ABN·AMRO

Produced by: ABN AMRO Bank NV

Thursday 29 March 2007

Change of target price

KPN

Cashpoint

KPN benefits from a market-facing multi-brand strategy, solid domestic position and further potential in Germany, in our view. Strong cash generation and 9% cash yield leads us to believe KPN is a key sector holding. Buy; target price, €13.80.

Buy

Absolute performance

n/a

Short term (0-60 days)

Overweight

Sector relative to market

Netherlands

Telecommunication Services

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (€m)	11936	12057	12372	12494	12633
EBITDA (€m)	4724	4837	4880	4944	5015
Reported net profit (€m)	1437	1583	1549	1612▲	1721
Normalised net profit (€m)	1437	1583	1549	1612▲	1721
Normalised EPS (€)	0.65	0.79	0.82	0.90▲	1.00
Dividend per share (€)	0.45	0.50	0.53	0.56	0.60▲
Dividend yield (%)	3.88	4.31	4.57	4.82	5.17
Normalised PE (x)	17.9	14.7	14.1	13.0	11.6
EV/EBITDA (x)	6.42	6.32	6.22	6.11	5.97
EV/invested capital (x)	1.86	1.99	2.04	2.13	2.22
ROIC - WACC (%)	3.59	4.88	4.79	5.53	6.90

Accounting Standard: IFRS
Source: Company data, ABN AMRO forecasts
year to Dec, fully diluted

Price
€11.61

Target price
€13.80 (from €12.00)

Market capitalisation
€21.39bn

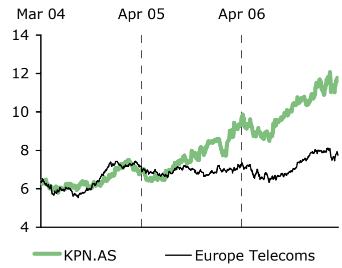
Avg (12mth) daily turnover
€112.96m

Reuters	Bloomberg
KPN.AS	KPN NA

Asset allocation

Equities	Overweight
Cash	Neutral
Bonds	Underweight

Price performance	(1M)	(3M)	(12M)
Price (€)	11.8	10.8	9.4
Absolute %	-1.5	8.0	24.0
Rel market %	-1.7	6.5	12.8
Rel sector %	0.6	9.5	14.8



Stock borrowing: Easy
Volatility (30-day): 27.47%
Volatility (6-month trend): ↑
52-week range: 12.16-8.47
FTSE Eurotop 300 Index: 1509.04
Europe Telecoms: 88.34

Source: ABN AMRO, Bloomberg

Better placed than most operators

We believe KPN's multi-brand strategy clearly demonstrates the company's strategic focus on customers and leaves it well placed to continue defending its domestic positions. A combination of organic and inorganic growth over the last 10 quarters has seen KPN increase its retail broadband market share by 12pp to over 40%. In Dutch mobile, the Telfort acquisition has helped increase the company's market share to over 50%.

Germany - still a land of opportunity

The turnaround of E-Plus has been a key pillar of KPN's equity story over the last few years. However, despite the intense price competition, we think there is still much to play for in German mobile. E-Plus's multi-brand strategy has helped to drive subscriber growth (market share up 1.5pp in two years) while simultaneously lowering acquisition costs (by around 40%) and keeping ARPU declines lower than the German average (based on data from companies).

A clear focus on cash and cash returns

At the 2006 results, KPN set an FCF target of over €2bn (including property disposals) in each of the next three years. Further, management has committed to returning €2bn to shareholders in 2007, effectively providing a 9% yield. Our estimates assume similar payouts in 2008 and 2009, meaning investors at today's price could reasonably expect 9% cash returns for each of the next three years.

A core European holding

KPN's equity story remains strong for us. Its domestic businesses are arguably as robust as any in Europe; E-Plus provides growth potential in Germany and cash generation is very substantial. News flow surrounding the potential for KPN to be a bid target is not, in our view, a standalone reason to buy the stock, but is unlikely to dampen investor appetite. Sector-leading shareholder cash returns, undemanding current multiples and 19% upside to our new target price of €13.80 (from €12.00) lead us conclude that KPN should be a core European telecom holding. Buy rating retained.

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Priced at close of business 27 March 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

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The Basics

Key assumptions

In our view, KPN has developed a strong strategy with which to defend its domestic positions and attack the German mobile market. We believe there are some inherent benefits for KPN in adopting a multi-brand strategy – focused marketing and more tailored products. As such we see KPN taking market share in each of the mobile markets where it has a presence and limiting the ongoing effects of competition in its domestic fixed-wire business.

How we differ from consensus

Our EPS estimates for 2007 and 2008 are slightly ahead of JCF consensus forecasts, perhaps due to our slightly higher expectations for KPN's German mobile business. We believe there is still much to play for in the German mobile market, though pricing competition is fierce. To some degree this price competition has been driven by KPN but, nonetheless, its German business seems to have been able to outperform its peers over the last 12 months.

Valuation and target price

We set our price target at €13.80 – driven by our DCF-based sum-of-the-parts valuation of €13.79, our group DCF valuation of €14.58 and our standard ABN AMRO three-phase DCF valuation of €13.86. At this valuation we believe KPN would still offer an equity FCF yield of around 9%, and cash returns to shareholders of a similar size.

Catalysts for share price performance

Over the next couple of months, KPN is scheduled to make three formal announcements. Management's presentation of its new reporting format on 13 April provides an opportunity to indicate areas of cost control and potential synergies, which should continue to build confidence in the cash flow story. Furthermore, we look to the 1Q07 results for the first glimpse this year of the developments at E-Plus. Finally we note that as of 23 March 2007, KPN had completed 12% of the share buyback programme announced on 7 February 2007. This suggests the buyback pace may need to accelerate slightly, given that around 14% of the time has elapsed.

Risks to central scenario

The risks to our forecasts arise if KPN is unable to sustain a good level of execution in both its domestic businesses and at E-Plus in Germany. We believe the company's multi-brand strategy provides a better platform from which to provide services to consumers and businesses than the one-size-fits-all approach most European operators continue to pursue. However, if this proves to be a short-term advantage, if KPN is unable to retain its near-50% retail market share in the domestic broadband market and if KPN Mobile Netherlands and E-Plus do not generate the revenue growth and margins we currently expect, then cash flow would be adversely affected and our fair-value estimate would be reduced.

Versus consensus

EPS	ABN AMRO	Cons	% diff
2007F	0.82	0.81	1.4%
2008F	0.90	0.87	3.2%
2009F	1.01	1.01	(0.0%)

Source: JCF, ABN AMRO forecasts

Key events

Date	Event
13 Apr 07	Presentation of new reporting format
17 Apr 07	AGM
8 May 07	1Q07 results
31 Jul 07	2Q07 results
30 Oct 07	3Q07 results

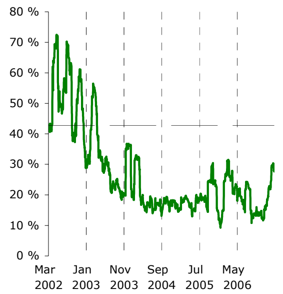
Source: Company

Forced ranking*

Company	Rec	Upside / Downside
KPN	Buy	19.0%
France Tel	Buy	12.1%
BT Group	Hold	(2.1%)
Deutsche T	Sell	(11.9%)

** by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page*
Source: ABN AMRO forecasts

Volatility (30 day)



Source: Bloomberg

Key assumptions and sensitivities

Our model and cash-flow assumptions are driven by the performance of KPN's four main divisions. Summaries of our forecasts for these divisions are provided below.

Table 1 : Domestic fixed-wire – summary financials

(€m)	2004	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Revenues	7,249	6,867	6,647	6,655	6,478	6,362	6,294	6,259	6,241
Growth		(5.3%)	(3.2%)	0.1%	(2.7%)	(1.8%)	(1.1%)	(0.6%)	(0.3%)
EBITDA	3,118	2,792	2,574	2,453	2,362	2,329	2,309	2,274	2,265
Margin	43.0%	40.7%	38.7%	36.9%	36.5%	36.6%	36.7%	36.3%	36.3%
Capex	609	706	791	948	972	970	818	751	733
As % of rev's	8.4%	10.3%	11.9%	14.3%	15.0%	15.3%	13.0%	12.0%	11.8%

Source: Company data, ABN AMRO forecasts

Table 2 : KPN Mobile Netherlands – summary financials

(€m)	2004	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Mkt share	38.1%	49.6%	51.1%	51.5%	52.4%	53.1%	53.6%	53.6%	54.4%
Revenues	2,271	2,483	2,980	2,995	3,004	3,128	3,291	3,439	3,575
Growth		9.3%	20.0%	0.5%	0.3%	4.1%	5.2%	4.5%	3.9%
EBITDA	904	928	1,092	1,156	1,191	1,247	1,312	1,372	1,424
Margin	39.8%	37.4%	36.6%	38.6%	39.7%	39.9%	39.9%	39.9%	39.8%
Capex	207	159	218	270	300	313	329	344	357
As % of rev.s	9.1%	6.4%	7.3%	9.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Source: Company data, ABN AMRO forecasts

Table 3 : E-Plus (Germany) – summary financials

(€m)	2004	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Mkt share	13.3%	13.6%	14.8%	15.6%	15.9%	16.1%	16.3%	16.3%	16.6%
Revenues	2,608	2,797	2,894	3,113	3,362	3,529	3,665	3,766	3,880
Growth		7.2%	3.5%	7.6%	8.0%	5.0%	3.9%	2.7%	3.0%
EBITDA	700	673	905	1,026	1,130	1,159	1,220	1,272	1,313
Margin	26.8%	24.1%	31.3%	32.9%	33.6%	32.8%	33.3%	33.8%	33.8%
Capex	780	401	486	483	471	459	458	471	466
As % of rev.s	29.9%	14.3%	16.8%	15.5%	14.0%	13.0%	12.5%	12.5%	12.0%

Source: Company data, ABN AMRO forecasts

Table 4 : BASE (Belgium) – summary financials

(€m)	2004	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Mkt share	18.7%	21.6%	24.0%	26.0%	28.4%	30.2%	31.5%	31.5%	33.4%
Revenues	428	548	622	666	721	775	829	868	900
Growth		28.0%	13.5%	7.1%	8.3%	7.5%	7.0%	4.7%	3.7%
EBITDA	119	204	264	270	286	308	332	347	360
Margin	27.8%	37.2%	42.4%	40.5%	39.7%	39.7%	40.0%	40.0%	40.0%
Capex	42	117	123	120	115	93	100	104	108
As % of rev.s	9.8%	21.4%	19.8%	18.0%	16.0%	12.0%	12.0%	12.0%	12.0%

Source: Company data, ABN AMRO forecasts

Contents

Show me the money

KPN's domestic businesses look solid and there seems still much to play for in Germany. KPN provides strong cash flow and looks undervalued at an EFCF yield of around 10%, most of which should flow back to shareholders.

Genuine consumer focus

With its multi-brand strategy, KPN is arguably one of the only telcos to genuinely embrace a customer focus. We believe this puts the company in a good position to defend and even strengthen its domestic position.

Inherent benefits

Brands enable focus

We believe there are some inherent benefits to adopting a multi-brand strategy. First, marketing can be more focused and services more closely tailored to the needs of the target market. Further, it is possible to introduce specific products and tariffs that are likely to appeal to the customers who already identify with a particular brand. Finally, there is a chance that like-minded customers will identify with the brand and provide a reason to stay with the operator.

We believe a good example of this is KPN's "*ay yildiz*" brand in Germany, which is focused on the 2.6m Turks living in Germany. Here there is the chance to exploit a notion of community, as well as providing an opportunity for a section of the German population likely to interact with each other to benefit from lower tariffs when calling other "*ay yildiz*" subscribers or making international calls back home.

KPN continues to develop its multi-brand strategy. The table below provides details of its brand portfolio and the services each provides.

Table 5 : KPN's brand portfolio and associated services

KPN (Premium)	Planet (Mainstream)	XS4ALL (Premium)	Het Net (Value)	Slim (Value)	Mine (Premium)	DiGiTenne (Value)	Telfort (Value)	Simyo (Value)	Hi (Youth)
Voice	VoIP	VoIP	VoIP	VoIP	IPTV	Digital TV	Mobile	Mobile	Mobile
VoIP	Internet	Internet	Internet	Internet	Films	Football			Internet
Internet	Music	Mobile (3G)	Digital TV		Football				Music
Digital TV	Films				Archive TV				MSN
Mobile	Gaming								
Home-zoning	News								

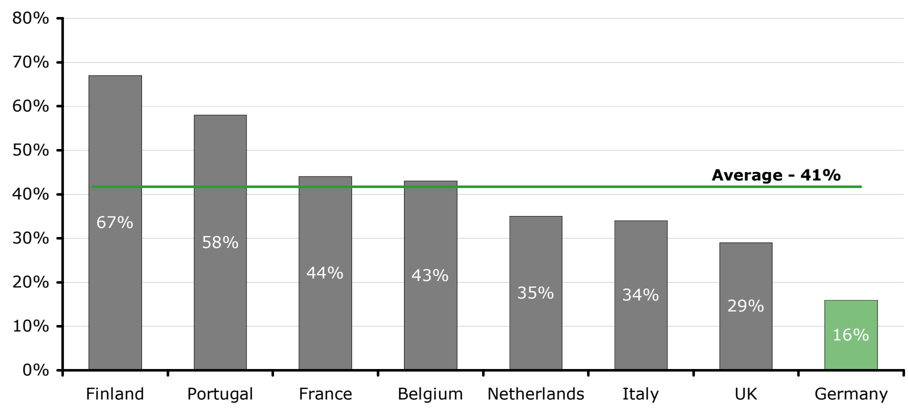
Source: Company data

Germany – still a land of opportunity

German potential

Despite the fierce price competition, we believe the German market is still relatively attractive from a top-down perspective. The following chart indicates the proportion of telecom traffic that passes over mobile networks in Germany is the lowest of most major European markets.

Chart 1 : Mobile usage as a percentage of total country telecom traffic (2005)

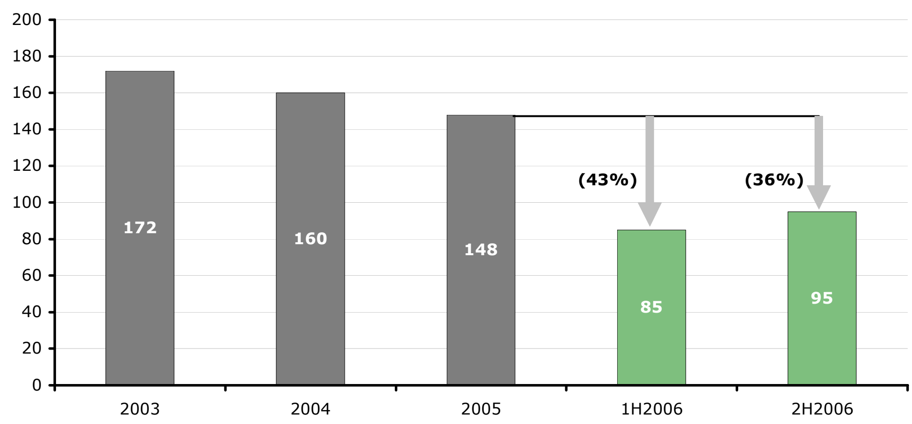


Source: E-Plus

Historically, German mobile prices have been relatively high in comparison to fixed-wire tariffs. This has helped to cap the growth of mobile usage by German mobile subscribers. However, fierce price competition is driving mobile costs in Germany lower and, over time, we would expect this to filter through to subscribers and, therefore, see scope for further usage growth. Furthermore, KPN suggests that the number of households with only a mobile connection is around 5%, lower than some other countries in Europe, and that this provides another indication of the potential for growth.

Over the last two years, E-Plus has seen the subscriber base of its new brands increase from nil to 4.3m. At the same time, the number of E-Plus subscribers has declined from 9.5m to 8.3m. However, the economics of subscribers on the new brands seem to be very attractive. The chart below shows the lower SAC/SRC (subscriber acquisition costs/subscriber retention costs) E-Plus has been able to achieve over the last 12 months. Much of this SAC/SRC reduction has been driven by the large proportion of SIM-only subscriptions that E-Plus has been selling, through both its BASE brand and also through its wholesale partners.

Chart 2 : E-Plus – blended SAC + SRC per gross add/upgrade (€)



Source: E-Plus

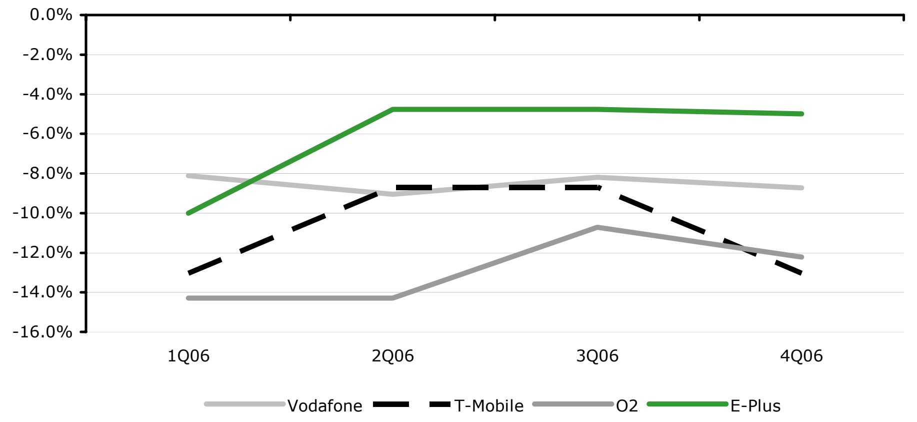
Furthermore, E-Plus has been able to limit its ARPU declines, as shown in the following table and chart. The figure provides the blended ARPU, but it is worth noting that despite the value-for-money offers, pre-paid ARPUs actually increased in 2006.

Table 6 : Reported ARPU levels for German mobile operators

(€/sub/month)	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
Vodafone	23	24	24	23	22	22	22	21
T-Mobile	23	23	23	23	20	21	21	20
O2	28	28	28	27	24	24	25	24
E-Plus	20	21	21	20	18	20	20	19

Source: Company data

Chart 3 : ARPU change for German operators (yoy chg)



Source: Company data

Cash returns

Table 7 : KPN – effective yields

(€m)	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Dividend yield at €11.60/share	3.5%	4.2%	4.6%	4.8%	5.1%	5.3%	5.4%	5.7%
Share buy-back 'yield' at €11.60/share	0.0%	6.9%	4.6%	4.8%	5.0%	0.0%	0.0%	0.0%
Total s'holder return at €11.60/share	**3.5%**	**11.1%**	**9.2%**	**9.6%**	**10.1%**	**5.3%**	**5.4%**	**5.7%**
Dividend yield at €13.80/share	2.9%	3.5%	3.9%	4.0%	4.3%	4.5%	4.6%	4.8%
Share buy-back 'yield' at €13.80/share	0.0%	5.8%	3.8%	4.0%	4.2%	0.0%	0.0%	0.0%
Total s'holder return at €13.80/share	**2.9%**	**9.4%**	**7.7%**	**8.1%**	**8.5%**	**4.5%**	**4.6%**	**4.8%**

Source: Company data, ABN AMRO forecasts (priced at close on 26 March 2007)

Around 9-10% cash yield at the current price

As the table above indicates, at the current share price the proposed shareholder returns translate into a "yield" of around 9-10% for each of the next three years. This is one of the highest payouts in the sector at present.

Furthermore, at our target price, the proposed return is still almost 8% in 2007 and if the €2bn distribution is continued during the following two years, this effective yield would increase to more than 8%.

Valuation

Our sum-of-the-parts valuation for KPN suggests a fair value of €13.79. This is backed up by our group DCF valuation of €14.58 and our standard ABN AMRO three-stage DCF valuation of €13.86.

We select €13.80 as our target price, implying 19% upside potential to the current price. Furthermore, we believe the downside should be limited, given the strong yield mentioned above and our bear case sum-of-the-parts calculation, which indicates a valuation of €11 – just 5% downside to the current price. We retain our Buy rating.

Better positioned than most

With its multi-brand strategy KPN is, in our view, one of the only telcos to genuinely embrace a customer focus. We believe this puts the company in a strong position to defend and even strengthen its domestic position.

Multi-brand strategy

Telcos have tended to use price-based or incentive-based competition

To date, most telecom operators have relied on either price-based or incentive-based competition. Telecom resellers were able to use price as a competitive advantage and arbitrage the difference between increasingly-liberalised wholesale markets and the historically-high tariffs of the incumbent operators. Mobile operators have historically used a combination of lowering perceived per-minute pricing levels (through bundles) and incentives such as handset subsidies to attract subscribers. However, the problem with both approaches is that by definition they rely on increasing scale to offset the gradual erosion of margins. Further, they provide little reason for the subscriber to remain loyal to the operator, especially as competition intensifies and lower prices or higher incentives are available elsewhere.

Inherent benefits

Brands enable focus

We believe a multi-brand strategy has some inherent benefits. First, marketing can be more focused and services more closely aligned and tailored to the needs of the target segment. Further, it is possible to introduce specific products and tariffs that are likely to appeal to customers who already identify with the brand. Finally, there is a chance that like-minded customers will identify with the brand and provide a reason to want to stay with the operator.

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Voice	VoIP	VoIP	VoIP	VoIP	IPTV	Digital TV	Mobile	Mobile	Mobile
VoIP	Internet	Internet	Internet	Internet	Films				Internet
Internet	Music	Mobile (3G)	Digital TV		Football				Music
Digital TV	Films				Archive TV				MSN
Mobile	Gaming								
	News								

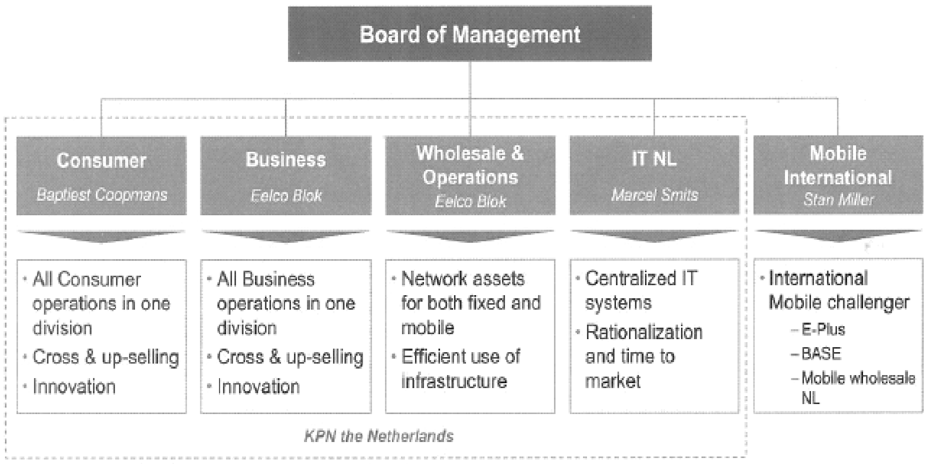
Source: Company data

Fixed-mobile integration

New structure

While we go on to review each of the current reporting divisions, KPN has restructured its domestic set-up from 1 January 2007 along market lines, rather than product lines. It is worth noting here that the company will begin reporting along these lines with its 1Q07 results (due 8 May) and the details of the new structure will be presented to investors on 13 April.

Figure 1 : Revised divisional structure



Source: KPN

Aiming for better customer service

KPN believes that with many customers buying both fixed and mobile products from the company, there is merit in organising the company along market lines. This has the potential to provide a greater level of customer service as one representative could help with any KPN product and the integration of infrastructure provides scope for procurement savings.

Not without risks...

However, we also believe there are risks associated with the strategy. For example, making customer service representatives 'jacks of all trades' and 'masters of none' could make the customer experience worse, since representatives may only be able to help partially with queries rather than fully resolving them.

...but welcome

That said, we welcome what appears to be a further extension of KPN's customer focus. Furthermore, we believe assigning the CFO responsibility for the IT rationalisation should ensure the programme focuses on the return on investment achieved.

Fixed wire

Over the last two years, KPN has acquired several other ISPs, which has helped increase its retail broadband market share and provided some additional capabilities.

ISP acquisitions have added around 6% market share

The table below provides a list of KPN's domestic ISP acquisitions. In total, the company has bought around 6% retail market share in this way, and this is likely to increase to over 10% assuming the tiscali acquisition is approved by the regulator.

Table 9 : KPN – broadband ISP acquisitions

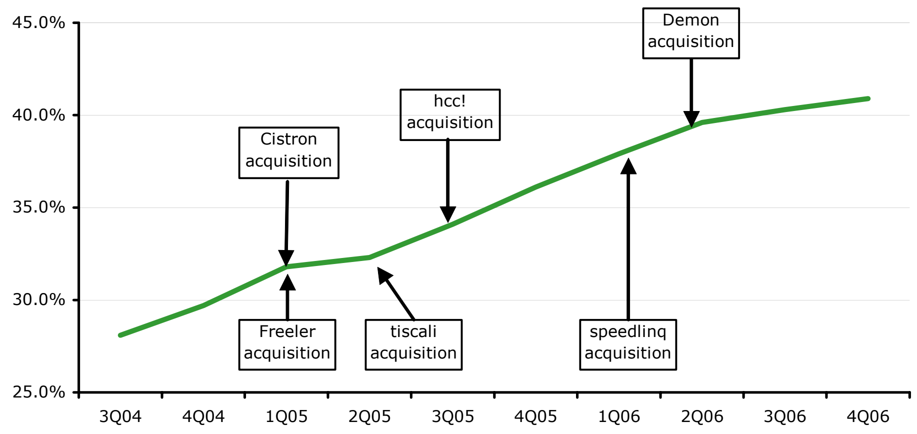
Name	No. of customers	Market share	Date acquired	Cost (€m)	Financial details	EV/sub
Cistron Telecom	5,000	0.1%	Jan-05	NA	NA	NA
Freeler	28,000	0.8%	Feb-05	NA	NA	NA
tiscali (Netherlands)*	60,000	1.6%	Jul-05	NA	NA	NA
hcc!	50,000	1.4%	Sep-05	NA	NA	NA
Speedlinq	40,000	1.1%	Mar-06	NA	NA	NA
Demon (Netherlands)	57,000	1.3%	Jun-06	69	NA	1,211
tiscali (Netherlands)**	276,000[†]	5.4%	Sep-06	255	Rev.s €52m, EBITDA €23m	924

** KPN bought a portion of tiscali's subscriber base in 2005 ** Subject to regulatory approval [†] Two thirds of the subscribers are retail and one third is wholesale*
Source: Company

12pp broadband market share gain in 10 quarters

KPN has also shown organic growth in its retail ADSL market share and consistently improved its broadband market share over the last 10 quarters, increasing from 28% to over 40%. Stripping out the 6pp that was acquired implies KPN has grown its market share 6pp by organic means.

Chart 4 : KPN – retail ADSL market share development



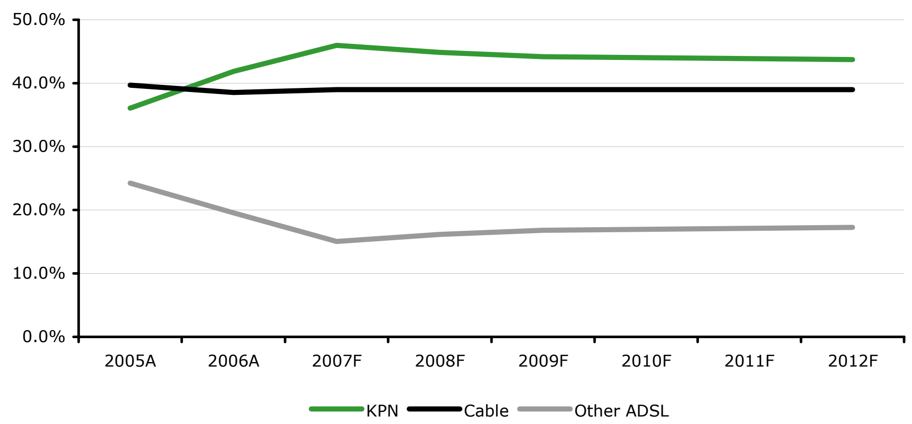
Source: Company

With these developments, we believe KPN's domestic fixed-wire business is well-positioned to face the competitive challenges ahead and this is perhaps demonstrated in its increasing market share of VoIP lines.

Brand strategy should provide streamlined channels to market

Additional products that KPN develops will have more streamlined channels to market. For example, we suspect there would be little merit in marketing a €50/month IPTV package to a "no frills" broadband subscriber. However, subscribers to a premium broadband service could well be a receptive audience. Furthermore, there should be continued scope for cross-selling and a chance to migrate customers through the product ranges.

Chart 5 : Forecast Dutch broadband market shares

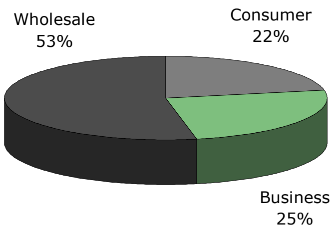


Source: Company data, ABN AMRO forecasts

Our forecasts assume KPN maintains just under 50% retail broadband market share

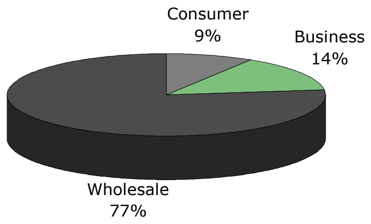
The chart above provides our assumptions for the development of Dutch broadband market shares. We expect KPN's market share to increase in 2007, assuming the acquisition of tiscali Netherlands is approved and completed during the year. Thereafter, we assume KPN is able to maintain its market share at just under 50%, which we believe should enable it to drive scale efficiencies from its fixed-wire business, but at the same time is perhaps not quite enough to warrant detailed regulatory attention.

Chart 6 : KPN – fixed-wire revenue split (2007F)



Source: ABN AMRO forecasts

Chart 7 : KPN – fixed-wire EBITDA split (2007F)



Source: ABN AMRO forecasts

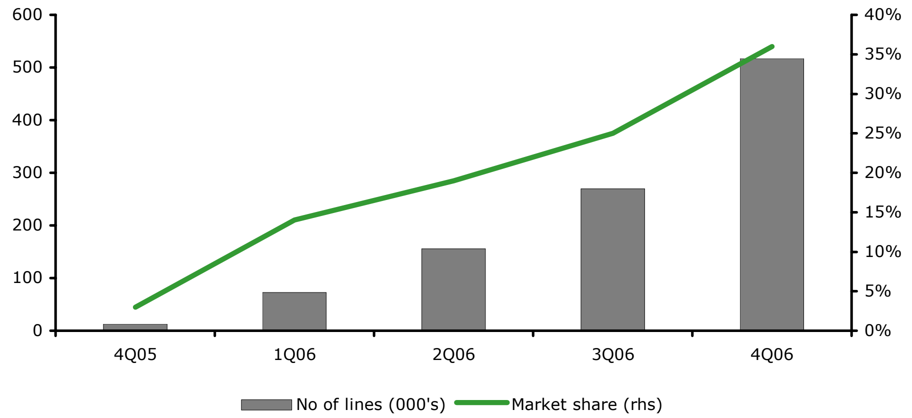
KPN's fixed-wire division is made of three operating units: consumer, business and wholesale. We consider each of these in turn.

Consumer

Multi-brand approach

As the ISP portfolio (Table 9) indicates, KPN takes a multi-brand approach to its domestic fixed-wire business. We believe it is this approach that has helped the company to drive the increase in its market share of broadband lines and capture an increasingly large share of new VoIP lines.

Chart 8 : KPN – voice-over-IP subscriptions



Source: Company

Over one-third market share of VoIP lines

As the graph above (taken from KPN's 2006 presentation) indicates, the company believes it has secured over one-third of the VoIP lines market in the Netherlands. Furthermore, there is scope for its market share to continue increasing, given that management estimates KPN took around 60% market share of net VoIP adds during 4Q06.

Slowing traditional line losses

Net line losses have slowed over the last two quarters, from 165k lost lines in 2Q06 to 130k in 4Q06. While there is still some way to go before line losses stop, this trend is clearly in the right direction.

Digital TV introduced with both DTT and IPTV

Given that the cable TV operators are the main competition in the Netherlands, KPN has been distributing digital terrestrial TV (DTT) through its 'DiGiTenne' brand (a value-for-money brand which provides an alternative to a mobile + cable subscription) and has launched a premium IPTV service through its 'mine' brand. The cost of the 'mine' offer is €150 for the set-top box and starter pack (reduced to €100 currently) and a one-off €30 connection fee. Installation by an engineer costs an additional €50 and then the charge is €20/month. Here we would note that KPN is arguing that it is not building the case for providing TV simply on the back of a churn-reduction strategy, but rather that it should have a solid stand-alone business model.

Table 10 : KPN – consumer fixed division financials

(€m)	2005A	2006A	2007F	2008F	2009F	2010F	2011F	2012F
Revenues	2,384	2,262	2,083	1,993	1,936	1,900	1,877	1,872
Growth	0.0%	(5.1%)	(7.9%)	(4.3%)	(2.9%)	(1.8%)	(1.2%)	(0.3%)
EBITDA	380	269	229	209	208	209	206	206
Margin	15.9%	11.9%	11.0%	10.5%	10.8%	11.0%	11.0%	11.0%

Source: Company data, ABN AMRO forecasts

Table 10 provides our forecasts for the consumer fixed division. Our assumptions currently factor in little by way of revenues from new services. Our forecasts anticipate a 2% decline in blended broadband ARPU, while other revenues, if divided across KPN's retail broadband base in 2010F, constitute just over €4/month.

Business

SME VoIP introduced

KPN's fourth-quarter results indicated the decline in its traditional voice market share seems to have stopped. In addition, the company has introduced a new SME-focused VoIP product from 2Q06 and signed the first contracts with larger corporates for integrated WAN-based voice and data solutions.

Like some of BT's Global Services' acquisitions, KPN has made some smaller purchases during 2006 in the ICT sector, to provide additional capabilities (eg CSS Telecom, Newtel Essence, Gemnet).

Table 11 : KPN – recent business-services acquisitions

	Date	2005 revs (€m)	Employees	Expertise
CSS Telecom	Aug-06	28.6	191	Business solutions with a focus on healthcare
Newtel Essence	Jul-06	25	110	IT solutions in call centres and CRM
Gemnet	Oct-06	13	25	Public sector secure ICT solutions

Source: Company, ABN AMRO

Larger contract wins

Over the last year, larger managed services contract wins have been coming through, including ING, Olympia and Veolia. In addition, business DSL and VPN-based products continue to show good growth. Clearly, these are likely to be deflationary in the near term on connectivity prices and we believe this can be seen in the development of revenues. However, as with its peers across Europe, this is a necessary migration for KPN to manage in order to retain the client base and also to ensure that the company is able to cross-sell additional value-added services going forward.

Table 12 : KPN – business fixed division financials

(€m)	2005A	2006A	2007F	2008F	2009F	2010F	2011F	2012F
Revenues	2,649	2,535	2,440	2,376	2,341	2,327	2,325	2,328
Growth	0.0%	(4.3%)	(3.7%)	(2.6%)	(1.5%)	(0.6%)	(0.1%)	0.1%
EBITDA	358	349	342	333	328	326	325	326
Margin	13.5%	13.8%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%

Source: Company data, ABN AMRO forecasts

Going forward there is a clear opportunity for KPN's business-focused fixed-wire division to outperform our expectations if it is able to reverse the expected continued decline in revenues earlier than we anticipate.

The forecasts above reflect our expectation that business fixed lines will continue to deteriorate, albeit at a slowing pace until 2012 and that cost savings will need to be reinvested in marketing and subscriber acquisition. However, there is scope, as mentioned above, for the business to provide additional value-added services and to win additional contracts on the back of the acquisitions listed above, which could result in the halting of revenue declines.

Wholesale and operations

The table below provides our expectations for KPN's wholesale division. Revenues are set to increase this year due to the inclusion of iBasis, which was acquired last year and which should be consolidated during 2Q07.

Table 13 : KPN – wholesale fixed division financials

(€m)	2005A	2006A	2007F	2008F	2009F	2010F	2011F	2012F
Revenues	4,973	4,762	5,048	4,947	4,873	4,824	4,800	4,776
Growth	0.0%	(4.2%)	6.0%	(2.0%)	(1.5%)	(1.0%)	(0.5%)	(0.5%)
EBITDA	2,038	1,928	1,868	1,806	1,779	1,760	1,728	1,719
Margin	41.0%	40.5%	37.0%	36.5%	36.5%	36.5%	36.0%	36.0%

Source: Company data, ABN AMRO forecasts

EBITDA dilution will likely occur this year, as a result of the iBasis consolidation, as we estimate iBasis will contribute around €300m in revenues during 2007, but only €10m-15m in EBITDA.

We assume further margin pressure

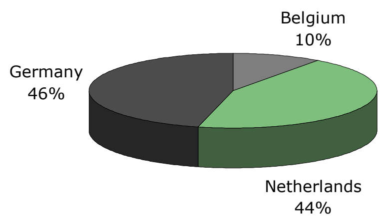
Going forward we assume some further margin pressure within the wholesale division, due to the continued migration from analogue products (eg, leased lines being replaced with IP-VPNs and circuit-switched voice migrating to VoIP).

Mobile

Three mobile businesses

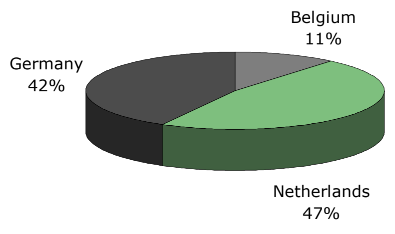
KPN has mobile operations in three European countries: the Netherlands, Germany and Belgium. In each of these markets, KPN has adopted its multi-brand strategy. We consider the Dutch and Belgian businesses in this section and reserve the following section for the German business, where we believe KPN has further opportunities to outperform its peers.

Chart 9 : KPN – mobile revenue split (2007F)



Source: ABN AMRO

Chart 10 : KPN – mobile EBITDA split (2007F)



Source: ABN AMRO

The Netherlands

Further in-market consolidation possible in Dutch mobile

Perhaps one of the most significant potential developments in the Dutch market is the scope for further in-market consolidation, since reports (Dow Jones, 12 February 2007) indicate Orange may be looking to dispose of its mobile business in Netherlands. Given comments from the management of Deutsche Telekom (DT) following the release of FY06 figures on 1 March with respect to further acquisitive growth in mobile, we believe DT's mobile arm, T-Mobile, would be a likely candidate to buy this asset. The result would be to bring down the number of players in the Dutch market from four to three, which could allow for a more rational market.

Mobile termination rates

Table 14 : European termination rate objectives

	2006 rate	Target	Chg	Comment
France	9.96	7.75	(22.2%)	Targeting symmetry by 2009
Germany	11.00	9.00	(18.2%)	To be reassessed in 2008
Italy	12.90	9.54	(26.0%)	Target by 2008
Netherlands	11.00	5.50	(50.0%)	Target by 2008, but appeal lodged by operators
Spain	12.36	7.00	(43.4%)	Target by 2009
UK	8.33	7.51	(9.9%)	Blended 2G/3G rate

Source: Company data, Ofcom, ABN AMRO

Dutch termination rate cuts appear Draconian

As Table 14 shows, the proposal of the Dutch regulator is the most dramatic in terms of both the percentage cut and the resulting absolute level of the target rate.

We assume a decision effective from 2H07

All the mobile operators in the Netherlands have appealed against this ruling, and the current situation is that the Dutch regulator, OPTA, is conducting an analysis of the market and will provide a ruling which should be effective from 1 July 2007. Here it is worth noting that an increasing number of precedents from other European regulators may suggest that OPTA has scope to propose less aggressive cuts.

Financials

Table 15 : KPN Netherlands – summary financials

(€m)	2004	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Mkt share	38.1%	49.6%	51.1%	51.5%	52.4%	53.1%	53.6%	53.6%	54.4%
Revenues	2,271	2,483	2,980	2,995	3,004	3,128	3,291	3,439	3,575
Growth		9.3%	20.0%	0.5%	0.3%	4.1%	5.2%	4.5%	3.9%
EBITDA	904	928	1,092	1,156	1,191	1,247	1,312	1,372	1,424
Margin	39.8%	37.4%	36.6%	38.6%	39.7%	39.9%	39.9%	39.9%	39.8%
Capex	207	159	218	270	300	313	329	344	357
As % of rev.s	9.1%	6.4%	7.3%	9.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Source: Company data, ABN AMRO forecasts

We expect KPN to maintain its momentum in the domestic mobile business

As the table above shows, KPN has a significant share of the domestic mobile market, as might be expected, especially given its acquisition of Telfort in 2005. Going forward, we believe KPN's opportunity is in its ability to use its multi-brand strategy to drive down SACs and SRCs, while at maintaining its momentum in subscriber growth. This certainly appears to have been achieved during 2006, with blended SAC/SRC during the year some 12% lower despite a 7% increase in subscribers, all of which were contract subscribers. (Pre-paid net adds were negative due to inactivity rates.)

Further efficiencies

We also believe KPN will be looking to deliver further scale efficiencies from its network, both as a result of further integration with the Telfort network, but also in looking to strike network outsourcing deals, as it has already done in Germany.

Belgium

Work to be done in Belgium

Though KPN has done much to turn around its Belgian business, there is still work to be done. In order to provide additional scale benefits, the company will need to drive increased market share. KPN is looking to do this through a revamp of its retail outlets and some renewed agreements with independent retailers as well as improving the network and providing a wholesale offering, perhaps allowing mobile virtual network operators (MVNOs) to develop.

Mobile termination rates

Steep termination rate cuts

Termination rates in Belgium have historically been among the highest in Europe (at least in recent times, at around €0.20 prior to 1 November 2006). However, though the final headline rate of €0.104 still appears high in a European context, operators are actually facing a pretty steep drop of just under 50% in proportionate terms.

Financials

Table 16 : BASE (Belgium) – summary financials

(€m)	2004	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Mkt share	18.7%	21.6%	24.0%	26.0%	28.4%	30.2%	31.5%	31.5%	33.4%
Revenues	428	548	622	666	721	775	829	868	900
Growth		28.0%	13.5%	7.1%	8.3%	7.5%	7.0%	4.7%	3.7%
EBITDA	119	204	264	270	286	308	332	347	360
Margin	27.8%	37.2%	42.4%	40.5%	39.7%	39.7%	40.0%	40.0%	40.0%
Capex	42	117	123	120	115	93	100	104	108
As % of rev.s	9.8%	21.4%	19.8%	18.0%	16.0%	12.0%	12.0%	12.0%	12.0%

Source: Company data, ABN AMRO forecasts

Cost controls

Domestic fixed

Workforce rationalisation

Reduction of the work force has been progressing well, with over 1,600 FTEs moving out of KPN in each of the last two years. Going forward, as the table below shows, the company expects to be able to repeat this number for each of the next three years.

Table 17 : KPN – fixed-wire cost-reduction achievements and targets

	Opex savings (€m)	Staff reductions (FTEs)
2005	150	1,600
2006	150	1,600
2007*	150	1,600
2008*	200	1,600
2009*	200	1,600

**Company targets*
Source: Company

Cost savings likely to accelerate to meet targets

This reduction in FTEs, combined with targeted cost savings in other areas has led to annual opex savings of €150m for each of the last two years. However, within this, the company has seen a headcount reduction slightly ahead of expectations (over 3,600 full-time equivalents (FTEs) since 2004), while the opex savings have been slightly lower than the company's original estimates. This has been due to the ongoing phasing out of IT systems and temporarily higher IP-based service costs. As a result (as shown in the table above), KPN is looking to strip out a further €150m in 2007 and then €200m of costs for each of the following two years.

Going forward, the company's All-IP network migration, which has the potential to be funded by the proposed disposal of local exchange buildings, should be one of the key drivers of the increased cost savings.

Mobile

Mobile network outsourcing

Within its German and Belgian mobile businesses, KPN has sought to reduce its network management costs by outsourcing to equipment and service providers. In August 2005, KPN signed its first managed network contract, a seven-year agreement with Ericsson for day-to-day operation and maintenance of the BASE network in Belgium.

Following on from this, the company has recently signed a three-year network outsourcing contract with Alcatel-Lucent which will see 750 FTEs migrating from E-Plus to Alcatel-Lucent, providing net annual cost savings of several tens of millions of euros to KPN.

Group result

Chart 11 : Cost-item forecasts

Source: Company data, ABN AMRO forecasts

Most cost items should stay flat in absolute terms

As Chart 11 shows, we expect personnel costs to be held broadly flat until 2012F, while the materials and other operating costs should also remain relatively static in absolute terms. This reflects our belief that personnel reductions and a focus on other costs should enable KPN to keep these items under control.

Work contracted out will likely increase

However, if we reflect the continuing focus on service provision and acknowledge the likelihood of the company outsourcing an increasing number of functions that have historically been done in-house (eg mobile network maintenance and operation) we see an increasing amount of "work contracted out". At the same time, however, we assume the work will be outsourced where it can be done more efficiently and, therefore, we estimate the group EBITDA margin will improve 0.5pp to almost 40% by 2012, despite the expected deflationary effects of price reductions and lower mobile termination rates.

Germany – still a land of opportunity

The German mobile market has long been characterised by low usage levels and low ARPUs. However, with mobile representing only 16% of total telecom traffic, there appears to be considerable scope for usage increases.

E-Plus could continue its outperformance

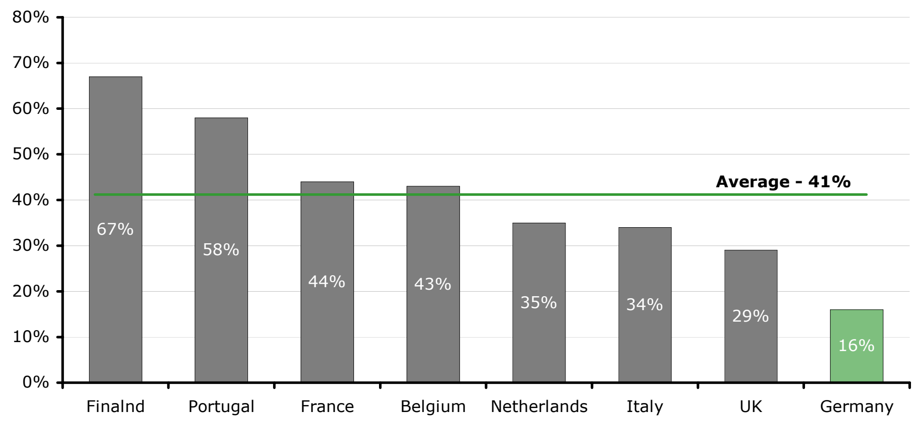
The German mobile market represents something of a dichotomy. While its fundamentals look attractive, the competitive environment is fierce. However, E-Plus has outperformed its peers over the last 12 months, with SAC and SRC around 40% lower yoy (vs a 1% increase at T-Mobile Germany and an 8% decline at O_2) and ARPU declines limited to around 5% in the last few quarters against an average of around 10% (as reported by Vodafone, T-mobile and O_2). We believe E-Plus has the chance to continue this outperformance going forward, predominantly as a result of its multi-brand strategy and a low cost structure.

German mobile market remains attractive

Attractive top-down

Despite the fierce price competition, we believe Germany is still relatively attractive from a top-down perspective. The chart below shows that the proportion of telecom traffic that passes over mobile networks in Germany is the lowest of most major European markets.

Chart 12 : Mobile usage as a percentage of total country telecom traffic (2005)



Source: E-Plus

High mobile prices have limited usage growth

Historically, German mobile prices have been relatively high in comparison to fixed-wire tariffs. This has helped to cap the growth of mobile usage by German mobile subscribers. However, fierce price competition is driving mobile costs in Germany lower and, over time, we would expect this to filter through to subscribers and, therefore, see scope for further usage growth. Furthermore, KPN suggests that the number of households with only a mobile connection is around 5%, lower than some other countries in Europe, and that this provides another indication of the potential for growth.

Comparing tariffs

We have attempted to compare a number of tariff packages currently in the German market in Table 18 . We have sought to select suitable and broadly comparable packages. We have then considered the cost of a month's usage of 100 on-net/fixed minutes, 50 off-net minutes and 20 text messages (SMS) split 50:50 on-net and off-net.

Table 18 : Tariff comparisons

	E-Plus	T-Mobile	Vodafone	O_2
Tariff name	Zehnsation	Xtra Smart	CallYa Compact	Genion Card
Minimum monthly spend	€10.00	€30.00	€0.00	€0.00
Fixed calls (per min)	€0.10	€0.09	€0.25	€0.03
On-net mobile calls (per min)	€0.10	€0.09	€0.05	€0.19
Off-net mobile calls (per min)	€0.10	€0.29	€0.25	€0.19
SMS (per on-net message)	€0.20	€0.19	€0.05	€0.19
SMS (per off-net message)	€0.20	€0.19	€0.15	€0.19
Cost of 100 mins fixed/on-net, 50 mins off-net plus 10 SMS on-net and 10 SMS off-net	€19.00	€27.30	€29.50*	€24.30

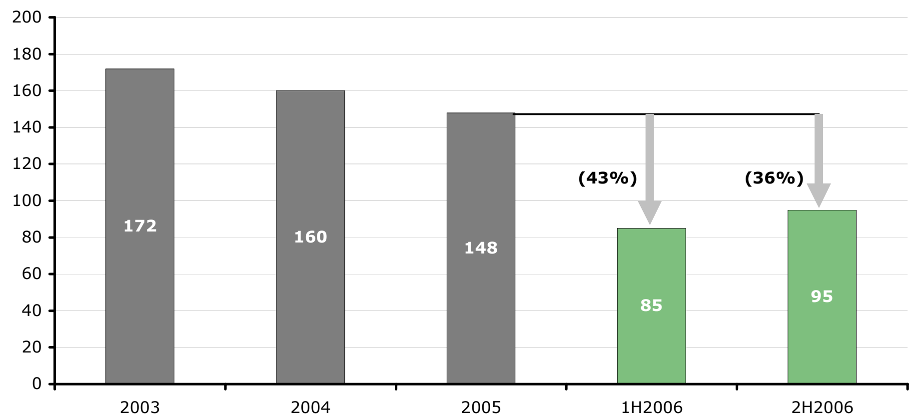
*Source: Company data, ABN AMRO calculations * Assumes 50:50 split of Fixed calls and On-net calls*

As seen above, E-Plus's new 'Zehnsation' tariff appears to provide a significant discount to the other operators – it is 22% cheaper than the nearest package.

E-Plus's new brands have been the driver of subscriber net adds

Over the last two years, E-Plus has seen the subscriber base of its new brands increase from nil to 4.3m. At the same time, E-Plus subscribers have declined from 9.5m to 8.3m. However, the economics of subscribers on the new brands seems to be very attractive. The chart below shows the lower SAC/SRC (subscriber acquisition costs/subscriber retention costs) E-Plus has been able to achieve over the last 12 months. Much of this SAC/SRC reduction has been driven by the large proportion of SIM-only subscriptions that E-Plus has been selling, through both its BASE brand and also through its wholesale partners.

Chart 13 : E-Plus – blended SAC + SRC per gross add/upgrade (€)



Source: Company

Narrowing the ARPU gap

As well as increasing its market share while driving SAC/SRC down, the approach in Germany has actually narrowed the gap between the ARPUs of the other operators and E-Plus.

Table 19 shows the absolute levels of ARPUs as reported by the companies. While the gap between E-Plus and the average ARPUs of the other operators at the beginning of 2005 was virtually 20%, by end-2006, E-Plus appears to have significantly reduced that differential. The figure provides the blended ARPU, but it is worth noting that despite the value-for-money offers, pre-paid ARPUs actually increased in 2006.

Table 19 : Reported ARPU levels for German mobile operators

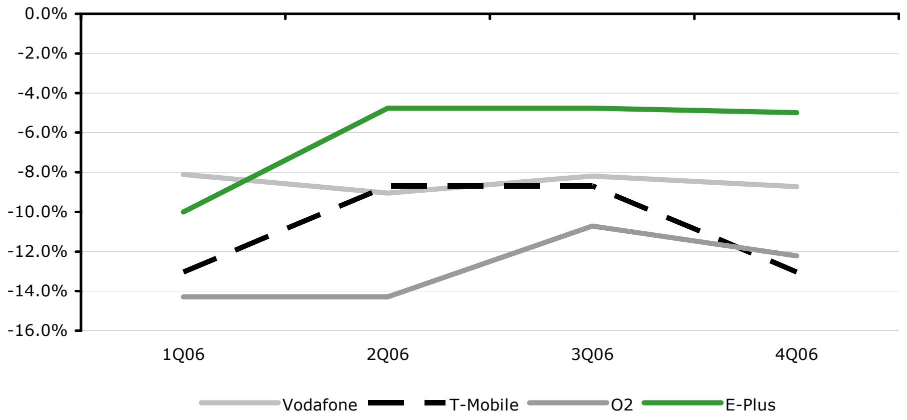
(€/sub/month)	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06	4Q06
Vodafone	23	24	24	23	22	22	22	21
T-Mobile	23	23	23	23	20	21	21	20
O2	28	28	28	27	24	24	25	24
E-Plus	20	21	21	20	18	20	20	19

Source: Company data

Lower ARPU declines

Chart 14 shows that E-Plus has outperformed its peers over the last three quarters, managing to maintain its ARPU declines at just 5%, while the average of the three other operators is around 10%, according to the companies' reported figures.

Chart 14 : ARPU changes for German operators (yoy chg)



Source: Company data

Mobile termination rates

20% reduction in E-Plus's termination rates

The German regulator (Bundesnetzagentur) has imposed termination rates from end-November 2006 onwards, which have reduced E-Plus's tariffs from €0.124/min to €0.0994/min. This is a reduction of 20% and will affect yoy revenue comparison during 2007.

All the German mobile operators have appealed against these changes, but we suspect these appeals are unlikely to be successful. Going forward, the German regulator will develop a cost-based model for establishing the appropriate termination rates.

Financials

We believe E-Plus has outperformed its peers in Germany. Despite fierce competition and lower termination rates, we believe E-Plus has demonstrated relatively positive characteristics and as such we believe the company has the opportunity to continue to provide positive surprises. Our forecasts for the unit are detailed below.

Table 20 : E-Plus (Germany) – summary financials

(€m)	2004	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Mkt share	13.3%	13.6%	14.8%	15.6%	15.9%	16.1%	16.3%	16.3%	16.6%
Revenues	2,608	2,797	2,894	3,113	3,362	3,529	3,665	3,766	3,880
Growth		7.2%	3.5%	7.6%	8.0%	5.0%	3.9%	2.7%	3.0%
EBITDA	700	673	905	1,026	1,130	1,159	1,220	1,272	1,313
Margin	26.8%	24.1%	31.3%	32.9%	33.6%	32.8%	33.3%	33.8%	33.8%
Capex	780	401	486	483	471	459	458	471	466
As % of rev.s	29.9%	14.3%	16.8%	15.5%	14.0%	13.0%	12.5%	12.5%	12.0%

Source: Company data, ABN AMRO forecasts

Cash returns

KPN has committed to returning €2bn to shareholders in 2007, roughly half of which should be through dividends and the rest via share buy-backs. We expect this distribution policy to continue for a further two years.

10% cash return in 2007

Perhaps one of the strongest supports for the current share price is represented by the €2bn that management has committed to return to shareholders through dividends and share buybacks. This is equivalent to a 9% cash return over the course of 2007, on the basis of the current share price.

Table 21 : KPN – cash returns

(€m)	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Dividend	(890)	(982)	(1,005)	(999)	(1,008)	(1,028)	(1,052)	(1,102)
Share buy-back	0	(1,615)	(1,000)	(1,000)	(1,000)	0	0	0
Total cash return	**(890)**	**(2,597)**	**(2,005)**	**(1,999)**	**(2,008)**	**(1,028)**	**(1,052)**	**(1,102)**
Cash remaining to repay debt	0	(384)	223	174	234	1,146	1,179	1,249
Net debt (calculated)	8,928	9,190	8,967	8,792	8,559	7,412	6,234	4,984
Net debt/EBITDA	1.9	1.9	1.8	1.8	1.7	1.4	1.2	0.9
Additional leverage to 2.0x net debt/EBITDA	520	485	793	1,095	1,471	2,876	4,235	5,678
Additional leverage to 2.5x net debt/EBITDA	2,882	2,903	3,233	3,566	3,979	5,449	6,852	8,343

Source: Company data, ABN AMRO forecasts

Furthermore, we expect this level of return to continue for a further two years. In fact, as the table above indicates, given that the company can raise a further €3bn or so on the back of its existing EBITDA, this provides scope for the €1bn share buy-back to carry on beyond the next three years.

Table 22 : KPN – effective yields

(€m)	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Dividend yield at €11.60/share	3.5%	4.2%	4.6%	4.8%	5.1%	5.3%	5.4%	5.7%
Share buy-back 'yield' at €11.60/share	0.0%	6.9%	4.6%	4.8%	5.0%	0.0%	0.0%	0.0%
Total s'holder return at €11.60/share	**3.5%**	**11.1%**	**9.2%**	**9.6%**	**10.1%**	**5.3%**	**5.4%**	**5.7%**
Dividend yield at €13.80/share	2.9%	3.5%	3.9%	4.0%	4.3%	4.5%	4.6%	4.8%
Share buy-back 'yield' at €13.80/share	0.0%	5.8%	3.8%	4.0%	4.2%	0.0%	0.0%	0.0%
Total s'holder return at €13.80/share	**2.9%**	**9.4%**	**7.7%**	**8.1%**	**8.5%**	**4.5%**	**4.6%**	**4.8%**

Source: Company data, ABN AMRO forecasts (priced at close on 26 March 2007)

As the table above indicates, at the current share price the proposed shareholder returns translate into a "yield" of around 9-10% for each of the next three years. This is one of the highest payouts in our large-cap telecom universe.

Still a strong yield at our target price

Furthermore, at our target price, the proposed return is still almost 8% in 2007, and if the €2bn distribution is continued during the following two years, this effective yield would increase to over 8%.

Risks and opportunities

Risks to our view are that the competitive intensity in the Dutch fixed and mobile markets grows or KPN is unable to maintain the momentum in E-Plus. Opportunities exist in M&A, with KPN as either acquirer or acquiree.

Risks

Execution risks

The risks to our forecasts arise if KPN is unable to continue executing well in both its domestic businesses and at E-Plus in Germany. As we have argued above, we believe the company's multi-brand strategy provides a better platform from which to provide services to consumers, and businesses, than the one-size-fits-all approach most European operators continue to pursue.

Market share loses

However, if this were to prove to have been more a short-term advantage and if KPN is unable to retain its near-50% retail market share in the domestic broadband market and if KPN Mobile Netherlands and E-Plus do not generate the revenue growth and margins we currently expect, then cash flow would be adversely affected and our fair value estimate would be reduced.

Opportunities

Potential acquisitions

During its 2006 results presentation KPN confirmed it would consider potential acquisition targets, either outside its current geographic footprint, or, more likely on an asset-light basis, within the existing footprint.

Switzerland

Specifically, KPN indicated it might be interested in Sunrise – a dual-brand fixed and mobile service provider in Switzerland. The company provides services to 2.2m customers, including both retail consumers and corporate clients. In 2006 Sunrise reported revenues of SFr1.95bn (€1.2bn) and EBITDA of SFr540m (€333m). Clearly a multiple of around 6-7x EBITDA would result in a valuation of €2bn-2.5bn. However, we are not sure that the business is for sale, given comments in February by the company's management in the Swiss newspaper *SonntagsZeitung*. The company is currently 100% owned by TDC (the Danish incumbent telco).

Austria

At the same time, given that KPN was reported to have considered bidding for tele.ring, the Austrian mobile operator that was eventually acquired by Deutsche Telekom, it is possible (and again management alluded to it during the 2006 results presentation) that KPN would consider an investment in Austria.

Asset-light

Beyond these two relatively specific ideas, KPN has mentioned that it would consider buying into asset-light telecom businesses, including MVNOs (recent comments from the company – reported by Bloomberg on 19 March – indicate that it may be considering an entry in to the Spanish mobile market).

In each case, however, the company was keen to stress the deals would have to be attractive. Here it is worth noting that the fact KPN walked away from the purchase of tele.ring in Austria perhaps provides some comfort that management exercises a level of financial discipline when approaching acquisitions.

Potential bid target

Finally, KPN remains an interesting potential acquisition target in its own right. As we have highlighted above, the cash generation is strong, meaning leveraged buy-out investors may be interested. At the same time, a trade buyer could also materialise.

Price target upgraded to €13.80

Following the 2006 results, we have revised our estimates and our sum-of-the-parts valuation, which is now €13.79 per share – this is backed up by our group DCF valuation of €14.58.

Sum of the parts

Our base-case DCF-based sum of the parts generates a fair value of €13.79.

If we assume the low-end valuation of the fixed-wire business (of 5.5x 2008F EBITDA) and the mobile businesses (6.5x 2008F EBITDA) we get a valuation of €11/share, just 5% below the current price. In our view, this means downside risk is limited if KPN can achieve consensus (JCF) estimates.

Table 23 : Base-case sum-of-the-parts valuation

Description	Methodology	Valuation (€m)	EBITDA 08F (€m)	EV/EBITDA 08F (x)	FCF 08F (€m)	Unlev'd FCF yld 08F (%)	Stake (%)	Value to KPN (€m)	(% EV)
Domestic fixed line	DCF valuation	14,579	2,362	6.2	1,067	7.3%	100.0%	14,579	42%
Fixed line		**14,579**	**2,362**	**6.2**	**1,067**	**7.3%**		**14,579**	**42%**
KPN Mobile – Netherlands	DCF valuation	10,518	1,191	8.8	633	6.0%	100.0%	10,518	31%
KPN Mobile – Germany (E-Plus)	DCF valuation	7,807	1,130	6.9	516	6.6%	100.0%	7,807	23%
KPN Mobile – Belgium	DCF valuation	2,150	286	7.5	108	5.0%	100.0%	2,150	6%
Mobile		**20,474**	**2,607**	**7.9**	**1,257**	**6.1%**		**20,474**	**60%**
Other	EV/EBITDA mult.	0	0	2.0			100.0%	0	0%
Workforce redundancy charges	NPV							(641)	(2%)
Tax liability	NPV							(72)	(0%)
Total other subsidiaries								**(713)**	**(2%)**
Total enterprise valuation			**4,970**	**6.9**	**2,324**	**6.8%**		**34,340**	
Net debt – end-2007								(8,967)	
Equity value					**1,812**	**7.1%**		**25,373**	
Shares in issue (m)								1,839	
Value per ordinary share (€)								**13.79**	

Source: ABN AMRO estimates

The table above provides our base-case sum-of-the-parts valuation of KPN. We believe the resultant valuation of the domestic fixed-wire business at just over 6x 2007F EBITDA is not unreasonable given BT currently trades on 6.3x March 2008 EBITDA, on our estimates. Furthermore, our valuations of both E-Plus and BASE at multiples of 6.9x and 7.5x 2008F EBITDA, respectively, are also not unreasonable, given Vodafone's recent track record of disposals of minority mobile stakes for between 7x and 9x 2007F EBITDA, according to the company's press releases.

Table 24 : KPN multiples relative to the sector

	EV/EBITDA (x)			PE (x)			EFCF yield		
	07F	08F	09F	07F	08F	09F	07F	08F	09F
At €11.60/share	6.2	5.9	5.6	14.1	13.0	11.5	10.4%	10.7%	11.6%
At €13.80/share	7.0	6.7	6.3	16.8	15.4	13.7	8.8%	9.0%	9.8%
Large incumbent average	6.0	5.9	5.8	13.4	13.8	12.1	9.8%	10.5%	10.2%
European incumbent average	6.6	6.4	6.3	15.8	14.5	13.1	8.6%	9.3%	9.7%

Source: ABN AMRO forecasts, Coverage universe averages priced as at 26/03/07

Group DCF

Table 25 : Group DCF calculation

(€m)	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
EBITA	**2,652**	**2,789**	**2,988**	**3,037**	**3,141**	**3,291**	**3,443**	**3,506**
Taxes (normalised rate + tax loss deficit)	(839)	(867)	(956)	(1,004)	(1,050)	(746)	(776)	(767)
Depreciation	2,291	2,226	2,156	2,197	2,190	2,139	2,085	2,130
NOPAT	**4,104**	**4,148**	**4,189**	**4,230**	**4,281**	**4,685**	**4,751**	**4,869**
Capex	(1,878)	(1,855)	(1,725)	(1,690)	(1,684)	(1,711)	(1,737)	(1,775)
Other (workforce reductions etc)	(121)	(80)	(100)	(100)	(120)	(120)	(120)	(120)
Unlevered FCF	**2,105**	**2,213**	**2,364**	**2,440**	**2,477**	**2,853**	**2,894**	**2,974**
PV of FCF	**1,960**	**1,919**	**1,908**	**1,835**	**1,734**	**1,860**	**1,757**	**1,681**
Continuing value	14,654							
Terminal value	40,236							
PV of terminal value	21,179							
DCF enterprise value	**35,834**							
Number of shares (m)	1,842							
Net debt 2007	8,967							
DCF equity value	**26,867**							
Target price on group DCF basis	**14.58**							
WACC and terminal growth								
Cost of equity	9.0%							
Cost of debt (after tax)	3.7%							
Debt weighting	30.0%							
WACC	7.4%							
Terminal growth	0.0%							

Source: ABN AMRO estimates

Our group DCF provided above could also demonstrate additional upside, given that the normalised taxes used in generating the NOPAT are higher than those forecast in our company model, and since our longer-term capex levels are conservative compared with KPN's current expectations.

Bear case sum-of-the-parts

Table 26 : Bear case sum-of-the-parts valuation

Description	Methodology	Valuation (€m)	EBITDA 08F (€m)	EV/EBITDA 08F (x)	FCF 08F (€m)	Unlev'd FCF yld 08F (%)	Stake (%)	Value to KPN (€m)	(% EV)
Domestic fixed line	EV/EBITDA mult	12,992	2,362	5.5	1,067	8.2%	100.0%	12,992	44%
Fixed line		**12,992**	**2,362**		**1,067**			**12,992**	**38%**
KPN Mobile – Netherlands	EV/EBITDA mult	7,743	1,191	6.5	633	8.2%	100.0%	7,743	27%
KPN Mobile – Germany (E-Plus)	EV/EBITDA mult	7,347	1,130	6.5	516	7.0%	100.0%	7,347	25%
KPN Mobile – Belgium	EV/EBITDA mult	1,859	286	6.5	108	5.8%	100.0%	1,859	6%
Mobile		**16,949**	**2,607**	**6.5**	**1,257**	**7.4%**		**16,949**	**58%**
Other	EV/EBITDA mult	0	0	4.0			100.0%	0	0%
Workforce redundancy charges	NPV							(641)	(2%)
Tax liability	NPV							(93)	(0%)
Total other subsidiaries								**(734)**	**(3%)**
Total enterprise valuation			**4,970**	**5.9**	**2,324**	**8.0%**		**29,206**	
Net debt – end-2007								(8,967)	
Equity value					**1,812**	**9.0%**		**20,239**	
Shares in issue (m)								1,841	
Value per ordinary share (€)								**11.00**	

Source: ABN AMRO estimates

Financial model

We provide tables of changes to our previous estimates, divisional revenue and EBITDA details and consolidated group financial forecasts.

Table 27 : KPN – divisional estimate adjustments

(€m)	2007F Old	2007F New	Chg	2008F Old	2008F New	Chg	2009F Old	2009F New	Chg
Revenues									
Fixed									
Consumer	2,000	2,083	4.1%	1,824	1,993	9.2%	1,708	1,936	13.3%
Business	2,405	2,440	1.5%	2,276	2,376	4.4%	2,188	2,341	7.0%
W'sale/Ops	5,147	5,048	(1.9%)	5,072	4,947	(2.5%)	5,009	4,873	(2.7%)
Elim'ns & other	(2,916)	(2,916)	(0.0%)	(2,801)	(2,838)	1.3%	(2,719)	(2,787)	2.5%
Total fixed	**6,635**	**6,655**	**0.3%**	**6,372**	**6,478**	**1.7%**	**6,186**	**6,362**	**2.8%**
Mobile									
KPN Netherlands	2,968	2,995	0.9%	2,948	3,004	1.9%	3,018	3,128	3.7%
E-Plus	3,050	3,113	2.1%	3,222	3,362	4.3%	3,370	3,529	4.7%
BASE	707	666	(5.8%)	778	721	(7.4%)	847	775	(8.5%)
Elim'ns	(42)	(42)	0.7%	(44)	(45)	2.0%	(46)	(47)	2.7%
Total mobile	**6,682**	**6,733**	**0.7%**	**6,905**	**7,043**	**2.0%**	**7,188**	**7,385**	**2.7%**
Other	73	60	(17.8%)	73	60	(17.8%)	73	60	(17.8%)
Elim'ns	(1,116)	(1,076)	(3.6%)	(1,112)	(1,086)	(2.3%)	(1,121)	(1,174)	4.7%
Group revenues	**12,275**	**12,372**	**0.8%**	**12,237**	**12,494**	**2.1%**	**12,327**	**12,633**	**2.5%**
EBITDA									
Fixed									
Consumer	220	229	4.0%	192	209	9.0%	184	208	12.9%
Business	337	342	1.5%	319	333	4.4%	306	328	7.0%
W'sale/Ops	1,904	1,868	(1.9%)	1,852	1,806	(2.5%)	1,829	1,779	(2.7%)
Elim'ns & other	(11)	15	(229.3%)	(11)	14	(228.5%)	(11)	14	(228.6%)
Total fixed	**2,450**	**2,453**	**0.1%**	**2,351**	**2,362**	**0.5%**	**2,309**	**2,329**	**0.9%**
Mobile									
KPN Netherlands	1,159	1,156	(0.2%)	1,198	1,191	(0.6%)	1,232	1,247	1.2%
E-Plus	988	1,026	3.8%	1,055	1,130	7.2%	1,117	1,159	3.7%
BASE	299	270	(9.8%)	323	286	(11.5%)	347	308	(11.3%)
Elim'ns	(24)	(25)	0.2%	(26)	(26)	1.2%	(27)	(27)	0.6%
Total mobile	**2,421**	**2,427**	**0.2%**	**2,550**	**2,581**	**1.2%**	**2,670**	**2,686**	**0.6%**
Other	11	0	(100.0%)	11	0	(100.0%)	11	0	(100.0%)
Elim'ns	0	0	NM	0	0	NM	0	0	NM
Group EBITDA	**4,882**	**4,880**	**(0.0%)**	**4,912**	**4,944**	**0.6%**	**4,989**	**5,015**	**0.5%**

Source: ABN AMRO forecasts

Table 28 : KPN – group estimates adjustments

(€m)	2007	2008	2009
Revenues			
ABN AMRO – Prior	12,275	12,241	12,331
ABN AMRO – Current	12,372	12,494	12,633
Change	0.8%	2.1%	2.5%
Consensus	12,239	12,305	12,506
Differential	1.1%	1.5%	1.0%
EBITDA			
ABN AMRO – Prior	4,882	4,913	4,990
ABN AMRO – Current	4,880	4,944	5,015
Change	(0.0%)	0.6%	0.5%
Consensus	4,893	4,957	5,078
Differential	(0.3%)	(0.3%)	(1.2%)
Normalised net profit			
ABN AMRO – Prior	2,028	1,998	2,226
ABN AMRO – Current	2,038	2,163	2,312
Change	0.5%	8.3%	3.9%
Consensus	NA	NA	NA
Differential	NA	NA	NA
Normalised EPS (€)			
ABN AMRO – Prior	0.82	0.83	0.98
ABN AMRO – Current	0.82	0.90	1.01
Change	0.4%	8.0%	3.5%
Consensus	0.81	0.87	1.01
Differential	1.4%	3.2%	(0.0%)
DPS (€)			
ABN AMRO – Prior	0.53	0.54	0.55
ABN AMRO – Current	**0.53**	**0.56**	**0.60**
Change	0.0%	3.7%	9.1%
Consensus	0.54	0.57	0.64
Differential	(1.9%)	(1.8%)	(6.2%)

Source: ABN AMRO forecasts, Consensus figures from JCF

Table 29 : KPN – P&L forecasts

(€m)	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Revenues								
Fixed line	6,867	6,647	6,655	6,478	6,362	6,294	6,259	6,241
Mobile	5,773	6,455	6,733	7,043	7,385	7,736	8,021	8,299
Other	230	73	60	60	60	60	60	60
Eliminations	(934)	(1,118)	(1,076)	(1,086)	(1,174)	(1,198)	(1,219)	(1,241)
Group operating revenues	**11,936**	**12,057**	**12,372**	**12,494**	**12,633**	**12,892**	**13,121**	**13,360**
EBITDA								
Fixed line	2,792	2,574	2,453	2,362	2,329	2,309	2,274	2,265
Mobile	1,835	2,235	2,427	2,581	2,686	2,835	2,961	3,066
Other	97	28	0	0	0	0	0	0
Group EBITDA	4,724	4,837	**4,880**	**4,944**	**5,015**	**5,144**	**5,234**	**5,331**
Group margin	**39.6%**	**40.1%**	39.4%	39.6%	39.7%	39.9%	39.9%	39.9%
Depreciation and Amortisation	(2,376)	(2,614)	(2,337)	(2,291)	(2,226)	(2,156)	(2,197)	(2,190)
EBIT	**2,348**	**2,223**	**2,543**	**2,652**	**2,789**	**2,988**	**3,037**	**3,141**
Profit from associated companies	13	7	7	7	7	7	7	7
Net interest costs	(547)	(520)	(512)	(496)	(486)	(446)	(380)	(313)
Other	0	0	0	0	0	0	0	0
Income before tax	**1,814**	**1,710**	**2,038**	**2,163**	**2,311**	**2,549**	**2,664**	**2,836**
Tax	(360)	(127)	(489)	(552)	(589)	(650)	(679)	(723)
Minorities	(17)	0	0	0	0	0	0	0
Net income	**1,437**	**1,583**	**1,549**	**1,612**	**1,722**	**1,899**	**1,985**	**2,113**
Number of shares (end of period) (m)	2,091	1,929	1,841	1,753	1,665	1,665	1,665	1,665
Av number of shares (m)	2,210	2,010	1,885	1,797	1,709	1,665	1,665	1,665
EPS (€)	**0.65**	**0.79**	**0.82**	**0.90**	**1.01**	**1.14**	**1.19**	**1.27**
DPS (€)	0.45	0.50	0.53	0.56	0.60	0.63	0.66	0.69
Payout ratio as % of FCF	69%	42%	48%	46%	46%	48%	49%	49%
Payout ratio as % of EPS	0%	63%	65%	62%	60%	55%	55%	54%

Source: Company data, ABN AMRO forecasts

Table 30 : KPN – balance sheet forecasts

(€m)	2005	2006	2007F	2008F	2009F	2010F	2011F	2012F
Non-current assets	**19,162**	**18,170**	**17,523**	**16,710**	**15,989**	**15,458**	**14,951**	**14,445**
Intangible assets	9,401	9,051	8,350	7,662	6,995	6,348	5,689	5,032
Fixed assets	8,338	7,965	8,019	7,893	7,840	7,956	8,108	8,260
Long-term financial and other non-current assets	1,423	1,154	1,154	1,154	1,154	1,154	1,154	1,154
Current assets	**3,540**	**3,088**	**3,088**	**3,088**	**3,088**	**3,088**	**3,088**	**3,088**
Trade and other receivables	2,176	2,138	2,138	2,138	2,138	2,138	2,138	2,138
Cash and cash equivalents	1,053	803	803	803	803	803	803	803
Other current assets	130	117	117	117	117	117	117	117
Non-current assets classified as held for sale	181	30	30	30	30	30	30	30
Total assets	**22,702**	**21,258**	**20,611**	**19,798**	**19,077**	**18,546**	**18,039**	**17,533**
Equity	**5,104**	**4,196**	**3,733**	**3,338**	**3,047**	**3,913**	**4,842**	**5,849**
Equity attributable to shareholders	5,076	4,195	3,732	3,337	3,046	3,912	4,841	5,848
Minority interest	28	1	1	1	1	1	1	1
Non-current liabilities	**12,191**	**13,213**	**13,029**	**12,610**	**12,181**	**10,783**	**9,348**	**7,836**
Long-term financial debt	7,954	9,351	9,128	8,953	8,718	7,569	6,387	5,133
Deferred tax liabilities	2,229	1,992	2,155	2,031	1,918	1,769	1,615	1,476
Long-term provisions	1,716	1,610	1,487	1,366	1,286	1,186	1,086	966
Other long-term liabilities	292	260	260	260	260	260	260	260
Current liabilities	**5,407**	**3,849**	**3,849**	**3,849**	**3,849**	**3,849**	**3,849**	**3,849**
Short-term financial debt	2,027	642	642	642	642	642	642	642
Trade and other payables	2,938	2,936	2,936	2,936	2,936	2,936	2,936	2,936
Other current liabilities	442	271	271	271	271	271	271	271
Total liabilities + equity	**22,702**	**21,258**	**20,611**	**19,798**	**19,077**	**18,546**	**18,039**	**17,533**
Net debt (calculated)	**8,928**	**9,190**	**8,967**	**8,792**	**8,557**	**7,408**	**6,226**	**4,972**
Net debt/EBITDA	1.9	1.9	1.8	1.8	1.7	1.4	1.2	0.9

Source: Company data, ABN AMRO forecasts

Table 31 : KPN – cash flow estimates

(€m)	2006	2007F	2008F	2009F	2010F	2011F	2012F
EBITDA	4,837	4,880	4,944	5,015	5,144	5,234	5,331
Change in working capital	(142)	0	0	0	0	0	0
Capex	(1,650)	(1,840)	(1,878)	(1,855)	(1,725)	(1,690)	(1,684)
Operating cash flow	**3,045**	**3,039**	**3,065**	**3,160**	**3,419**	**3,544**	**3,647**
Interest paid	(479)	(512)	(496)	(486)	(446)	(380)	(313)
Cash taxes paid	147	(326)	(675)	(703)	(799)	(833)	(862)
Payments for commitments (for workforce reduction)	(176)	(123)	(121)	(80)	(100)	(100)	(120)
Other	(116)	0	0	0	0	0	0
Free cash flow	**2,421**	**2,078**	**1,774**	**1,891**	**2,074**	**2,231**	**2,352**
Acquisitions/Disposals	(228)	150	400	350	100	0	0
Dividends paid	(982)	(1,005)	(999)	(1,008)	(1,028)	(1,052)	(1,102)
Share buybacks	(1,615)	(1,000)	(1,000)	(1,000)	0	0	0
Other	20	0	0	0	0	0	0
Cash available to pay down debt	**(384)**	**223**	**174**	**234**	**1,146**	**1,179**	**1,249**

Source: Company data, ABN AMRO forecasts

DISCLOSURES APPENDIX

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more, a Hold 5-10% and a Sell less than 5%. This structure applies to research on Asian and European stocks published from 1 November 2005; on Australian stocks from 7 November 2006 and on continental European small and mid cap stocks from 23 November 2006. For UK small caps a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Asset allocation: The asset allocation is the responsibility of the economics team. The recommended weight (Over, Neutral and Under) for equities, cash and bonds is based on a number of metrics and does not relate to a particular size change in one variable.

Stock borrowing rating: The stock borrowing rating is the subjective view and responsibility of the ABN AMRO equity finance team: Easy implies ready availability. Moderate implies some availability. Hard implies availability is tight. Impossible implies no availability.

Distribution of recommendations

The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 28 Mar 2007)

	Global total (IB%)	Europe total (IB%)
Buy	625 (20)	250 (45)
Add	20 (50)	19 (53)
Hold	502 (19)	229 (37)
Reduce	1 (0)	0 (0)
Sell	141 (6)	50 (14)
Total (IB%)	**1289 (18)**	**548 (39)**

Trading recommendations (as at 28 Mar 2007)

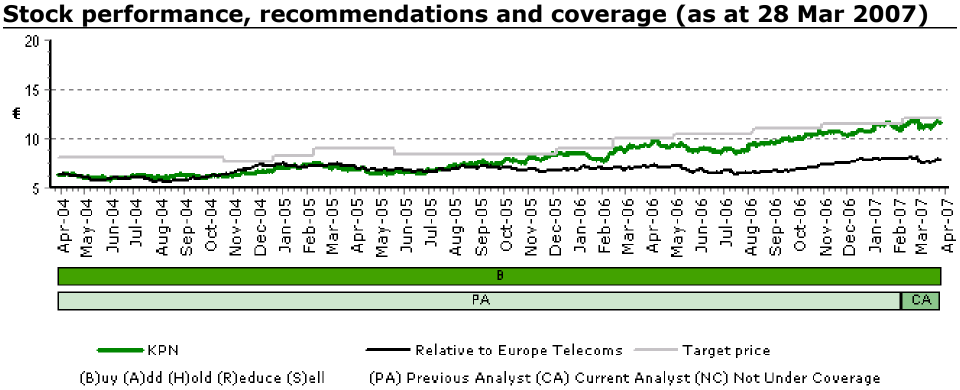
	Global total (IB%)	Europe total (IB%)
Trading Buy	13 (15)	6 (33)
Trading Sell	4 (0)	2 (0)
Total (IB%)	**17 (12)**	**8 (25)**

Valuation and risks to target price

KPN (RIC: KPN.AS, Rec: Buy, CP: €11.61, TP: €13.80): The main risks to our DCF and sum-of-the-parts based target price remain the level of competitive intensity in German mobile and the level of regulation, particularly in the Netherlands. Furthermore, execution risks exist in each of these markets. We believe KPN's multi-brand strategy should enable it to maintain its operational momentum in the coming months, but if this were to prove only to be a short-term advantage, then this momentum could slow.

KPN

Stock performance, recommendations and coverage (as at 28 Mar 2007)



Chris Alliott started covering this stock on 7 Feb 07
Moved to new recommendation structure between 1 November 2005 and 31 January 2006

Trading recommendation history (as at 28 Mar 2007)

Date	Rec	Analyst
	n/a	

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KPN: KEY FINANCIAL DATA

Income statement

€m	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	11936	12057	12372	12494	12633
Cost of sales	-7212	-7220	-7492	-7551	-7618
Operating costs	n/a	n/a	n/a	n/a	n/a
EBITDA	**4724**	**4837**	**4880**	**4944**	**5015**
DDA & Impairment (ex gw)	-2376	-2614	-2337	-2291	-2226
EBITA	**2348**	**2223**	**2543**	**2652**	**2789**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**2348**	**2223**	**2543**	**2652**	**2789**
Net interest	-547.0	-520.0	-512.0	-495.8	-485.6
Associates (pre-tax)	13.0	7.00	-7.00	7.00	7.00
Other pre-tax items	0.00	0.00	14.0	0.00	0.00
Reported PTP	**1814**	**1710**	**2038**	**2163**	**2311**
Taxation	-360.0	-127.0	-489.0	-551.6	-589.2
Minority interests	-17.0	0.00	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**1437**	**1583**	**1549**	**1612**	**1721**
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised EBITDA	4724	4837	4880	4944	5015
Normalised PTP	1814	1710	2038	2163	2311
Normalised net profit	**1437**	**1583**	**1549**	**1612**	**1721**

Source: Company data, ABN AMRO forecasts ***year to Dec***

Balance sheet

€m	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	1053	803.0	803.0	803.0	803.0
Other current assets	2487	2285	2285	2285	2285
Tangible fixed assets	8338	7965	8019	7893	7840
Intang assets (incl gw)	9401	9051	8350	7662	6995
Oth non-curr assets	1423	1154	1154	1154	1154
Total assets	**22702**	**21258**	**20611**	**19798**	**19077**
Short term debt (2)	2027	642.0	642.0	642.0	642.0
Trade & oth current liab	3380	3207	3207	3207	3207
Long term debt (3)	7954	9351	9128	8953	8720
Oth non-current liab	4237	3862	3902	3657	3464
Total liabilities	**17598**	**17062**	**16878**	**16460**	**16032**
Total equity (incl min)	5104	4196	3733	3338	3045
Total liab & sh equity	**22702**	**21258**	**20611**	**19798**	**19077**
Net debt (2+3-1)	8928	9190	8967	8792	8559

Source: Company data, ABN AMRO forecasts ***year ended Dec***

Cash flow statement

€m	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	4724	4837	4880	4944	5015
Change in working capital	0.00	-142.0	0.00	0.00	0.00
Net interest (pd) / rec	0.00	-479.0	-512.0	-495.8	-485.6
Taxes paid	0.00	147.0	-326.3	-674.9	-703.2
Other oper cash items	0.00	-176.0	-123.0	-121.0	-80.0
Cash flow from ops (1)	**4724**	**4187**	**3919**	**3652**	**3746**
Capex (2)	0.00	-1650	-1840	-1878	-1855
Disposals/(acquisitions)	0.00	-228.0	150.0	400.0	350.0
Other investing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from invest (3)	**0.00**	**-1878**	**-1690**	**-1478**	**-1505**
Incr / (decr) in equity	0.00	-1615	-1000	-1000	-1000
Incr / (decr) in debt	n/a	n/a	n/a	n/a	n/a
Ordinary dividend paid	-890.0	-982.0	-1005	-999.3	-1008
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	**-890.0**	**-2597**	**-2005**	**-1999**	**-2008**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**3834**	**-287.7**	**223.3**	**174.3**	**233.8**
Equity FCF (1+2+4)	4724	2537	2078	1774	1891

Lines in bold can be derived from the immediately preceding lines. ***year to Dec***
Source: Company data, ABN AMRO forecasts

KPN: PERFORMANCE AND VALUATION

Standard ratios

Performance	KPN FY05A	KPN FY06A	KPN FY07F	KPN FY08F	KPN FY09F	Deutsche Telekom FY06F	Deutsche Telekom FY07F	Deutsche Telekom FY08F	Telefonica FY06F	Telefonica FY07F	Telefonica FY08F
Sales growth (%)	0.99	1.02	2.61	0.99	1.11	2.58	2.20	1.07	35.5	5.12	2.64
EBITDA growth (%)	-2.30	2.40	0.88	1.31	1.45	-5.97	-2.48	1.37	27.0	4.23	4.95
EBIT growth (%)	-11.2	-5.31	14.4	4.31	5.17	-13.3	-6.41	9.72	24.7	6.60	12.7
Normalised EPS growth (%)	-8.25	21.2	4.25	9.06	12.2	-36.3	-24.7	32.7	9.65	21.2	20.3
EBITDA margin (%)	39.6	40.1	39.4	39.6	39.7	31.9	30.4	30.5	37.8	37.5	38.3
EBIT margin (%)	19.7	18.4	20.6	21.2	22.1	14.4	13.2	14.3	20.8	21.1	23.2
Net profit margin (%)	12.0	13.1	12.5	12.9	13.6	6.13	4.52	5.94	9.40	10.5	12.3
Return on avg assets (%)	8.06	9.39	9.26	9.80	10.7	4.70	4.31	4.52	8.04	7.47	8.74
Return on avg equity (%)	25.3	34.2	39.1	45.6	54.0	7.91	5.89	7.92	39.3	46.7	48.8
ROIC (%)	11.4	12.7	12.6	13.3	14.7	5.94	5.25	5.97	13.7	10.00	11.5
ROIC - WACC (%)	3.59	4.88	4.79	5.53	6.90	0.00	0.00	0.00	5.93	2.28	3.77
					year to Dec			*year to Dec*			*year to Dec*
Valuation											
EV/sales (x)	2.54	2.54	2.45	2.42	2.37	1.63	1.56	1.50	2.54	2.37	2.23
EV/EBITDA (x)	6.42	6.32	6.22	6.11	5.97	5.11	5.12	4.93	6.71	6.33	5.83
EV/EBITDA @ tgt price (x)	7.27	7.16	7.05	6.92	6.78	4.77	4.77	4.59	6.47	6.10	5.61
EV/EBIT (x)	12.9	13.8	11.9	11.4	10.7	11.3	11.8	10.5	12.2	11.3	9.65
EV/invested capital (x)	1.86	1.99	2.04	2.13	2.22	1.03	1.04	1.04	1.76	1.77	1.74
Price/book value (x)	4.78	5.34	5.73	6.11	6.37	1.13	1.17	1.16	6.67	6.15	4.93
Equity FCF yield (%)	18.4	10.9	9.49	8.49	9.51	4.01	12.0	10.7	8.03	8.11	9.76
Normalised PE (x)	17.9	14.7	14.1	13.0	11.6	14.7	19.5	14.7	16.3	13.5	11.2
Norm PE @ tgt price (x)	21.2	17.5	16.8	15.4	13.7	13.0	17.2	13.0	15.4	12.7	10.6
Dividend yield (%)	3.88	4.31	4.57	4.82	5.17	5.77	5.77	6.01	3.36	3.98	4.89
					year to Dec			*year to Dec*			*year to Dec*

Per share data	FY05A	FY06A	FY07F	FY08F	FY09F
Tot adj dil sh, ave (m)	2210	2010	1885	1799	1713
Reported EPS (EUR)	0.65	0.79	0.82	0.90	1.00
Normalised EPS (EUR)	0.65	0.79	0.82	0.90	1.00
Dividend per share (EUR)	0.45	0.50	0.53	0.56	0.60
Equity FCF per share (EUR)	2.14	1.26	1.10	0.99	1.10
Book value per sh (EUR)	2.43	2.18	2.03	1.90	1.82
					year to Dec

Solvency	FY05A	FY06A	FY07F	FY08F	FY09F
Net debt to equity (%)	174.9	219.0	240.2	263.4	281.1
Net debt to tot ass (%)	39.3	43.2	43.5	44.4	44.9
Net debt to EBITDA	1.89	1.90	1.84	1.78	1.71
Current ratio (x)	0.65	0.80	0.80	0.80	0.80
Operating CF int cov (x)	0.00	9.43	9.29	9.73	10.2
Dividend cover (x)	1.61	1.61	1.54	1.61	1.71
					year to Dec

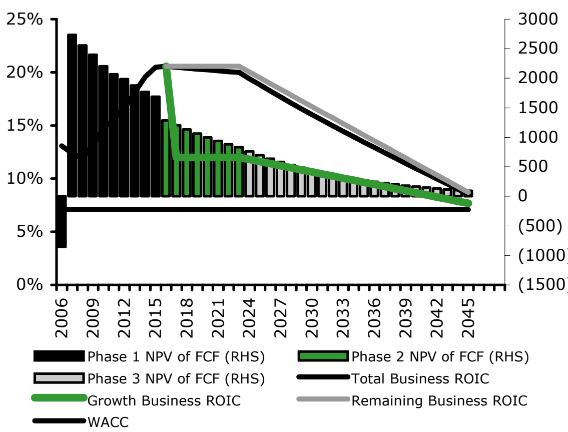
Priced as follows: KPN.AS - €11.61; DTEGn.DE - €12.47; TEF.MC - €16.35
Source: Company data, ABN AMRO forecasts

KPN: VALUATION METHODOLOGY

Economic Profit Valuation	€ m	%
Adjusted Opening Invested Capital	17542.1	50
NPV of Economic Profit During Explicit Period	7921.6	22
NPV of Econ Profit of Remaining Business (1, 2)	9545.5	27
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	253.4	1
Enterprise Value	35262.5	100
Plus: Other Assets	-735.5	-2
Less: Minorities	0.0	0
Less: Net Debt / Leases (as at 26 Mar 2007)	8966.7	25
Equity Value	25560.3	72
No. Shares (millions)	1843.7	
Per Share Equity Value	**13.86**	
Current Share Price	11.61	

Discounted Cash Flow Valuation	€ m	%
Value of Phase 1: Explicit (2006 to 2015)	18427.1	54
Value of Phase 2: Value Driver (2016 to 2023)	8345.1	24
Value of Phase 3: Fade (2024 to 2048)	7392.4	22
Terminal Value	0.0	0
Enterprise Value	34164.6	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation		-2.7
FCF Grth Rate at end of Phs 1 implied by Current Price		-5.2

Returns, WACC and NPV of Free Cash Flow



Sensitivity Table		No of Years in Fade Period				
		15	18	20	23	25
WACC	6.0%	15.19	15.52	15.72	16.00	16.16
	7.0%	13.33	13.57	13.72	13.91	14.02
	8.0%	11.75	11.92	12.02	12.16	12.24
	9.0%	10.38	10.50	10.57	10.67	10.72
	10.0%	9.19	9.28	9.33	9.40	9.44

Performance Summary	2006	2007	2008	Phase 2 Avg (2016 - 2023)
Invested Capital Growth (%)	-6.6	-3.8	-4.9	1.0
Operating Margin (%)	18.4	20.6	21.2	23.0
Capital Turnover (x)	0.7	0.7	0.8	1.2

Source: ABN AMRO
1. In periods following the Explicit Period i.e. Phase 2 and Phase 3
2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
3. Net Investment is defined as capex over and above depreciation after Phase 1

KPN

Company description — Buy

KPN is the dominant provider of telecom services in The Netherlands, in both fixed and mobile. In the fixed-line business, the key competitors are emerging infrastructure operators who are using DSL technology and the cable companies. KPN continues to have an estimated 60% market share in the fixed-telephony market. In its domestic-mobile business, its market share is around 50%, following the acquisition of Telfort. With the Dutch market being one of the most mature, consolidation was a positive development. In addition it operates E-Plus, the third-largest mobile operator in Germany, and Base, a Belgian mobile network operator. The Dutch state disposed of its remaining stake in September 2006, having given up its golden share in December 2005.

Price relative to sector

Strategic analysis — Average SWOT company score: 3

Strengths — 4
The management team has repaired the balance sheet and created earnings momentum with a disciplined approach to costs and a focus on cash flow, most of which is now being returned to shareholders.

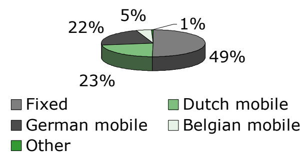
Weaknesses — 3
Competitive intensity in German mobile and regulatory risks in the Netherlands are ongoing concerns, despite KPN's recent track record of being able to manage these issues.

Opportunities — 4
German mobile remains a key opportunity for revenue growth, while the extension of its multi-brand strategy could also provide scope for further upside. KPN is also actively considering selective acquisitions.

Threats — 2
There are potential threats to KPN's business model if competitors also adopt a multi-brand strategy. In its domestic fixed-wire business, there is a danger that cable-TV operators offer bundled media and broadband products, which are perceived to be better quality than KPN's IPTV offer.

Scoring range is 1-5 (high score is good)

Gross revenue split (2006A)



Source: KPN

Market data

Headquarters
Maanplein 5, 2516 CK The Hague, The Netherlands

Website
www.kpn.com

Shares in issue
1842.4m

Freefloat
100%

Majority shareholders
Capital Research Management (22%), Barclays (5%)

Telecommunication Services

Sector view — Overweight

We see Telecom as a deep value play. The industry faces operational challenges, but the sector offers a strong valuation case. Its dividend and free cash flow yields are without equal in Europe, and the extent of the premium should offer a comfortable buffer against future operational deterioration.

The sector view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Sector rel to Europe

Industry competitive position — Average competitive score: 3-

Supplier power — 4-
Excess industry capacity, a reduction in capex budgets and a pooling of group equipment sourcing place the PTTs in a strong bargaining position. Prime suppliers have a generally weak position.

Barriers to entry — 4-
PTTs exhibit high barriers to entry, including large-scale economies (customer bases, supplier power), access to capital (debt and equity) and licences.

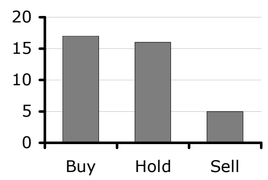
Customer power — 2+
Customers can exercise power to churn. However, the regulator sets end-user prices.

Substitute products — 2+
Mobile telephony is the main substitute. Fixed-to-mobile substitution poses the main threat to the PTTs' business model. Bundling of service offerings may be introduced to minimise the threat.

Rivalry — 4-
Competition is country-based. Access to capital restricts the re-emergence of competition after the demise of the Altnets. Regulation is key for new entrants to generate ROIC in excess of WACC.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Reuters