% cut). Calls to other German mobile networks fall around 35% to as low as eu29c/min. Option to make free on-net w/e calls on €15 or more of call credit pcm.
16-Nov	O2	Contract	Genion tariff structure simplified. Offnet and "outside homezone calls" cut to €0.19 per minute. €25 per month contract tariff launched offering free fixed and on-net calls within Germany.
16-Nov	O2	Prepaid	Genion prepaid service launched. €0.03 per minute to fixed line and €0.19 per minute for other calls.
2007			
23-Jan	KPN	Contract	"zehnsation": Under the e-plus brand, and is cheaper than e-plus existing contract tariffs, on our analysis. The new contract tariff cost €0.10 per minute to any phone, and has a €10 per month minimum spend. It is also a SIM-only tariff.
15-Mar	Vodafone	Contract	i) A new combined fixed-mobile package (Vodafone At Home, already at 2m users), offering mobile and fixed (voice and DSL) access for €34.95 for the first 6 months of the contract (€49.95 thereafter), including flat rate calls to Vodafone mobile phones of friends and family from within a 2km homezone. Also customers can elect to take a DSL only service for €19.95 per month.
15-Mar	Vodafone	Contract	ii) A Vodafone Zuhause (mobile home zone) package offering unlimited flat rate calls to international numbers for €10 per month
15-Mar	T-Mobile	Contract	T-Mobile Germany offering unlimited calls to fixed-line numbers and on-net calls for €25 per month. T-Mobile has also introduced a data plan charging as little as €0.01 per MB downloaded over a laptop.

Source: Company data

This pricing trend towards contract price cutting is what we are seeing in German mobile and, if this trend continues, it is likely that customers will switch back to contract in Germany and mobile usage will increase (TEM has argued in Spain for years that when a customer switches from pre-paid to contract they use the phone around 30% more). This would start to come through in better ARPU year on year trends in Germany over the next 12 months.

To backup this assumption in Figure 16 we show year on year mobile service revenue growth trends for markets that have experienced a price war. From our experience of trends in Denmark, Finland and Switzerland we typically see a rebound in the year on year mobile growth trend around two years after a prepaid price shock (in quarters Q8 or Q9). Following the prepaid price shock in Germany in H2 2005 then we estimate we can expect a rebound in German mobile growth trends in H2 2007, one of the key drivers of our Outperform rating on DT.

Figure 16: Mobile growth after prepaid price shock
(relative to growth = 100% at start of price shock)



Source: Company data

KPN Base facing price cuts and regulatory pressure

A number of innovative tariffs were launched in the Belgian mobile market in Q1 2007, mainly aiming at stimulating on-net traffic and fixed-to-mobile substitution. We summarise these in Figure 17.

Base launched two new flat-fee tariffs, “3” and “3+” in the quarter with both tariffs offering three hours of free on-net talktime per day for €25 and €35 per month, respectively, with “3+” offering calls to a fixed line within the bundle for the extra monthly fee. Base also launched a new prepaid tariff under its “Aldi” low-cost sub-brand offering on-net calls for just €0.09 per minute and calls to other mobiles for €0.19 per minute, among the cheapest rates we have seen in the Belgian mobile market.

Mobistar launched its much-anticipated home-zone tariff (“AtHome”) in mid-March offering 40 hours of fixed-line free calls from within the homezone for an additional €10 per month on top of the customer’s existing tariff. Mobistar also announced it was aligning its prepaid roaming prices with its contract rates in February.

We observed no new mobile tariff launches or cuts from Proximus in the quarter, although Belgacom announced it was cutting its fixed-line rates for calls to mobiles from 1 May 2007 by around 20%.

Figure 17: **Belgian mobile market tariff launches in Q1 2007**

2007	Company	Market	New tariff or offer
23-Jan	KPN	Belgium	Base 3 launched. Flat fee of €25 (inc. VAT) per month, customers will have 3 hours per day of talktime to BASE numbers only. In addition, customers can send 1,000 text messages a month on-net.
14-Feb	Mobistar	Belgium	New homezone contract tariff called Mobistar "AtHome" from 19 March 2007. The homezone uses the cell-ID from the closest GSM antenna to the customer's home. Mobistar customers who take up this option can call 40 hours from home for just €10 per month using their mobile phone to any Belgian fixed line and €0.15 per minute for international calls. Mobile-to-fixed calls in the customer's homezone will become substantially cheaper although Mobistar has not announced these rates.
21-Feb	Aldi	Belgium	ALDI TALK (BASE Joint venture with Aldi) launched. Prepaid. On-net calls €0.09 per minute. Off-net calls €0.19 per minute. Roaming in Europe €0.49 per minute. Text messages on-net €0.09 per minute and €0.19 per minute to any other network.
15-Mar	KPN	Belgium	Base 3+ launched. Flat fee of €35 (inc. VAT) per month, customers will have 3 hours per day of talktime to BASE numbers and fixed lines. In addition, customers can send 1,000 text messages a month on-net. Calls outside bundle cost: on-net and fixed €0.05 per minute, €0.15 per text; off-net €0.20 per minute, €0.15per text.
2007	**Company**	**Market**	**New tariff or offer**
13-Feb	Mobistar	Belgium	Mobistar aligns prepaid roaming tariffs to contract tariffs. Outbound €1.10 per minute and inbound €0.40 per minute.

Source: Company data

New Belgian termination rates announced for 2008 and 2009

The Belgian regulator, BIPT, announced an updated glide path for termination rate cuts for all of the operators in April 2007. The rates for all three operators are now more symmetrical following European Commission opposition to the original BIPT proposal announced back in August 2006. BIPT announced last year it would amend its originally proposed glide path so that the termination rates between the different operators became more symmetrical in the near-term.

Figure 18: **New BIPT termination rate glide path**
Euros

Termination rate cuts (old)	2005	Nov-06	May-07	Jan-08	Jul-08
Proximus	12.66	10.13	8.09	7.48	6.56
Mobistar	15.98	12.75	10.16	9.38	8.21
Base	19.6	15.81	12.76	11.82	10.41

Termination rate cuts (new)	2005	Nov-06	May-07	Jan-08	Jul-08	Jan-09	Jul-09
Proximus	12.66	10.13	8.09	8.03	7.96	7.85	7.73
Mobistar	15.98	12.75	10.16	9.06	7.96	7.85	7.73
Base	19.6	15.81	12.76	10.76	8.75	8.62	8.49

Source: BIPT

The effect on BASE's revenues and EBITDA in 2008 and 2009 from the latest termination rate cut proposal is largely captured in our forecasts, in our view, We forecast BASE year on year service revenue growth to fall from over 13% in 2006 to 8% in 2007E and just 1.8% in 2008. These service revenue growth rates also assume material roaming rate cuts for BASE as we analyse in more detail later in this report.

EU mobile roaming cuts

KPN is obviously exposed to the Benelux markets that appear to have a relatively high amount of roaming traffic. However unlike the Belgian operators, KPN generates around 10% of its group mobile service revenues from total (both EU and non-EU) roaming—in line with the European average—with around 30% of this generated from visitors' roaming-in according to the company. e-plus generates less than 10% of mobile service revenues from roaming due to the relatively low proportion of business customers within its base while KPN Mobile Netherlands generates slightly more than 10% from roaming. KPN Base generates around 10% of its service revenues from roaming, less than the 15% stated by Mobistar due to KPN Base's smaller amount of preferred roaming partnership deals and a perceived network disadvantage.

KPN states that as a group it is currently a net payer of wholesale (visitor) roaming mobile charges and it would therefore expect an EBITDA margin improvement from wholesale roaming cuts all else being equal. In Figure 19 we set out our last published KPN forecasts for KPN's three mobile divisions.

As published in recent research (*European mobile roaming: A decision coming soon*, dated 19 April) our most probable scenario (mandatory caps of eu45/20c outbound/inbound) would take around 3.6% off industry revenues and 7.4% off EBITDA over the first 12 months of implementation for a typical European operator generating around 10% of its mobile service revenues from roaming and 7% from EU roaming. This is equivalent to a 1.4pp decline in EBITDA margin. We compare the potential impact of retail and wholesale regulation on KPN to our published KPN forecasts.

Figure 19: KPN Mobile division forecasts

euros in millions, unless otherwise stated

KPN Mobile Neths	**2005A**	**2006A**	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**
Service revenues	2,368	2,867	**2,943**	**2,792**	2,773	2,802	2,796	2,790	2,784	2,778	2,771
Growth		21.1%	**2.7%**	**-5.2%**	-0.7%	1.1%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Total revenues	2,483	2,980	**3,059**	**2,902**	2,866	2,894	2,889	2,883	2,878	2,872	2,867
EBITDA	928	1,092	**1,162**	**1,074**	1,060	1,071	1,069	1,067	1,065	1,063	1,061
EBITDA margin	37.4%	36.6%	**38.0%**	**37.0%**	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Margin change		-0.7pp	**1.4pp**	**-1.0pp**	0.0pp	0.0pp	0.0pp	0.0pp	0.0pp	0.0pp	0.0pp
e-plus	**2005A**	**2006A**	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**
Service revenues	2,461	2,698	**2,929**	**3,164**	3,330	3,458	3,562	3,654	3,736	3,811	3,878
Growth		9.6%	**8.6%**	**8.0%**	5.2%	3.8%	3.0%	2.6%	2.3%	2.0%	1.8%
Total revenues	2,822	2,894	**3,113**	**3,340**	3,507	3,636	3,743	3,838	3,923	4,000	4,071
EBITDA	673	905	**996**	**1,102**	1,192	1,273	1,310	1,343	1,373	1,400	1,425
EBITDA margin	23.8%	31.3%	**32.0%**	**33.0%**	34.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
		7.4pp	**0.7pp**	**1.0pp**	1.0pp	1.0pp	0.0pp	0.0pp	0.0pp	0.0pp	0.0pp
KPN Base	**2005A**	**2006A**	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**
Service revenues	541	609	**658**	**670**	684	693	702	712	721	731	740
Growth		12.6%	**8.0%**	**1.8%**	2.1%	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%
Total revenues	548	620	**669**	**680**	693	703	712	722	732	741	751
EBITDA	204	264	**247**	**238**	229	232	235	238	241	245	248
EBITDA margin	37.2%	42.6%	**37.0%**	**35.0%**	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
		5.4pp	**-5.6pp**	**-2.0pp**	-2.0pp	0.0pp	0.0pp	0.0pp	0.0pp	0.0pp	0.0pp

Source: Company data, Credit Suisse estimates

KPN Mobile Netherlands

Stripping out the Telfort acquisition, we estimate that KPN Netherlands mobile service revenues grew around 5.5% in 2006 on an organic basis. Our 2007E and 2008E service revenue growth forecasts are 2.7% and -5.2%, respectively, or year on year reductions in organic growth of 2.8pp and 7.9pp. We therefore believe the impact of roaming (and termination rate cuts as discussed earlier in this report) is fully captured within our KPN Neths mobile forecasts.

We forecast EBITDA margins to increase by 1.4pp year on year in 2007 and to be down 1.0pp in 2008. Compared to a calculated 1.3pp decline on an annual basis from the implementation of roaming regulation on an opt-out basis for a typical European operator, our margin forecasts for this operation potentially look at risk. However, KPN is targeting an improvement on its 2006 margin of 36.6% going forward as it completes the integration of Telfort and continues to focus on lowering SACs. Our forecasts are already below this guidance, suggesting overall our forecasts for KPN Mobile Neths are suitably conservative.

e-plus

For e-plus we forecast year on year service revenue growth of 8.6% and 8.0% in 2007 and 2008, respectively, with EBITDA margins growing 0.7pp in 2007E to 32.0% and rising 1.0pp to 33% in 2008E. Given the relatively low exposure of e-plus to roaming and the company's guidance of double-digit service revenue growth in 2007 these revenue forecasts look conservative to us. 2008E margins benefit from the network sourcing contract signed with Alcatel/Lucent. A major cut to roaming pricing could leave our margin forecast of a pick-up of 1pp in 2008E slightly at risk, but this could be offset by a beat on our revenue forecasts due to German mobile elasticity coming through.

KPN Base

Our KPN Base financials forecast a substantial slowdown in service revenue growth and EBITDA margin over the next two years. We forecast service revenue growth will fall from 12.6% in 2006 to 8.0% in 2007 (a reduction of 4.6pp) and to 1.8% in 2008 (a reduction of 6.2pp) as mobile termination rate cuts as well as roaming regulation impact 2007 and 2008 numbers. Mobistar is guiding a slowdown in group service revenues from 6.5% to minus 2% to 4% in 2007 (8.5pp to 10.5pp reduction) but with KPN Base's lower exposure to roaming cuts (10% of service revenues from roaming compared to Mobistar's 15%) our 2007 service revenue forecast looks achievable. With year on year EBITDA margin reductions of 5.6pp and 2.0pp in 2007 and 2008 we believe tough regulatory price cuts in these years are included within our forecasts.

Financial forecasts updated

In addition to updating the key operating trends in the existing KPN divisions we have made a number of significant changes to our model following new information provided by the company on various non-operating issues.

- We have substantially increased our near-term cash tax charge to reflect the recent tax paper published by the company;
- Real estate book gains now included in EBITDA at lower levels; and
- We now assume later completion of iBasis and Tiscali Netherlands acquisitions. In our previous forecasts we assumed that the Tiscali Netherlands and iBasis transactions completed at the end of 2006 and early 2007, respectively. Now we forecast both transactions to complete at the end of H1 2007 and we therefore include financials from these two transactions from H2 2007.

We look at these three areas in more detail below.

KPN to pay cash tax going forward

At its FY2006 results KPN published a tax paper setting out its updated corporate tax position. Over the period 2002—2006 the Group did not pay any cash tax due to being able to use losses carried forward, particularly from e-plus, to offset against profits over this period. The basic conclusion of the tax paper, via a complex structure, was that KPN Group expects to pay cash tax at a higher rate going in the medium-term at the group level as it no longer has sufficient losses going forward to fully set off against its future profits and e-plus losses are recaptured.

Figure 20 sets out KPN's guidance for total group cash tax payments it expects to make over the next four years together with our old and new forecasts. KPN is guiding a FY2007E cash tax payment of €280m and around €700-800m in 2008E-2012E. We have now incorporated this guidance into our new KPN forecasts and so our cash tax payment for 2007E has increased by €180m, by around €500m in 2008E and by around €550m in 2009. Over the next four years we now forecast an additional €1.5bn of tax payments compared to our previously published forecasts. All of these additional tax payments impact FCF forecasts.

Figure 20: KPN: New cash tax estimates
Eu in millions, unless otherwise stated

Cash tax analysis	2007E	2008E	2009E	2010E
KPN cash tax guidance	-280	-660	-720	-740
New Credit Suisse cash tax payments	-276	-662	-714	-741
Old Credit Suisse cash tax payment	-96	-188	-187	-571
Difference	**-180**	**-473**	**-528**	**-170**

Source: Company data, Credit Suisse estimates

Longer-term our cash tax forecasts are broadly unchanged with the additional tax payment due to previous forecasts assuming higher tax would be paid in the longer-term. This does not directly impact our DCF as we continue to use a normalised cash tax charge in our DCF calculation. However, we exclude any tax credit adjustment in our DCF calculation as we discuss in the valuation section later in this report.

Real estate book gains reduced

KPN now includes expected real estate book gains in its EBITDA guidance and also real estate cash proceeds in its group revenue and group FCF guidance. The company is targeting real estate disposals of around €1bn in aggregate over the next three years generating book gains of €600m. For 2007E the targets are €100-200m of disposals generating €75-150m of book gains boosting EBITDA.

Figure 21 sets out our expectations for real estate disposals by KPN over the next four years (consisting mainly of local exchanges). Consistent with our previous forecasts we are more cautious on the timing of real estate asset disposals. However, we have increased the real estate proceeds for 2007 and reduced medium-term book gains to reflect the guidance outlined above. We now assume that the book gain on disposals is 60% whereas previously we had assumed that the full proceeds represented the book gain. These book gains do not impact our DCF as they do not represent cashflows.

Figure 21: KPN: Real estate disposals
Eu in millions, unless otherwise stated

Real estate disposals		2007E	2008E	2009E	2010E
Proceeds included in revenues	New	150	150	200	200
Proceeds included in revenues	Old	50	200	200	200
Change	**€'m**	**100**	**-50**	**0**	**0**
Book gains included in EBITDA	New	90	90	120	120
Book gains included in EBITDA	Old	50	200	200	200
Change	**€'m**	**40**	**-110**	**-80**	**-80**

Source: Credit Suisse estimates

Tiscali and iBasis acquisitions delayed

We currently expect the KPN acquisitions of Tiscali Netherlands and iBasis to both separately complete in mid-2007. Tiscali Netherlands is a Dutch unbundler serving both retail and wholesale customers—it had around 276,000 broadband subscribers and 126,000 dial-up customers in mid-2006. iBasis is a Nasdaq-listed wholesale carrier of international long distance telephone calls and a provider of retail prepaid calling services. iBasis carried more than 11 billion minutes of international VoIP traffic in 2006, according to the company.

Tiscali has a significant impact on KPN's consumer internet growth in H2 2007E, while iBasis is a high revenue, low margin business that we expect will improve growth but slightly dilute margins in the wholesale division. According to Reuters, consensus revenues for iBasis are around US$624m (€455m), while we estimate the company has EBITDA margins of around 5%.

As a result of these acquisitions we expect a slight decline of -0.3% (Figure 9) from KPN's wireline division in 2007 compared to a decline of -4.0% in year on year in 2006. However, as a result of further margin pressure from the dilution from iBasis, we forecast a 1.0pp year on year decline in EBITDA margin in 2007 to 38.0%, an overall EBITDA decline of 2.6%, down from a 7.8% year on year decline in 2006.

2007E EBITDA raised 3.7%

In Figure 22 we set out our new financial forecasts for KPN following the FY2006 results and compare these new forecasts to those published after the Q3 2006 results (*Wireline pressure rising but mobile still improving*, dated 13 November 2006). Please note that we continue to present KPN under the previous KPN divisional reporting structure ahead of the Q1 2007 financial results.

Figure 22: **KPN: Changes to Forecasts**
Eu in millions, unless otherwise stated

		2007E			2008E			2009E		
		new	old	Δ (%)	new	old	Δ (%)	new	old	Δ (%)
Group	Revenue (inc. real estate proceeds)	12,412	12,494	-0.7%	12,422	12,670	-2.0%	12,398	12,739	-2.7%
	EBITDA (inc real estate gains)	4,983	4,808	3.7%	4,915	4,953	-0.8%	4,922	4,929	-0.1%
	EBITDA margin	40.1%	38.5%	1.7pp	39.6%	39.1%	0.5pp	39.7%	38.7%	1.0pp
	EBIT	2,525	2,317	9.0%	2,561	2,594	-1.2%	2,606	2,610	-0.1%
	Net Income	1,509	1,301	16.0%	1,533	1,532	0.1%	1,576	1,556	1.3%
	EPS	0.80	0.69	16.6%	0.86	0.87	-1.1%	0.93	0.95	-1.9%
	CAPEX	-1,844	-2,062	-10.5%	-1,851	-1,916	-3.4%	-1,801	-1,863	-3.3%
	Tax (cash)	276	96	186.9%	662	188	251.4%	714	187	282.8%
	FCF (inc real estate proceeds)	2,346	2,044	14.8%	2,088	2,451	-14.8%	2,156	2,498	-13.7%
Wireline	Revenue	6,590	6,638	-0.7%	6,518	6,497	0.3%	6,290	6,403	-1.8%
	EBITDA	2,506	2,378	5.4%	2,430	2,261	7.5%	2,339	2,186	7.0%
	EBITDA margin	38.0%	35.8%	2.2pp	37.3%	34.8%	2.5pp	37.2%	34.1%	3.0pp
e-plus	Revenue	3,113	3,125	-0.4%	3,340	3,298	1.3%	3,507	3,449	1.7%
	EBITDA	996	969	2.9%	1,102	1,088	1.3%	1,192	1,173	1.7%
	EBITDA margin	32.0%	31.0%	1.0pp	33.0%	33.0%	0.0pp	34.0%	34.0%	0.0pp
Dom. mobile	Revenue	3,059	3,104	-1.5%	2,902	3,113	-6.8%	2,866	3,088	-7.2%
	EBITDA	1,162	1,180	-1.5%	1,074	1,183	-9.2%	1,060	1,158	-8.4%
	EBITDA margin	38.0%	38.0%	0.0pp	37.0%	38.0%	-1.0pp	37.0%	37.5%	-0.5pp

Source: Credit Suisse estimates

Group guidance

Figure 23: **KPN: Credit Suisse forecasts versus guidance**

	2006 reported	2007 guidance	Credits Suisse
Revenues and other income	12,057	Flat	12,412
EBITDA	4,837	Flat	4,983
CAPEX	1,650	1,600 - 1,800	1,844
FCF 2007 inc. real estate disposals	2,477	> 2,000	2,346
FCF 2008 inc. real estate disposals		> 2,000	2,088
FCF 2009 inc. real estate disposals			2,156

Source: Company data, Credit Suisse estimates

KPN's guidance for 2007 is set out in Figure 23 compared to our forecasts. KPN's guidance excludes any contribution from the pending acquisitions of iBasis and Tiscali Netherlands although we include them from H2 2007. The impact of including these two acquisitions from H2 2007 on 2007 revenues and EBITDA is around €300m to revenues and around €40m to EBITDA. On a comparable basis we are slightly ahead of 2007 group revenue and EBITDA guidance. We are at the top end of 2007 CAPEX guidance and also above 2007-2009 FCF guidance of "more than €2bn"—note that this guidance includes real estate proceeds.

2% ahead of consensus EBITDA for 2007

Figure 24: KPN: Credit Suisse versus consensus
Eu in millions, unless otherwise stated

	Credit Suisse* 2007E	Consensus 2007E	Diff.	Credit Suisse* 2008E	Consensus 2008E	Diff.	Credit Suisse* 2009E	Consensus 2009E	Diff.
Group revenue	12,412	12,270	1.2%	12,422	12,321	0.8%	12,398	12,425	-0.2%
Group EBITDA	4,983	4,897	1.8%	4,915	4,965	-1.0%	4,922	5,056	-2.7%
Group EBIT	2,525	2,502	0.9%	2,561	2,588	-1.0%	2,606	2,698	-3.4%
Pre-tax profit	2,059	2,022	1.8%	2,097	2,120	-1.1%	2,156	2,245	-4.0%
Net profit	1,509	1,517	-0.6%	1,533	1,577	-2.8%	1,576	1,668	-5.5%
EPS	0.80	0.80	0.4%	0.86	0.87	-0.9%	0.93	0.95	-2.0%
FCF (including real estate)	2,346	2,200	6.6%	2,088	2,100	-0.6%	2,156	2,200	-2.0%
CAPEX	1,844	1,800	2.5%	1,851	1,800	2.8%	1,801	1,800	0.1%

*Source: KPN (consensus), Credit Suisse estimates. * Credit Suisse estimates include Tiscali Neths and iBasis acquisitions are completed in mid-2007.*

Figure 24 sets out a comparison between our forecasts and consensus. According to KPN, only around half of analyst estimates include the pending acquisitions of iBasis and Tiscali Netherlands, including us, from H2 2007. On a headline comparison we are 2-3% ahead on medium-term group revenues, 1.8% ahead of consensus medium-term EBITDA and 6.6% ahead of consensus Group FCF forecast for 2007 (including real estate proceeds).

Valuation: Raise price target to €13.0

On our new estimates, our DCF fair valuation for KPN rises to €12.7 per share (Figure 25). Equally our full-value DCF of €14.1 represents the value of KPN to a potential bidder for control of the company, prior to synergies. As we have noted in past research (*European telecoms Q1 2007: Earnings slowing, M&A on the up*, dated 2 April 2007) we see KPN as a potential bid target.

Figure 25: KPN: Discounted DCF valuation of €12.7

Eu in millions, unless otherwise stated

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	4,721	4,893	4,825	4,802	4,834	4,817	4,800	4,784	4,770	4,757	4,747
Tax	-645	-644	-653	-665	-680	-679	-662	-645	-645	-644	-645
Tax rate @	29.0%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
Working Capital	-142	-100	0	0	0	0	0	0	0	0	0
CAPEX	-1,650	-1,844	-1,851	-1,801	-1,699	-1,642	-1,633	-1,625	-1,618	-1,612	-1,605
Unlevered FCF	2,284	2,305	2,321	2,336	2,454	2,496	2,505	2,513	2,507	2,501	2,497
OLD											
WACC	6.7%										
Perpetuity	-1.0%										
Year		0	1	2	3	4	5	6	7	8	9
Discount factor		1.00	1.07	1.14	1.22	1.30	1.38	1.48	1.58	1.68	1.80
NPV of FCFs		2,305	2,175	2,051	2,019	1,925	1,810	1,701	1,590	1,487	1,391

NPV of f/c period FCFs	18,454
NPV of perpetuity	18,026
Total FV	36,481
Net debt (end 2006)	-9,180
NPV of additonal tax liabilities	-532
NPV of real estate proceeds	803
NPV of Pension liabilities	-250
NPV of associates & minorities	-120
Equity Value	27,202
Number of shares	1,929
DCF value per share	14.1
Discount	10%
Fair value per share	12.7

post-tax	
WACC	6.72%
Beta	1.00
Rf	4.0%
ERP	4.0%
Gearing	30%
Spread	1.0%
Tax rate	25.5%

Source: Company data, Credit Suisse estimates. Note EBITDA used in our DCF is operating EBITDA.

Terminal growth raised to minus 1% from minus 2.5%

The primary driver of the increase in our DCF valuation is a decrease in the perpetuity decline rate that we applied to the DCF calculation following a stabilisation in sector eps momentum. In our KPN DCF we assume a perpetuity decline rate of minus 1.0% compared to minus 2.5% used previously. Minus 1% is consistent with that used in our other published DCF valuations.

Adjustments for tax and Real estate disposal proceeds in DCF

We include cash proceeds from real estate disposals in our group cashflow and net debt calculation going forward. We also continue to use a normalised tax charge in our DCF calculation but no longer include around €900m of NPV tax credits that we previously assumed, equivalent to around €0.50 per share.

Consistent with previous research due to the unusual tax structure of KPN we included cash tax on a normalised basis using 25.5% applied to Group EBIT and made adjustments for the NPV of tax losses and the pension liability. We also included an estimated positive NPV of tax losses to set against future profits of €867m within our calculation but we made no adjustment for the real estate proceeds.

Following the publication of the detailed tax paper published by KPN setting out estimates for cash tax payments over the next ten years and the reiteration of real estate proceeds of €1bn expected to be realised in the medium-term, we have adjusted our DCF accordingly. In the DCF we now include the NPV of additional tax liability that KPN expects to incur over the next seven years which negatively impacts our DCF valuation by €532m (Figure 25). We also now include the NPV of real estate proceeds that we expect over the next six years which positively impacts our DCF by €803m (Figure 25).

KPN on multiples

On multiples, KPN continues to trade broadly in-line with the sector in 2007E, but at a slight discount in 2008E on FCF yield). The company's dividend yield of 4.6% in 2007E is also broadly in-line with the sector, but we also expect a further €1bn buy-back programme per year going forward in line with company guidance, ensuring that KPN retains its position of sector-leading distribution.

Figure 26: **KPN valuation multiples**

	2007E P/E	2008E P/E	2007E FCF yield	2008E FCF yield
KPN	15.4x	14.3x	7.8%	8.3%
Sector	13.7x	12.7x	8.3%	8.5%

Source: Credit Suisse estimates

Worth €13.70 per share on LBO valuation

We have updated our LBO valuation for KPN and set out the updated calculation in Figure 27. Although we do not believe that there is any active private equity interest at present, we believe it remains a possibility if the high yield market continues to expand. In our base case we assume that KPN is acquired at the start of 2008 in an 80%/20% debt/equity deal, with e-plus and base sold 24 months later for 8x EBITDA. We also assume an exit after four years and an IRR for the investment of 20%.

Reiterate Outperform rating; target price raised to €13.0

Our LBO valuation of KPN is €13.70 per share, close to our full-value DCF valuation of €14.1 for the company under a conventional structure. We therefore conclude that there is little bid premium priced in to the stock price at present. As we stated at the beginning of the year (*European Telecoms 2007: How much higher?*, dated 19 January, barring a major correction in the high yield market, we believe that major private equity firms may begin to cast an eye over telecoms again in 2007.

Figure 27: KPN LBO valuation

Eu in millions, unless otherwise stated

KPN

Last updated: 27/04/07

Eu m	2008E	2009E	2010E	2011E	2012E	2013E
Group net revenues	**12,422**	**12,398**	**12,405**	**12,380**	**12,262**	**12,154**
E-plus/Base	4,020	4,200	4,339	4,455	4,560	4,654
Net Revenues (following disposals)	**12,422**	**12,398**	**8,067**	**7,925**	**7,703**	**7,500** 0
EBITDA						
Core Assets	3,575	3,500	3,450	3,392	3,278	3,170
E-Plus	1,102	1,192	1,273	1,310	1,343	1,373
Base	238	229	232	235	238	241
Group EBITDA	**4,915**	**4,922**	**4,954**	**4,937**	**4,860**	**4,784**
Group EBITDA margin	39.6%	39.7%	39.9%	39.9%	39.6%	39.4%
Core asset costs	4,827	4,697	4,617	4,533	4,424	4,330
Reduction to core assets costs	**0.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**	**2.0%**
Group EBITDA with improvement	**4,915**	**5,016**	**5,047**	**5,027**	**4,948**	**4,871**
	39.6%	40.5%	40.7%	40.6%	40.4%	40.1%
Group EBITDA selling e-plus/Base	**4,915**	**5,016**	**3,542**	**3,482**	**3,367**	**3,256**
Selling (Y/N)			**y**			
Group EBITDA in scenario	**4,915**	**5,016**	**3,542**	**3,482**	**3,367**	**3,256**
Group EBITDA margin in scenario	39.6%	40.5%	43.9%	43.9%	43.7%	43.4%
Capex						
Core Assets	-1,248	-1,227	-1,124	-1,070	-1,048	-1,028
E-Plus	-501	-491	-491	-487	-499	-510
Base	-102	-83	-84	-85	-87	-88
Group Capex	**-1,851**	**-1,801**	**-1,699**	**-1,642**	**-1,633**	**-1,625**
Group Capex/Sales	-14.9%	-14.5%	-13.7%	-13.3%	-13.3%	-13.4%
Improvement to Core Assets	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Group Capex with improvement	**(1,851)**	**(1,801)**	**(1,699)**	**(1,642)**	**(1,633)**	**(1,625)**
Group Capex selling Baltics/Estonia	**(1,851)**	**(1,801)**	**(1,124)**	**(1,070)**	**(1,048)**	**(1,028)**
Group Capex in scenario	**(1,851)**	**(1,801)**	**(1,124)**	**(1,070)**	**(1,048)**	**(1,028)**
Group Capex/Sales in scenario	-14.9%	-14.5%	-13.9%	-13.5%	-13.6%	-13.7%
EBITDA - Capex	**3,064**	**3,214**	**2,418**	**2,413**	**2,319**	**2,228**
Tax Cash Due	-819	-829	-495	-488	-480	-474
Changes in working capital	0	0	0	0	0	0
Other operational cashflows	0	0	0	0	0	0
FCF (pre-interest)	**2,245**	**2,385**	**1,922**	**1,925**	**1,839**	**1,754**
Senior Debt and Second Lien Interest	-1,687	-1,624	-1,291	-952	-871	-792
Subordinated Debt	-388	-388	-264	-264	-264	-264
Cash interest	**-2,075**	**-2,012**	**-1,555**	**-1,217**	**-1,136**	**-1,057**
Non-cash interest (Shareholders Funds)	-126	-260	-279	-298	-319	-341
Tax Shield	**561**	**580**	**468**	**386**	**371**	**356**
FCF (post-interest)	**731**	**952**	**834**	**1,095**	**1,074**	**1,054**

Sale Price Inputs

Sale EV/EBITDA of:	**2009E**	
e-plus	8.0x	
Base	8.0x	
Proportion used to payback sub debt	20.0%	
Implied entry multiple for core assets	6.85x	
Exit multiple for core assets	7.00x	

Capital Structure Inputs

Total Amount Paid	35,926	
EV/EBITDA Price Paid	7.3x	
Debt on acquisition	9,147	
Professional fees	50	
Debt	80%	28,741
Equity	20%	7,185
Stake to be acquired	100%	
Debt		
Senior Debt A	65%	18,681
Senior Debt B	15%	4,311
Subordinated Debt	20%	5,748
Total (Check)	100%	28,741
Equity		
Shareholders Loans	50%	3,593
Normal Equity	50%	3,593
Base Rate	4.3%	
Interest Rates	**Premium**	**Rate**
Senior Debt A	2.50%	6.80%
Senior Debt B	6.00%	10.30%
Senior Debt blended rate	3.16%	7.46%
Subordinated Debt		6.75%
Shareholders Loans		7.00%

Key Outputs

IRR of deal	**19.5%**
Price paid per share (Eu)	**13.70**
Current share price	12.6
No. Shares	1,951
Premium to current share price	8.9%
Debt/EBITDA end 2008E	5.7x
Debt/EBITDA end 2009E	5.4x
Debt/EBITDA end 2010E	4.9x

Source: Credit Suisse estimates

Q1 2007 preview

Figure 28: KPN: Q1 2007 forecasts

Eu in millions, unless otherwise stated

Year to December Group P&L	Q1 2006	2006	Q1 2007E Credit Suisse	2007E	Q1 2007E Consensus
Consumer	572	2,262	540	2,160	550
Business	647	2,530	615	2,430	619
Wholesale and ops	1,189	4,729	1,165	4,800	1,113
Other	-738	-2,913	-700	-2,800	-656
Total Fixed	1,670	6,608	1,620	6,590	1,626
yoy%	-3.1%	-4.0%	-3.0%	-0.3%	
E-Plus	665	2,894	710	3,113	711
KPN Mobile	700	2,980	730	3,059	736
Base	144	620	157	669	157
Eliminations	-10	-46	-13	-50	-11
Total Mobile	1,499	6,448	1,585	6,791	1,593
yoy%	14.7%	10.6%	5.7%	5.3%	
Other	32	74	16	70	29
Intercompany	-278	-1,189	-278	-1,190	-286
Operating Revenues	2,923	11,941	2,942	12,262	2,962
Exceptionals	65	116	0	150	0
Total Revenues	**2,988**	**12,057**	**2,942**	**12,412**	**2,962**
Consumer	80	269	67	257	68
Business	105	349	90	335	93
Wholesale and ops	500	1,928	470	1,872	472
Other	-3	28	10	42	4
Total Fixed	682	2,574	637	2,506	635
yoy%	-5.1%	-7.8%	-6.6%	-2.6%	
E-Plus	170	905	220	996	217
KPN Mobile	241	1,092	260	1,162	273
Base	57	264	60	247	63
Eliminations	-4	-26	-6	-26	-5
Total Mobile	464	2,235	534	2,380	548
yoy%	26.4%	21.8%	15.0%	6.5%	
Operating EBITDA	1,206	4,721	1,172	4,893	1,181
yoy%	10.2%	-0.1%	-2.8%	3.6%	
exceptionals		116		90	
Headline EBITDA	**1,206**	**4,837**	**1,172**	**5,133**	**1,181**
EBIT	612	2,455	578	2,525	592
PBT	499	1,710	465	2,059	462
Headline Taxation	-115	-127	-115	-525	-117
Minorities	-1	0	-1	-25	
Net income	383	1,583	349	1,509	345
Group CAPEX	-307	-1,650	-400	-1,844	-400
FCF (clean)	757	2,419	560	2,196	500
EPS	0.18	0.79	0.18	0.80	
DPS	0.00	0.49	0.00	0.53	
Net debt end of period	-8,150	-9,180	-8,800	-9,156	-8,800

Source: Company data, Credit Suisse estimates, KPN (consensus)

KPN: Group Financials

Figure 29: **KPN: P&L forecasts**
Eu in millions, unless otherwise stated

Group P&L	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Consumer	2,384	2,262	2,160	2,105	2,020	1,949	1,890	1,843
Business	2,653	2,530	2,430	2,337	2,253	2,183	2,126	2,082
Wholesale	4,985	4,729	4,800	4,766	4,632	4,501	4,373	4,249
Other	-3,139	-2,913	-2,800	-2,691	-2,616	-2,542	-2,470	-2,399
Total Fixed	**6,883**	**6,608**	**6,590**	**6,518**	**6,290**	**6,091**	**5,920**	**5,774**
E-Plus	2,797	2,894	3,113	3,340	3,507	3,636	3,743	3,838
KPN	2,483	2,980	3,059	2,902	2,866	2,894	2,889	2,883
Base	548	620	669	680	693	703	712	722
Internal	4	-46	-50	-53	-55	-57	-58	-60
Total Mobile	**5,832**	**6,448**	**6,791**	**6,870**	**7,011**	**7,176**	**7,286**	**7,383**
Exceptional income		116	150	150	200	200	200	100
Other	230	190	70	70	70	70	70	70
Intercompany	-1,059	-1,189	-1,190	-1,186	-1,173	-1,132	-1,096	-1,066
Operating Revenues	11,886	11,941	12,262	12,272	12,198	12,205	12,180	12,162
yoy%	0.6%	0.5%	2.7%	0.1%	-0.6%	0.1%	-0.2%	-0.1%
Total Revenues	11,886	12,057	12,412	12,422	12,398	12,405	12,380	12,262
yoy%	0.6%	1.4%	2.9%	0.1%	-0.2%	0.1%	-0.2%	-1.0%
Consumer	380	269	257	250	240	232	225	219
Business	358	349	335	316	304	295	287	281
Wholesale	2,038	1,928	1,872	1,811	1,737	1,688	1,640	1,593
Other	16	28	42	53	58	64	70	77
Total Fixed	**2,792**	**2,574**	**2,506**	**2,430**	**2,339**	**2,278**	**2,222**	**2,170**
E-Plus	673	905	996	1,102	1,192	1,273	1,310	1,343
KPN	928	1,092	1,162	1,074	1,060	1,071	1,069	1,067
o/w Telfort	*31*	*115*	*190*	*204*	*207*	*209*	*212*	*215*
Base	204	264	247	238	229	232	235	238
Internal	30	-26	-26	-26	-26	-26	-26	-26
Total Mobile	**1,835**	**2,235**	**2,380**	**2,388**	**2,456**	**2,549**	**2,588**	**2,622**
Exceptional EBITDA	80	116	90	90	120	120	120	60
Other	17	28	7	7	7	7	7	7
Operating EBITDA	4,644	4,721	4,893	4,825	4,802	4,834	4,817	4,800
yoy%	-4.0%	1.7%	3.6%	-1.4%	-0.5%	0.7%	-0.4%	-0.4%
Margin	39.1%	39.5%	39.9%	39.3%	39.4%	39.6%	39.5%	39.5%
Headline EBITDA	**4,724**	**4,837**	**4,983**	**4,915**	**4,922**	**4,954**	**4,937**	**4,860**
yoy%	-2.3%	2.4%	3.0%	-1.4%	0.1%	0.7%	-0.4%	-1.6%
EBIT	2,360	2,223	2,525	2,561	2,606	2,668	2,661	2,595
PBT	1,826	1,710	2,059	2,097	2,156	2,243	2,263	2,219
Headline Taxation	-186	-127	-525	-535	-550	-572	-577	-566
Headline Minorities	-17	0	-25	-30	-30	-30	-30	-30
Net income (main no)	1,623	1,583	1,509	1,533	1,576	1,641	1,656	1,623
yoy%	-5%	-2%	-5%	2%	3%	4%	1%	-2%
Headline EPS	**0.73**	**0.79**	**0.80**	**0.86**	**0.93**	**1.01**	**1.06**	**1.08**
DPS	**0.45**	**0.50**	**0.56**	**0.54**	**0.58**	**0.66**	**0.70**	**0.71**

Source: Company data, Credit Suisse estimates

Figure 30: KPN: Group cashflow

Eu in millions, unless otherwise stated

Group Cashflow	**2005**	**2006**	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**
EBITDA	4,724	4,837	4,983	4,915	4,922	4,954	4,937	4,860
Interest	-484	-479	-466	-464	-450	-425	-398	-375
Working Capital	16	-142	-100	0	0	0	0	0
Tax	-24	0	-276	-662	-714	-741	-750	-758
Others	-399	-147	-100	0	0	0	0	0
Cash from Operations	3,833	4,069	4,040	3,789	3,757	3,788	3,789	3,727
Dividends from Associates								
Capex	-1,403	-1,650	-1,844	-1,851	-1,801	-1,699	-1,642	-1,633
Group FCF	2,430	2,419	2,196	1,938	1,956	2,088	2,147	2,093
Group FCF inc. Real estate			**2,346**	**2,088**	**2,156**	**2,288**	**2,347**	**2,193**
Acquisitions	-1,021	-370	-325	0	0	0	0	0
Disposals	208	128	150	150	200	200	200	100
Debt acquired / disposed								
Loans to associates								
Other intangibles (3g etc.)		14						
Dividends	-890	-982	-997	-1,008	-946	-992	-1,060	-1,071
Share issues	-1,697	-1,615	-1,000	-1,000	-750	-750	-750	-750
Forex								
Other changes / balancing		219						
Net cash-flow	**-970**	**-187**	**24**	**80**	**460**	**546**	**537**	**372**
Net debt at start of period	-7,929	-8,900	-9,180	-9,156	-9,076	-8,616	-8,070	-7,534
Net debt at end of period	-8,900	-9,180	-9,156	-9,076	-8,616	-8,070	-7,534	-7,161

Source: Company data, Credit Suisse estimates

Figure 31: KPN: Group Balance Sheet
Eu in millions, unless otherwise stated

Group Balance Sheet	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
ASSETS								
Intangible assets (goodwill & licences)	8,201	7,419	6,879	6,368	5,858	5,347	4,837	4,327
Cost	19,961	20,303	20,818	21,306	21,712	21,989	22,191	22,371
Accumulated Depreciation	11,497	11,906	12,404	12,793	13,083	13,317	13,523	13,764
PP&E	8,464	8,398	8,414	8,512	8,628	8,672	8,668	8,607
Associates	0	0	0	0	0	0	0	0
Loans to associates	10	10	10	10	10	10	10	10
Financial assets	150	150	150	150	150	150	150	150
Deferred tax assets	1,300	1,000	600	200	0	0	0	0
Trade and other receivables	200	200	200	200	200	200	200	200
Non-current assets	18,325	17,177	16,253	15,440	14,846	14,379	13,865	13,294
Cash & Equivalents	1,033	803	803	803	803	803	803	803
Inventories	190	190	190	190	190	190	190	190
Trade and other receivables	2,242	2,242	2,242	2,242	2,242	2,242	2,242	2,242
Current assets	3,465	3,235	3,235	3,235	3,235	3,235	3,235	3,235
TOTAL ASSETS	**21,790**	**20,412**	**19,488**	**18,675**	**18,081**	**17,614**	**17,100**	**16,529**
LIABILITIES								
Called-up share capital								
Reserves (retained earnings)								
Stockholder's equity	6,724	6,829	6,840	6,865	6,995	7,143	7,239	7,291
Minorities	128	128	103	73	43	13	-17	-47
Provisions	3,926	3,776	3,626	3,476	3,326	3,176	3,026	2,876
Other long term liabs	350	350	350	350	350	350	350	350
Provisions & other long term liabs	4,276	4,126	3,976	3,826	3,676	3,526	3,376	3,226
Long-term debt	6,973	6,180	6,156	4,976	4,016	1,270	-966	-1,638
Short-term debt ex overdrafts	2,960	3,803	3,803	4,903	5,403	7,603	9,303	9,603
Gross debt	9,933	9,983	9,959	9,879	9,419	8,873	8,337	7,964
Other current liabilities	729	-654	-1,391	-1,967	-2,052	-1,941	-1,834	-1,906
TOTAL LIABILITIES & Equity	21,790	20,412	19,488	18,675	18,081	17,614	17,100	16,529

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 02 May 07)*
Belgacom (BCOM.BR, Eu32.22, UNDERPERFORM, TP Eu27.00, MARKET WEIGHT)
Deutsche Telekom (DTEGn.F, Eu13.45, OUTPERFORM, TP Eu15.50, MARKET WEIGHT)
France Telecom (FTE.PA, Eu21.61, UNDERPERFORM, TP Eu20.00, MARKET WEIGHT)
KPN (KPN.AS, Eu12.35, OUTPERFORM, TP Eu13.0, MARKET WEIGHT)
Mobistar (MSTAR.BR, Eu64.65, UNDERPERFORM, TP Eu62.00, MARKET WEIGHT)
TDC (TDC.CO, DKr212.00, NOT RATED)
Tele2 (TEL2b.ST, SKr114.00, NEUTRAL, TP SKr82.00, MARKET WEIGHT)
Telefonica (TEF.MC, Eu16.58, OUTPERFORM, TP Eu18.00, MARKET WEIGHT)
Vodafone Group (VOD.L, 144.00 p, NEUTRAL, TP 145.00 p, MARKET WEIGHT)

Disclosure Appendix

Important Global Disclosures

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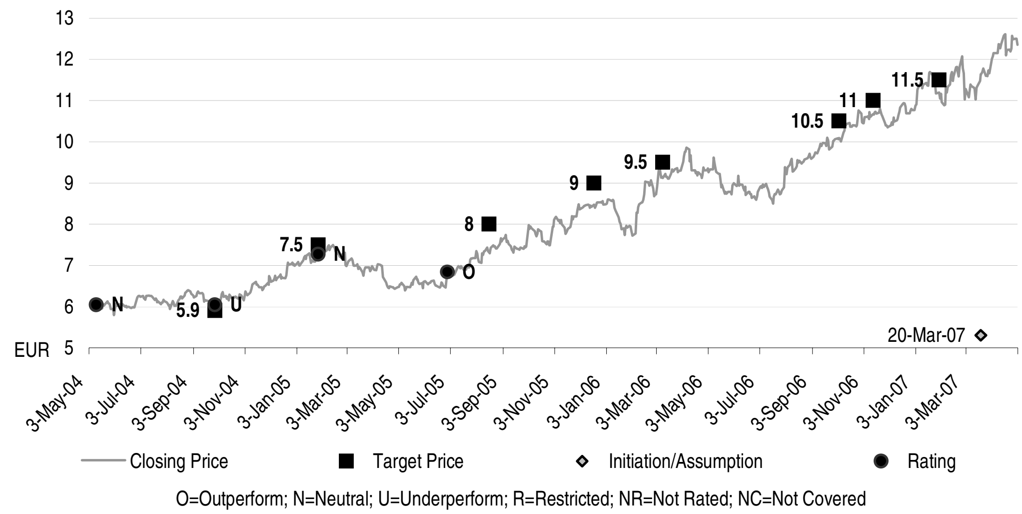
3-Year Price, Target Price and Rating Change History Chart for KPN.AS



KPN.AS Date	Closing Price Price (EUR)	Target Price Price (EUR)	Rating	Initiation/ Assumption
11-May-04	6.04		NEUTRAL	
28-Sep-04	6.04	5.9	UNDERPERFORM	
28-Jan-05	7.27	7.5	NEUTRAL	
29-Jun-05	6.84		OUTPERFORM	
17-Aug-05	7.32	8		
19-Dec-05	8.47	9		
10-Mar-06	9.12	9.5		
04-Oct-06	10.09	10.5		
13-Nov-06	10.67	11		
30-Jan-07	11.2	11.5		
20-Mar-07				X

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Price Target: (12 months) for (KPN.AS)

Method: Long-term DCF (WACC 6.9%, terminal growth -1.0%) supported by near-term sector FCF and earnings multiples

Risks: Competition from Dutch cable operators, tougher regulatory outlook and potential price war in German mobile. BASE in Belgium exposed to regulatory price cuts.

See the Companies Mentioned section for full company names.

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