

May 04, 2007

**Netherlands**
**European Telecom Services**

## KPN (KPN.AS - EUR 12.35) 1-Overweight

Change of Price Target

**Mobile Margin Upside Drives PT to EUR 14**

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### Investment Conclusion

- We reiterate our 1-Overweight rating on KPN and increase our target price to EUR 14.0 from EUR 12.8. We continue to regard E-Plus as the optimal way to gain exposure to the onset of mobile substitution in Germany. In addition, we argue that there is potential upside to consensus margins at E-Plus due to network outsourcing and at Dutch mobile from Telfort synergies.

### Summary

- We have raised long term margins at E-Plus to 35% from 32% to account for the Alcatel-Lucent outsourcing.
- Reduced duplication at Telfort means our long term Dutch mobile margins are increased to 42% from 39%.
- Potential reduction from 4 operators to 3 would be a further positive if T-Mobile were to buy Orange Netherlands.
- Fixed remains the big risk but has been resilient due to VoIP additions, stabilising business pricing and headcount reduction.
- Despite strong run, valuation remains attractive on 2007E FCFE yield of 9.7% vs sector 7.6%.
- Next scheduled event is Q1 results on 8 May - preview included.

### Stock Rating

 New: 1-Overweight  
 Old: 1-Overweight

### Target Price

 New: EUR 14.00  
 Old: EUR 12.80

**Sector View:** 1-Positive

FY Dec	2006A	2007E		2008E		2009E	
		Actual	Old	New	Old	New	Old
Revenues (Cons.)	12057	12257	12257	12236	12236	12289	12289
EBITDA (Cons.)	4837	4865	4865	4874	4874	4916	4916
Free Cash Flow	2404	2151	2151	1702	1702	1743	1743
Net Income (m)	1583	1528	1528	1508	1508	1478	1478
EPS (Adj.)	1.23	1.07	1.07	1.08	1.08	1.07	1.07
Net Debt (m)	-9180	-9319	-9319	-9180	-9180	-9067	-9067
EV/EBITDA	N/A	N/A	6.7	N/A	6.6	N/A	6.5
P/E	N/A	N/A	11.5	N/A	11.5	N/A	11.5

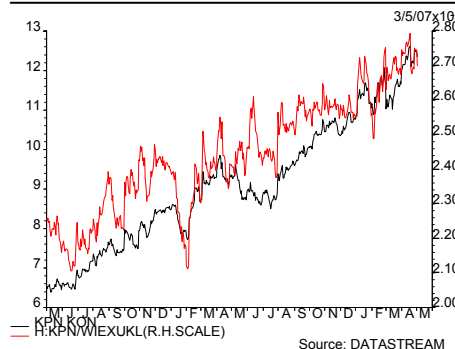
### Market Data

Market Cap (m)	23818
Shares Outstanding (m)	1928.6
Float (%)	100
Net Div Yield (%)	4.50
Convertible	No
Shares per ADR	N/A

### Financial Summary

5-Year EPS CAGR (%)	4.3
3-year EBITDA CAGR (%)	0.8
Net Debt/EBITDA FY06	1.7
Dividend Yield (%)	4.50

### Stock Overview


 Reuters KPN.AS  
 Bloomberg KPN NA  
 ADR

Performance	1M	3M	12M
Absolute %	7	12	34
Rel. Market %	3	7	16
Rel. Sector %	3	12	19

52 Week Range 12.61 - 8.50

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## Investment Summary

We reiterate our 1-Overweight rating on KPN and increase our target price to EUR 14.0 from EUR 12.8. We continue to regard E-Plus as the optimal way to gain exposure to the onset of mobile substitution in Germany. In addition, we argue that there is potential upside to consensus margins at E-Plus due to network outsourcing and at Dutch mobile from Telfort synergies.

**Significant revenue upside at E-Plus.** Per our sector thesis, with ~5% of households currently mobile only, we continue to argue that E-Plus is the optimal way to play the onset of material mobile substitution in Germany. E-Plus is rapidly approaching 'end-game' pricing and, with usage growth of 40% y-o-y in Q4, we believe it should see an acceleration of revenue growth in H2 2007. We forecast E-Plus headline revenue growth of 5% in Q1 after a decline of 1% in Q4 and look for evidence of the initial impact of the Zehnsation tariff launched in January (EUR 10c per minute to any network for customers spending more than EUR 10 per month).

**Margins raised to 35% at E-Plus due to outsourcing.** We believe the market is not fully appreciating the potential benefits of KPN's recently announced network outsourcing agreement with Alcatel-Lucent in Germany. Although the deal was only effective from 1 March and hence will not materially affect Q1 (we forecast EBITDA margin of 30.4% up from 29.5% in Q4), our research has previously shown that E-Plus could save opex and capex equivalent to 5-9% of revenue in the longer term. We have today raised our long-term margin assumption for E-Plus from 32% to 35% accordingly. As a result, our valuation of E-Plus increases to EUR 9bn, equivalent to 9x 2008E EBITDA.

**Telfort synergies to drive Dutch mobile margins to 42%.** We expect the outlook for the Dutch mobile market to continue to improve following the Telfort transaction and associated consolidation of the market. We expect further synergy benefits from reduced duplication as customers are migrated to KPN's network through 2007 - we highlight that KPN eliminated 613 heads from Dutch mobile in 2006, equivalent to a c.25% reduction. We have increased our long-term margin assumption for Dutch mobile from 39% to 42% with this note. In addition, recent press reports (Reuters, 12/02/07) have indicated that T-Mobile is the most serious candidate to acquire Orange Netherlands - a potential reduction from 4 operators to 3 would likely be a further positive for KPN's margins, in our view.

**Fixed the big risk but has been resilient.** Fixed remains the big risk but was resilient in Q4 with a 60% share of VoIP additions, headcount reduction on track and the rollout cost of the all-IP network coming down by EUR 300-400m. For Q1 we forecast a Fixed revenue decline of 3.2%, in line with the previous quarter, although expect Fixed EBITDA to decline 9% y-o-y as a function of continued investment to improve positioning in consumer in particular. Trends on the Business side are more encouraging with market share improving and prices stabilising. Despite OPTA's recent report indicating that it will not force a functional separation of Fixed, we continue to argue KPN could be one of the companies that could benefit most from such a split.

**Valuation remains attractive despite strong run.** Despite recent strength, KPN's valuation remains attractive with a 2007E P/E of 11.5x compared with the sector average 15.4x and a FCFE yield of 9.7% vs. the sector 7.6%. KPN offers a total cash return of around 9% compared with the sector 6%. Our revised DCF based target price of EUR 14 offers c.13% upside potential from current levels. KPN has said it will continue to evaluate inorganic opportunities that may arise in countries such as Germany, Belgium, Switzerland and Austria - we calculate that KPN has around EUR 3bn excess capacity to reach the top of management's 2.0-2.5x net debt/EBITDA target range.

### KPN DCF based sum of parts valuation EUR 14.0

	EUR m	EUR per share	% of firm value	Valuation Methodology	
Consumer	1,070	0.6	2.8%	DCF equivalent to 2007 EBITDAx	5.1
Business	1,804	1.0	4.8%	DCF equivalent to 2007 EBITDAx	5.5
Wholesale & Operations	12,569	6.8	33.4%	DCF equivalent to 2007 EBITDAx	6.6
<b>FIXED</b>	<b>15,442</b>	<b>8.4</b>	<b>41.0%</b>	<b>Equivalent to 2007 EBITDAx</b>	<b>6.3</b>
Dutch Mobile (100%)	10,878	5.9	28.9%	DCF equivalent to 2007 EBITDAx	9.5
E-Plus Germany (100%)	9,115	5.0	24.2%	DCF equivalent to 2007 EBITDAx	9.5
BASE Belgium (100%)	2,229	1.2	5.9%	DCF equivalent to 2007 EBITDAx	8.0
<b>MOBILE</b>	<b>22,222</b>	<b>12.1</b>	<b>59.0%</b>	<b>Equivalent to 2007 EBITDAx</b>	<b>9.4</b>
<b>FIRM VALUE</b>	<b>37,664</b>	<b>20.5</b>	<b>100.0%</b>		
Net debt	-10,279	-5.6		End 07E net debt adj future restructuring charges	
Pension	-800	-0.4			
Value of tax credit	-934	-0.5		Higher cash payments until 2014	
<b>EQUITY VALUE</b>	<b>25,650</b>	<b>14.0</b>			
M&A discount		0%			
<b>EQUITY VALUE</b>	<b>25,650</b>	<b>14.0</b>			
Current share price	22,700	12.4			
Implied upside / (downside)		13%			

Source: Lehman Brothers research

### Q1 2007 Results Preview (8 May)

- **Group:** we forecast Q4 revenue EUR 2,930m (consensus per KPN EUR 2,971m), EBITDA EUR 1,171m (consensus EUR 1,181m), net income EUR 360m (consensus EUR 345m), capex EUR 360m (consensus EUR 375m) and net debt EUR 8.7bn (consensus EUR 8.8bn). Detailed estimates, together with projected growth rates, can be found in the exhibit below.
- **Mobile Germany:** We forecast 250k net adds (Q4 439k); 5% gross revenue growth (Q4 decline of 1% impacted by termination rate cuts in November 2006); and EBITDA margin 30.4% (Q4 29.5%). We believe E-Plus should see an acceleration of revenue growth H2 20 07 - however for Q1 we note that both T-Mobile and Vodafone cut prices (although both are still at a material premium to E-Plus), the 'Zehnsation' tariff was launched and a VAT increase was absorbed by the operators.
- **Mobile Netherlands:** We forecast 4.0% y-o-y growth in gross revenue and an EBITDA margin of 37.5% (Q4 3.9% and 38.4% respectively). We project 75k net adds for KPN in Q1 (Q4 159k). We still await clarity on OPTA's most recent decision to reduce fixed-to-mobile rates from 11c to 5.5c in July 2008 which was overturned by the Dutch courts last August.
- **Fixed Netherlands:** We forecast a total Fixed revenue decline of 3.2% y-o-y in Q1 in-line with the 3.1% decline in Q4 and an EBITDA margin of 38.1% (Q4 36.1%). In our view a key issue is the status of ongoing negotiations with alternative providers on pricing for both wholesale and unbundling on KPN's new VDSL network.
- **Results and conference call details:** Results on 8 May at 8.00 CET; conference call 10:30 CET, dial in +31 20 531 58 46, replay +31 70 315 43 00 pass code 141 146#. The presentation will be broadcast on the KPN IR website (<http://www.kpn.com/kpn/show/id=796246>).

### KPN outlook 2007

	Outlook 2007	Lehman 2007E
Revenue	Flat (excl. I-Basis and Tiscali Ned.)	1.7%
EBITDA	Flat (excl. I-Basis and Tiscali Ned.)	0.6%
Capex	EUR 1.6 - 1.8bn	1.8
Free cashflow	EUR >2bn	2.2

Source: Company data, Lehman Brothers estimates

### KPN Q1 Detailed Results Preview

EUR m	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07E	2007E	2008E	Q1 06	Q2 06	Q3 06	Q4 06	Q1 07E	2007E	2008E
<b>REVENUE</b>														
Consumer	572	573	557	560	544	2,116	2,015	-6.2%	-4.8%	-4.5%	-4.9%	-4.9%	-6.5%	-4.8%
Business	647	626	615	647	631	2,431	2,351	-4.4%	-5.6%	-4.5%	-3.3%	-2.4%	-4.1%	-3.3%
Wholesale & Operations	1,203	1,194	1,167	1,198	1,167	4,881	4,785	-2.4%	-4.7%	-6.1%	-4.6%	-3.0%	2.5%	-2.0%
Other (inc intradivision)	-738	-740	-709	-725	-713	-2,883	-2,854	-7.4%	-5.9%	-8.6%	-7.1%	-3.4%	-1.0%	-1.0%
<b>FIXED</b>	<b>1,684</b>	<b>1,653</b>	<b>1,630</b>	<b>1,680</b>	<b>1,629</b>	<b>6,546</b>	<b>6,297</b>	<b>-2.3%</b>	<b>-4.6%</b>	<b>-3.8%</b>	<b>-3.1%</b>	<b>-3.2%</b>	<b>-1.5%</b>	<b>-3.8%</b>
KPN Mobile (NL)	700	737	778	765	728	3,089	3,163	25.7%	25.8%	28.8%	3.9%	4.0%	3.7%	2.4%
E-Plus	665	722	760	747	698	3,073	3,222	3.9%	1.7%	6.0%	-1.1%	5.0%	6.2%	4.9%
Base	144	156	162	160	155	666	691	18.0%	13.0%	16.5%	7.4%	7.3%	7.0%	3.9%
Other	-10	-14	-11	-11	-11	-46	-46							
<b>KPN MOBILE</b>	<b>1,499</b>	<b>1,601</b>	<b>1,689</b>	<b>1,661</b>	<b>1,570</b>	<b>6,781</b>	<b>7,031</b>	<b>14.7%</b>	<b>12.6%</b>	<b>16.6%</b>	<b>-1.1%</b>	<b>4.7%</b>	<b>5.1%</b>	<b>3.7%</b>
Other	97	16	13	23	30	149	149							
<b>TOTAL</b>	<b>3,002</b>	<b>2,979</b>	<b>3,037</b>	<b>3,039</b>	<b>2,930</b>	<b>12,257</b>	<b>12,236</b>	<b>3.9%</b>	<b>1.0%</b>	<b>3.7%</b>	<b>-4.0%</b>	<b>-2.4%</b>	<b>1.7%</b>	<b>-0.2%</b>
<b>EBITDA</b>														
Consumer	80	69	66	54	60	212	202	-26.6%	-29.6%	-28.3%	-33.3%	-25.2%	-21.3%	-4.8%
Business	105	88	75	81	88	328	317	19.3%	-23.5%	-14.8%	20.9%	-15.8%	-6.0%	-3.3%
Wholesale & Operations	500	497	454	477	467	1,904	1,837	-3.3%	-1.8%	-10.5%	-6.1%	-6.6%	-1.3%	-3.5%
Other (inc intradivision)	-3	9	28	-6	5	20	10							
<b>FIXED</b>	<b>682</b>	<b>663</b>	<b>623</b>	<b>606</b>	<b>620</b>	<b>2,464</b>	<b>2,366</b>	<b>-5.1%</b>	<b>-7.5%</b>	<b>-11.3%</b>	<b>-7.3%</b>	<b>-9.1%</b>	<b>-4.3%</b>	<b>-3.9%</b>
KPN Mobile (NL)	241	288	269	294	273	1,143	1,202	24.2%	23.6%	14.5%	10.5%	13.3%	4.7%	5.2%
E-Plus	170	267	248	220	212	959	1,002	25.9%	73.4%	45.9%	2.8%	24.9%	5.9%	4.5%
Base	57	72	71	64	63	280	283	26.7%	38.5%	31.5%	20.8%	11.1%	5.9%	1.4%
Other	-4	-5	-5	-12	-3	-10	-10			-28.6%	-124.0%	-25.0%		
<b>KPN MOBILE</b>	<b>464</b>	<b>622</b>	<b>583</b>	<b>566</b>	<b>546</b>	<b>2,371</b>	<b>2,478</b>	<b>26.4%</b>	<b>43.6%</b>	<b>29.0%</b>	<b>-2.9%</b>	<b>17.6%</b>	<b>6.1%</b>	<b>4.5%</b>
Other & Intercompany sales	60	-4	-8	-20	5	30	30							
<b>TOTAL</b>	<b>1,206</b>	<b>1,281</b>	<b>1,198</b>	<b>1,152</b>	<b>1,171</b>	<b>4,865</b>	<b>4,874</b>	<b>10.2%</b>	<b>10.1%</b>	<b>4.4%</b>	<b>-12.7%</b>	<b>-2.9%</b>	<b>0.6%</b>	<b>0.2%</b>
<b>EBIT</b>	<b>612</b>	<b>670</b>	<b>574</b>	<b>367</b>	<b>596</b>	<b>2,544</b>	<b>2,513</b>							
Interest	-115	-77	-115	-213	-120	-506	-502							
Tax	-115	-135	-112	235	-118	-520	-513							
Associates & Joint Ventures	2	3	2	0	2	10	10							
<b>NET INCOME</b>	<b>384</b>	<b>461</b>	<b>349</b>	<b>389</b>	<b>360</b>	<b>1,528</b>	<b>1,508</b>							
Minority interest	-1	3	-3	1	-1	-5	-5							
<b>NET RESULTS TO EQUITY</b>	<b>383</b>	<b>464</b>	<b>346</b>	<b>390</b>	<b>359</b>	<b>1,523</b>	<b>1,503</b>							
Capex	313	379	425	533	360	1,800	1,810							
<b>Net Debt (EUR bn)</b>	<b>8.2</b>	<b>8.8</b>	<b>0.0</b>	<b>9.2</b>	<b>8.7</b>	<b>9.3</b>	<b>9.2</b>							

Source: Company data, Lehman Brothers estimates

### Summary of peer group multiples, 03.05.07

Company	Rating	Share Price	EV / EBITDA				P/E				Cash P/E				Revenue 07 to 10	EBITDA 07 to 10
			2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010		
Belgacom	2-EW	32.22	6.0	6.0	5.8	5.5	13.6	13.7	13.3	13.0	10.2	10.7	10.6	10.6	0.3%	-1.0%
BT	1-OW	3.17	5.9	5.6	5.6	5.4	12.9	12.3	12.2	11.8	14.4	12.8	12.1	11.4	0.8%	1.2%
Cable and Wireless	2-EW	1.87	7.9	6.4	5.7	5.2	23.1	14.3	12.0	11.0	44.2	18.4	14.2	12.5	1.4%	n/m
Carphone Warehouse	2-EW	3.07	7.7	6.7	5.9	5.4	15.4	11.8	10.9	10.6	21.3	14.1	12.2	10.8	4.4%	n/m
Cosmote	1-OW	23.44	9.5	8.5	7.8	7.1	17.5	15.1	13.5	12.1	19.1	15.5	13.8	12.5	6.7%	8.0%
Deutsche Telekom	3-UW	13.45	5.5	5.4	5.0	4.8	21.6	16.7	12.0	11.0	10.3	12.4	10.0	9.8	0.4%	0.9%
Elisa	2-EW	21.70	8.0	7.5	7.1	6.8	17.0	14.6	13.3	12.5	17.9	15.2	13.6	12.8	1.9%	4.1%
France Telecom	2-EW	21.61	6.2	5.9	5.6	5.3	13.5	12.9	12.4	11.9	9.8	9.3	8.9	8.5	0.7%	0.6%
Iliad	1-OW	76.40	10.0	8.1	6.9	6.0	26.0	19.5	16.9	14.8	n/m	n/m	33.4	16.1	11.9%	15.7%
KPN	1-OW	12.35	6.7	6.6	6.5	6.3	11.5	11.5	11.5	11.0	9.1	9.0	8.7	8.2	0.3%	0.8%
Magyar	3-UW	1040	5.5	5.4	5.3	5.1	15.6	15.0	15.0	14.1	10.4	10.3	9.9	9.9	0.4%	-1.4%
Mobistar	1-OW	63.49	6.6	6.8	6.7	6.4	13.6	14.3	14.1	13.8	12.9	13.2	13.3	13.2	2.4%	0.0%
Neuf Cegetel	2-EW	29.62	8.8	7.4	6.6	6.1	12.7	9.7	15.9	17.5	12.7	9.7	15.9	17.5	4.3%	9.3%
OTE	2-EW	21.86	7.3	6.5	5.9	5.6	25.9	19.4	16.2	14.6	17.0	14.1	13.0	12.7	3.2%	2.8%
Portugal Telecom	3-UW	10.49	9.3	10.0	10.2	10.2	32.2	36.5	33.8	27.9	19.6	20.6	23.3	21.4	1.2%	2.6%
Swisscom	2-EW	426.5	6.5	6.4	6.2	6.1	11.6	11.3	11.3	11.1	11.1	10.6	10.1	9.8	0.7%	-0.5%
Tele2	1-OW	115.75	9.3	7.1	5.7	4.8	31.5	16.8	12.1	10.0	96.4	20.3	12.6	10.2	1.5%	n/m
Telecom Italia	2-EW	2.15	6.1	6.0	5.8	5.6	14.1	13.2	12.6	11.8	12.5	11.5	9.9	9.4	0.7%	0.9%
Telefonica	3-UW	16.58	6.6	6.2	5.9	5.6	13.8	12.1	10.8	9.5	10.7	9.8	8.3	7.6	2.4%	2.6%
Telefonica O2 Czech Republic	1-OW	620.0	7.3	7.1	6.7	6.3	21.8	19.9	16.9	14.2	12.5	12.5	11.8	11.1	2.5%	1.9%
Telekom Austria	1-OW	20.81	6.7	6.3	5.9	5.6	14.9	13.3	11.7	11.6	10.1	9.6	8.7	8.5	1.6%	1.2%
Telenet	2-EW	24.12	9.0	8.3	7.4	6.5	49.7	43.3	21.1	19.0	42.9	24.5	14.5	13.5	6.4%	5.0%
Telenor	1-OW	112.0	6.5	6.0	5.5	5.1	14.6	13.8	11.9	10.5	20.8	14.5	11.7	10.1	5.1%	5.6%
TeliaSonera	3-UW	51.5	7.0	6.5	6.3	6.1	16.8	15.3	14.6	14.5	27.1	22.2	18.9	17.1	5.0%	3.9%
Vodafone	1-OW	1.44	6.1	5.9	5.9	5.7	11.6	11.0	10.7	10.1	13.5	12.4	11.9	10.9	3.6%	3.4%
<b>Weighted average</b>			<b>6.5</b>	<b>6.2</b>	<b>5.9</b>	<b>5.7</b>	<b>15.4</b>	<b>13.8</b>	<b>12.4</b>	<b>11.6</b>	<b>14.4</b>	<b>12.3</b>	<b>11.3</b>	<b>10.5</b>	<b>2.2%</b>	<b>2.2%</b>
Simple Average			7.3	6.7	6.3	6.0	18.9	16.3	14.3	13.2	20.3	13.9	13.3	11.8	2.8%	3.1%
Median			6.7	6.5	5.9	5.6	15.4	14.3	12.6	11.9	13.2	12.6	12.1	10.9	1.9%	2.2%

Company	Rating	Share Price	FCF yield				FCFE yield				Dividend yield				Earnings 07 to 10	DPS 07 to 10
			2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010		
Belgacom	2-EW	32.22	8.6%	8.4%	8.8%	9.1%	9.3%	8.6%	8.5%	8.8%	4.9%	4.8%	4.9%	4.9%	1.5%	0.3%
BT	1-OW	3.17	5.6%	6.2%	6.4%	6.8%	5.3%	6.1%	6.5%	7.0%	5.1%	5.4%	5.4%	5.6%	3.1%	3.4%
Cable and Wireless	2-EW	1.87	2.0%	4.4%	5.5%	6.4%	2.3%	5.5%	7.1%	8.1%	3.1%	3.2%	3.4%	3.5%	n/m	5.0%
Carphone Warehouse	2-EW	3.07	4.7%	6.6%	7.8%	8.8%	4.7%	7.1%	8.2%	9.3%	1.3%	1.7%	1.8%	1.9%	n/m	n/m
Cosmote	1-OW	23.44	5.0%	5.8%	6.6%	7.4%	6.2%	6.8%	7.7%	8.5%	3.9%	4.5%	5.0%	5.6%	13.1%	13.1%
Deutsche Telekom	3-UW	13.45	7.7%	6.3%	7.1%	7.3%	8.8%	7.2%	9.2%	9.4%	5.4%	5.4%	5.6%	6.2%	2.8%	5.0%
Elisa	2-EW	21.70	5.6%	6.2%	6.7%	7.1%	6.3%	6.9%	7.7%	8.1%	6.9%	4.3%	4.8%	5.0%	10.8%	15.8%
France Telecom	2-EW	21.61	6.7%	7.1%	7.6%	8.1%	10.2%	10.8%	11.6%	11.4%	5.6%	5.6%	6.2%	6.8%	4.2%	6.7%
Iliad	1-OW	76.40	-2.2%	0.8%	3.0%	6.4%	-1.1%	2.6%	5.3%	8.9%	0.6%	0.9%	1.2%	1.6%	20.7%	41.1%
KPN	1-OW	12.35	7.4%	7.5%	7.8%	8.3%	9.7%	7.9%	8.2%	9.0%	4.5%	4.9%	5.1%	5.4%	1.6%	6.3%
Magyar	3-UW	1040	9.8%	9.8%	10.3%	10.5%	11.4%	10.8%	10.7%	10.3%	6.7%	6.7%	6.7%	7.2%	3.5%	2.3%
Mobistar	1-OW	63.49	7.8%	7.6%	7.6%	7.8%	7.6%	7.4%	7.4%	7.5%	6.9%	6.5%	6.6%	6.8%	n/m	n/m
Neuf Cegetel	2-EW	29.62	2.6%	4.4%	5.3%	5.6%	4.1%	6.5%	7.9%	8.4%	2.0%	2.5%	3.1%	2.8%	n/m	12.0%
OTE	2-EW	21.86	6.1%	7.0%	7.8%	8.2%	4.7%	5.7%	6.5%	6.5%	2.8%	2.9%	3.2%	3.5%	n/m	8.1%
Portugal Telecom	3-UW	10.49	4.8%	4.6%	4.4%	4.4%	6.2%	5.4%	4.2%	4.0%	5.5%	5.5%	4.8%	3.6%	4.9%	-13.4%
Swisscom	2-EW	426.5	7.9%	8.0%	8.3%	8.5%	8.8%	9.2%	9.7%	10.0%	4.4%	4.6%	4.6%	4.6%	1.5%	1.5%
Tele2	1-OW	115.75	1.4%	4.4%	7.0%	8.9%	0.8%	4.7%	7.7%	9.6%	1.6%	1.6%	1.6%	1.6%	n/m	n/m
Telecom Italia	2-EW	2.15	6.2%	6.5%	7.3%	7.6%	10.1%	9.1%	9.1%	9.8%	5.6%	5.8%	6.1%	6.5%	6.3%	5.7%
Telefonica	3-UW	16.58	6.4%	7.1%	8.1%	8.5%	8.7%	9.9%	11.5%	11.6%	4.5%	5.4%	6.0%	6.6%	13.2%	13.6%
Telefonica O2 Czech Republic	1-OW	620.0	7.9%	8.1%	8.8%	9.6%	8.0%	8.0%	8.5%	9.0%	5.6%	5.6%	5.6%	7.1%	15.5%	7.7%
Telekom Austria	1-OW	20.81	7.1%	7.5%	8.6%	9.3%	9.0%	9.5%	10.6%	10.8%	3.8%	4.3%	4.9%	5.0%	8.6%	9.2%
Telenet	2-EW	24.12	3.5%	4.9%	5.8%	6.7%	2.3%	4.1%	6.9%	7.4%	0.0%	0.0%	0.0%	0.0%	n/m	n/m
Telenor	1-OW	112.0	4.5%	6.7%	8.1%	9.1%	3.9%	6.8%	8.5%	9.7%	3.1%	4.0%	4.9%	5.4%	16.2%	19.7%
TeliaSonera	3-UW	51.5	3.6%	4.5%	5.1%	5.7%	4.8%	5.8%	6.4%	6.8%	7.9%	8.3%	5.4%	5.4%	5.0%	-0.3%
Vodafone	1-OW	1.44	6.6%	7.1%	7.1%	7.6%	7.2%	5.6%	5.7%	9.0%	4.6%	4.6%	4.7%	4.9%	4.6%	2.3%
<b>Weighted average</b>			<b>6.2%</b>	<b>6.7%</b>	<b>7.3%</b>	<b>7.7%</b>	<b>7.6%</b>	<b>7.6%</b>	<b>8.4%</b>	<b>9.4%</b>	<b>4.8%</b>	<b>5.1%</b>	<b>5.2%</b>	<b>5.6%</b>	<b>6.0%</b>	<b>6.2%</b>
Simple Average			5.5%	6.3%	7.1%	7.7%	6.4%	7.1%	8.0%	8.8%	4.2%	4.4%	4.5%	4.7%	7.6%	7.9%
Median			6.1%	6.6%	7.3%	7.8%	6.3%	6.9%	7.9%	9.0%	4.5%	4.6%	4.9%	5.0%	5.0%	6.3%

Source: Lehman Brothers analysis

**Catalyst Watch extract for KPN**

Lehman Brothers Telcos Research: KPN Catalyst			
Date	Event	Expected Impact	Comments
1st week of each month	German pricing index	<b>Unknown</b>	Federal statistical offices published pricing statistics for fixed, mobile and internet services.
H1 2007	Belgian MTR Symmetry	<b>Negative</b>	BASE will be the operator most exposed if the Belgian regulator imposes a move to symmetric termination rates for all Belgian mobile operators for 2008
May 2007	Auction of Orange Netherlands to be concluded	<b>Unknown</b>	The press reports that the auction of Orange Netherlands is entering its closing stages and that DT is a leading bidder (FT, 27 April 2007)
May, 2007	Belgian MTR cuts	<b>Neutral</b>	Second stage of MTR cuts for BASE
08 May 2007	Q1 2007 Results	<b>Unknown</b>	Q1 Results
9th May 2007	Telenet Q1 2007 Results	<b>Unknown</b>	Telenet reports first quarter results for 2007
10 May 2007	DT Q1 2007 results	<b>Unknown</b>	
18th May 2007	Belgacom Q1 2007 results	<b>Unknown</b>	Belgacom reports its first quarter results
29 May 2007	Vodafone FY results	<b>Unknown</b>	Vodafone is a key competitor in both the German and Dutch mobile markets.
H2 2007	Expected first stage of roaming cuts	<b>Negative</b>	Implementation of cuts to mobile roaming rates is expected in the second half of 2007.
July, 2007	Fifth step of F2M reduction in Netherlands	<b>Unknown</b>	OPTA proposed additional 40% cut in F2M rates in 3 equal steps in July 06, 07, 08. The draft directive is still open for national consultation and is to be notified with the European Commission. Rate was reduced from 11.0c to 9.17c on 1 July 2006; will then fall to 7.34c on 1 July 2007 then 5.5c on 1 July 2008. (We are waiting for clarity on July 2008 decision which is undergoing legal challenges)
20 July 2007	Mobistar H1 results	<b>Unknown</b>	Read-across for Telenet and Belgium
31 July 2007	Q2 2007 Results	<b>Unknown</b>	Q2 Results
6th August 2007	Telenet H1 2007 Results	<b>Unknown</b>	Telenet reports first half results for 2007
09 August 2007	DT 2Q 2007 results	<b>Unknown</b>	DT results
24th August 2007	Belgacom H1 2007 results	<b>Unknown</b>	Belgacom reports its second quarter results
23 October 2007	Mobistar Q3 revenues	<b>Unknown</b>	Mobistar reports third quarter revenues.
30 October 2007	Q3 2007 Results	<b>Unknown</b>	Q3 Results
08 November 2007	DT 3Q 2007 results	<b>Unknown</b>	DT results
09 November 2007	Belgacom Q3 2007 results	<b>Unknown</b>	Belgacom reports its third quarter results
November 2008	Telenet Q3 2007 Results	<b>Unknown</b>	Telenet reports third quarter results for 2007
2008	German 3G licence auction	<b>Unknown</b>	Germany's telecommunications watchdog plans to hold a second auction for third-generation mobile phone licences in 2008, the regulator said on Tuesday. "We hope to begin the bidding process early next year," Matthias Kurth told German daily Berliner Zeitung in an interview. Kurth said it was not clear who would participate in the auction, the proceeds of which will go to the German government. Germany's four network providers - DT's T-Mobile, VOD, KPN's E-Plus and TEF's O2 - may bid, but the regulator is anticipating that others will join the auction. (Reuters, 6 February 2007)
January 2008	Belgian MTR cuts	<b>Neutral</b>	Third stage of MTR cuts for BASE.
<b>Curve Balls</b>			
	Potential acquisitions	<b>Unknown</b>	De Telegraaf daily quoted KPN CEO Ad Scheepbouwer as saying the former Dutch telecoms monopoly sees opportunities in the German and Belgian mobile markets as well as in central and eastern Europe. In that region, KPN is looking at five or six countries, including Poland, Switzerland and Austria. Scheepbouwer said, with acquisitions possible as well as the setting up of MVNOs, where KPN would use the networks of other companies.
	Regulatory clarity	<b>Unknown</b>	Long term wholesale access to the cable network and the 2008 MTR decision remains uncertain - wholesale access to the cable network and a more favourable outcome from the MTR process would both be positive for KPN. Additionally, regulatory issues still surround the 'All-IP' plan and related real estate sales. While the initial phase of the structural separation consultation was inconclusive we still see this as a potential route to value creation for the KPN management.
	Potential MVNO launch	<b>Positive</b>	Press rumours are circulating that KPN may launch a MVNO service in Spain (Reuters, 19 March 2007). Given KPN's experience in the MVNO market and as a 'challenger' brand we believe that such a move could lead to value creation.
	Consolidation in domestic market	<b>Positive</b>	Potential Debitel breakup in Q1 2007 has been reported by the media (Reuters, 20 November 2006). The Dutch unit is Debitel's biggest foreign asset, with 1.15 million subscribers by the end of 2005 and 2005 revenues of EUR 340m. Further consolidation of the Dutch market would be positive for KPN post the acquisition of Telfort. Further potential for consolidation in the Netherlands comes from reports that FT Group is considering the sale of Orange Netherlands (Reuters, 27 February 2007)
	Potential Getronics deal	<b>Unknown</b>	KPN has persistently been linked with Getronics in the media (Reuters, November 2006/ 16 March 2007). At the E-Plus investor day in 2006 management commented that it had looked at Getronics but at the time it was too expensive. A deal would add to KPN's IT services expertise and bring a high quality Dutch corporate client list; however, it would involve major execution risk and entry into another highly competitive market - Getronics has been struggling financially.
	Potential LBO bid for KPN	<b>Positive</b>	KPN has persistently been rumoured as an attractive LBO candidate for a private equity bidder by the news wires. (Reuters, 5 January 2007)

Source: Lehman Brothers analysis

**Group P&L forecasts**

	2006	2007E	2008E	2009E	2010E	'07-'10
Revenue	12,057	12,257	12,236	12,289	12,357	0.3%
growth	1.0%	1.7%	-0.2%	0.4%	0.6%	
EBITDA	4,837	4,865	4,874	4,916	4,986	0.8%
growth	2.4%	0.6%	0.2%	0.9%	1.4%	
D&A	-2,614	-2,321	-2,361	-2,453	-2,438	
EBIT	2,223	2,544	2,513	2,463	2,548	0.0%
Interest	-520	-506	-502	-493	-478	
Tax	-127	-520	-513	-502	-528	
Associates & Joint Ventures	7	10	10	10	10	
Exceptionals	0	0	0	0	0	
Reported Net Income	1,583	1,528	1,508	1,478	1,552	0.5%
Minority Interests	0	-5	-5	-5	-5	
Net Income to Equity	1,583	1,523	1,503	1,473	1,547	
Reported EPS	0.79	0.81	0.81	0.80	0.85	1.8%
Underlying EPS	1.23	1.07	1.08	1.07	1.13	1.6%
DPS	0.50	0.55	0.60	0.63	0.66	6.3%

Source: Company data, Lehman Brothers analysis

**Group Cash flow forecasts**

	2006	2007E	2008E	2009E	2010E	'07-'10
Net income	1,583	1,528	1,508	1,478	1,552	
D&A	2,614	2,321	2,361	2,453	2,438	
Non cash gains/losses	-292	0	0	0	0	
Tax adjustment	274	220	-237	-248	-222	
Net operating cash flow	4,179	4,068	3,632	3,683	3,768	-2.5%
Dividend	-982	-993	-1,063	-1,130	-1,172	
Buyback	-1,615	-1,000	-500	-500	-500	
Capex	-1,650	-1,800	-1,810	-1,820	-1,740	-1.1%
Acquisitions/investments	-353	-415	-120	-120	-120	
Asset disposals	141	0	0	0	0	
Change in cashflow	-280	-139	139	113	235	
Net debt	-9,180	-9,319	-9,180	-9,067	-8,832	
Net Debt/EBITDA	1.9	1.9	1.9	1.8	1.8	

Source: Company data, Lehman Brothers analysis

## Business unit summary forecasts

EUR m	2006	2007E	2008E	2009E	2010E	07-'10
<b>REVENUE</b>						
Voice	1,463	1,287	1,172	1,101	1,057	-6.4%
Internet	738	768	783	791	791	1.0%
Other (inc intercompany)	61	61	61	61	61	
<b>Consumer</b>	<b>2,262</b>	<b>2,116</b>	<b>2,015</b>	<b>1,953</b>	<b>1,909</b>	<b>-3.4%</b>
Voice	1,086	988	919	873	838	-5.3%
Connectivity	696	668	648	635	629	-2.0%
Integrated Managed Services	417	417	417	421	425	0.7%
EnterCom	436	458	467	472	476	1.3%
Other (inc intercompany)	-100	-100	-100	-100	-100	
<b>Business</b>	<b>2,535</b>	<b>2,431</b>	<b>2,351</b>	<b>2,301</b>	<b>2,269</b>	<b>-2.3%</b>
Carrier Services	3,983	4,131	4,048	4,008	3,968	-1.3%
Other	1,404	1,376	1,363	1,363	1,363	-0.3%
Intercompany within W&O	-626	-626	-626	-626	-626	
<b>Wholesale &amp; Operations</b>	<b>4,762</b>	<b>4,881</b>	<b>4,785</b>	<b>4,744</b>	<b>4,704</b>	<b>-1.2%</b>
Other	-2,912	-2,883	-2,854	-2,826	-2,797	-1.0%
<b>FIXED</b>	<b>6,647</b>	<b>6,546</b>	<b>6,297</b>	<b>6,173</b>	<b>6,085</b>	<b>-2.4%</b>
KPN Mobile (NL)	2,980	3,089	3,163	3,220	3,291	2.1%
E-Plus	2,894	3,073	3,222	3,338	3,420	3.6%
Base	622	666	691	717	738	3.5%
Other	-46	-46	-46	-46	-46	
<b>KPN MOBILE</b>	<b>6,450</b>	<b>6,781</b>	<b>7,031</b>	<b>7,228</b>	<b>7,403</b>	<b>3.0%</b>
Other	149	149	149	149	149	
Intercompany sales	-1,189	-1,219	-1,242	-1,261	-1,280	1.6%
<b>TOTAL</b>	<b>12,057</b>	<b>12,257</b>	<b>12,236</b>	<b>12,289</b>	<b>12,357</b>	<b>0.3%</b>
% change	1.0%	1.7%	-0.2%	0.4%	0.6%	
<b>EBITDA</b>						
Consumer	269	212	202	195	191	-3.4%
Business	349	328	317	311	295	-3.5%
Wholesale & Operations	1,928	1,904	1,837	1,803	1,764	-2.5%
Other	28	20	10	10	10	
<b>FIXED</b>	<b>2,574</b>	<b>2,464</b>	<b>2,366</b>	<b>2,319</b>	<b>2,260</b>	<b>-2.8%</b>
KPN Mobile (NL)	1,092	1,143	1,202	1,256	1,317	4.8%
E-Plus	905	959	1,002	1,035	1,094	4.5%
Base	264	280	283	287	295	1.8%
Other	-26	-10	-10	-10	-10	
<b>KPN MOBILE</b>	<b>2,235</b>	<b>2,371</b>	<b>2,478</b>	<b>2,567</b>	<b>2,696</b>	<b>4.4%</b>
Other	28	30	30	30	30	
<b>TOTAL</b>	<b>4,837</b>	<b>4,865</b>	<b>4,874</b>	<b>4,916</b>	<b>4,986</b>	<b>0.8%</b>
% change	2.4%	0.6%	0.2%	0.9%	1.4%	
<b>CAPEX</b>						
Consumer	200	200	200	200	200	0.0%
Business	104	100	100	100	100	0.0%
Wholesale & Operations	487	650	650	650	550	-5.4%
<b>FIXED</b>	<b>791</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>850</b>	<b>-3.6%</b>
KPN Mobile (NL)	218	210	230	250	270	8.7%
E-Plus	486	500	500	500	500	0.0%
BASE and other	126	130	120	110	110	-5.4%
<b>KPN MOBILE</b>	<b>830</b>	<b>840</b>	<b>850</b>	<b>860</b>	<b>880</b>	<b>1.6%</b>
Other	29	10	10	10	10	0.0%
<b>TOTAL</b>	<b>1,650</b>	<b>1,800</b>	<b>1,810</b>	<b>1,820</b>	<b>1,740</b>	<b>-1.1%</b>
% change	18.4%	9.1%	0.6%	0.6%	-4.4%	

Source: Company data, Lehman Brothers analysis

**Analyst Certification:**

I, Graeme Pearson, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

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**Company Description:**

KPN is the incumbent operator in the Netherlands. The group also owns the third mobile operator in Germany, E-Plus, and BASE in Belgium.



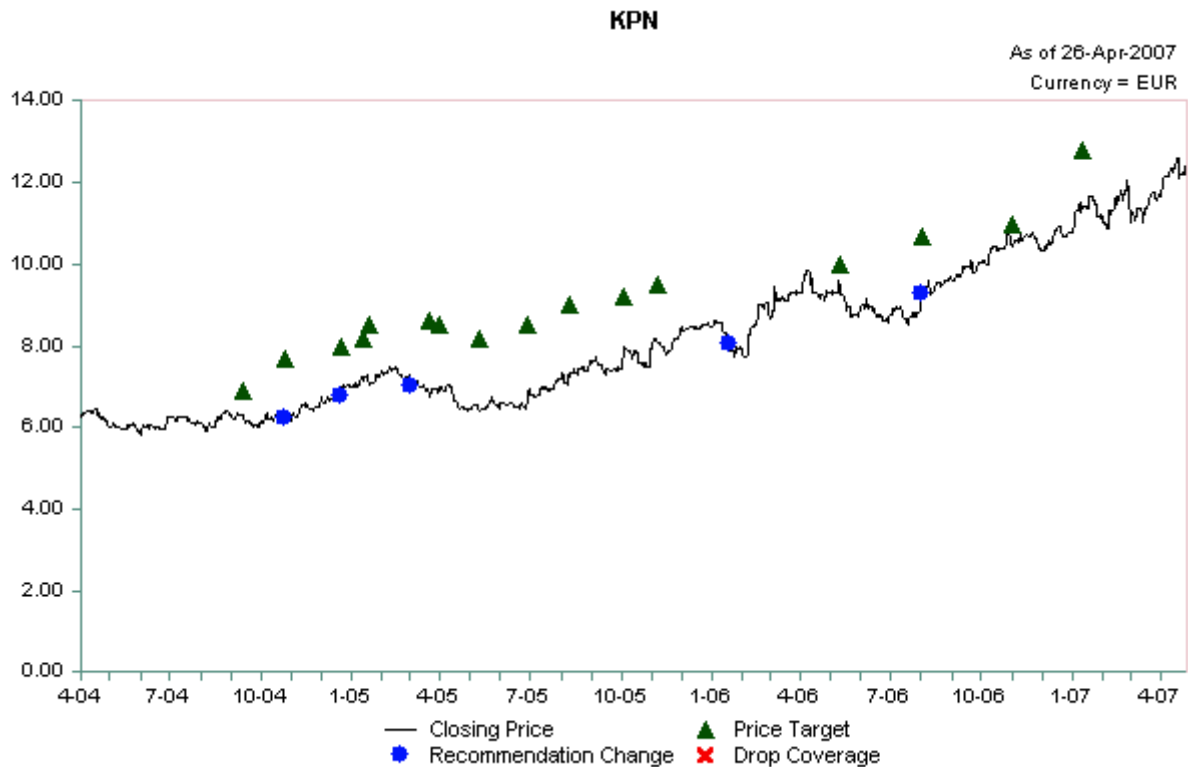
Important Disclosures:

**KPN (KPN.AS)**

**EUR 12.35 (02-May-2007)**

**1-Overweight / 1-Positive**

Rating and Price Target Chart:



Source: FactSet

Currency=EUR

Date	Closing Price	Rating	Price Target
11-Jan-07	11.39		12.80
01-Nov-06	10.45		11.00
02-Aug-06	9.25		10.70
02-Aug-06	9.25	2 -Equal weight	
10-May-06	9.51		10.00
19-Jan-06	8.01	3 -Underweight	
08-Nov-05	8.10		9.50
03-Oct-05	7.98		9.20
11-Aug-05	7.34		9.00
29-Jun-05	6.84		8.50
10-May-05	6.39		8.20

Date	Closing Price	Rating	Price Target
31-Mar-05	6.90		8.50
22-Mar-05	6.75		8.60
02-Mar-05	6.98	1 -Overweight	
19-Jan-05	7.06		8.50
13-Jan-05	7.16		8.20
21-Dec-04	6.76		8.00
21-Dec-04	6.76	1 -Overweight	
26-Oct-04	6.20	2 -Equal weight	
25-Oct-04	6.20		7.70
14-Sep-04	6.30		6.90

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc. and/or its affiliate beneficially owns 1% or more of any class of common equity securities of the subject company as of the end of the last month.

Lehman Brothers Inc. and/or an affiliate holds a short position of at least 1% of the subject company's capital.

Lehman Brothers Inc. and/or an affiliate trades regularly in the subject company's shares.

**Valuation Methodology:** Valuation methodology: Our price target is derived using a DCF-based sum-of-the-parts methodology. We apply a WACC of 8.0% and a terminal growth rate of 2.0%. We value fixed at EUR 8.4 p.s. and mobile at 12.1. After making adjustments for debt, pensions and tax credits, we arrive at EUR 14.

**Risks Which May Impede the Achievement of the Price Target:** Our target price is based on a sum-of-the-parts DCF methodology. The major risks to cash flows for KPN include intensifying competition and declining revenues in its core fixed-line businesses, offset to an extent by continued cost reductions. The main risks are: weak economy reducing the demand for fixed line services; local loop unbundling, fixed to mobile substitution; and increasing cable competition especially in the roll out of new services over DSL and eventually VDSL. Our domestic mobile assumptions include stabilisation of subscriber numbers with some ARPU growth from 2006 onwards as well as synergy benefits accruing from the Telfort deal. This may be offset by KPN's German mobile asset, E-Plus, which remains a large swing factor in the future of KPN. All of these assumptions are constantly reviewed in the light of new company and industry information.

**Important Disclosures Continued:**

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (02-May-2007)	Stock / Sector Rating
KPN	KPN.AS	EUR 12.35	1-Overweight / 1-Positive

**Guide to Lehman Brothers Equity Research Rating System:**

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). Below is the list of companies that constitute the sector coverage universe:

Belgacom (BCOM.BR)	BT Group plc (BT.L)
Cable and Wireless (CW.L)	Carphone Warehouse (CPW.L)
Cosmote (COSr.AT)	Deutsche Telekom (DTEGn.DE)
Elisa (ELI1V.HE)	Eutelsat (ETL.PA)
France Telecom (FTE.PA)	Iliad (ILD.PA)
Inmarsat (ISAT.L)	KPN (KPN.AS)
Magyar (MTEL.BU)	Mobistar (MSTAR.BR)
Neuf Cegetel (NEUF.PA)	OTE (OTEr.AT)
Portugal Telecom B (PTC.LS)	SES Global (SESF.LU)
Swisscom (SCMN.VX)	Tele2 AB (TEL2b.ST)
Telecom Italia (TLIT.MI)	Telefónica (TEF.MC)
Telefonica O2 Czech Republic (SPTT.PR)	Telekom Austria (TELA.VI)
Telenet (TNET.BR)	Telenor (TEL.OL)
TeliaSonera (TLSN.ST)	Vodafone (VOD.L)

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**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**3-Underweight** - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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