



Koninklijke KPN N.V.

(Incorporated in The Netherlands as a public limited company with its corporate seat in the Hague)

U.S.\$10,000,000,000

Global Medium Term Note Programme

Under this U.S.\$10,000,000,000 Global Medium Term Note Programme (the “Programme”) Koninklijke KPN N.V. (the “Issuer”, which expression shall include any Substituted Debtor (as defined in Condition 17), or the “Company”) may from time to time issue notes (the “Notes”, which expression shall include Senior Notes and Subordinated Notes (each as defined below)) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively “Bearer Notes” and “Registered Notes”). Subject as set out herein, the Notes will not be subject to any maximum maturity but will have, in the case of Senior Notes, a minimum maturity of one month and the maximum aggregate nominal amount of all Notes from time to time outstanding will not exceed U.S.\$10,000,000,000 (or its equivalent in other currencies calculated as described herein).

The Notes will be issued on a continuing basis to one or more of the Dealers specified herein and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a “Dealer” and together the “Dealers”). The Dealer or Dealers with whom the Issuer agrees or proposes to agree on the issue of any Notes is or are referred to as the “relevant Dealer” in respect of those Notes.

Application has been made to list Notes issued under the Programme on the Official Segment of the stock market of Euronext Amsterdam N.V. (“Euronext Amsterdam”). Application has also been made to the Luxembourg Stock Exchange for the Notes (“Luxembourg Listed Notes”) issued within 12 months of this Prospectus to be listed on the Luxembourg Stock Exchange’s market for listed securities. In addition, Notes issued under the Programme may be listed on any other stock exchange specified in the applicable Pricing Supplement. Application may also be made to have certain Series of Notes accepted for trading in the Private Offerings, Resales and Trading through Automated Linkages System (“PORTAL”) of the National Association of Securities Dealers, Inc.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the “Securities Act”) or any U.S. state securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See “Form of the Notes” for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see “Subscription and Sale and Transfer and Selling Restrictions”.

This Prospectus is issued in replacement of an earlier prospectus dated 8th May, 2003.

Arranger

ABN AMRO

Dealers

ABN AMRO

Citigroup

Deutsche Bank

ING Financial Markets

Rabobank International

Banc of America Securities Limited

Credit Suisse First Boston

HVB Corporates & Markets

JPMorgan

Scotia Capital Inc

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set forth in the Pricing Supplement which, with respect to Luxembourg Listed Notes and/or Notes to be listed on Euronext Amsterdam, will be delivered to the Luxembourg Stock Exchange and/or Euronext Amsterdam on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange or stock exchanges as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below). This Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Prospectus nor any other information supplied in connection with the Programme (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme should purchase any Notes. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Dealers, in their capacity as such, as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the Programme constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

The delivery of this Prospectus does not at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme. Investors should review, inter alia, the most recent financial statements of the Issuer when deciding whether or not to purchase any Notes.

The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in Japan, The Netherlands, the United Kingdom and the United States (see “Subscription and Sale and Transfer and Selling Restrictions” below).

All references in this document to “U.S. dollars”, “U.S.\$” and “\$” refer to the currency of the United States of America, those to “euro”, “EUR” and “€” refer to the currency of the member states of the European Union participating in the economic and monetary union pursuant to the Treaty establishing the European Community, as amended, those to “Japanese yen”, “yen” and “¥” refer to the currency of Japan, those to “CHF” refer to the currency of Switzerland, and those to “Sterling” and “£” refer to the currency of Great Britain.

U.S. INFORMATION

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations (see “Subscription and Sale and Transfer and Selling Restrictions” below). Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

This Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs and Institutional Accredited Investors (each as defined under “Form of the Notes”) for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised.

Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act. Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act (“Rule 144A”).

Purchasers of Definitive IAI Registered Notes (as defined under “Form of the Notes”) will be required to execute and deliver an IAI Investment Letter (as defined under “Terms and Conditions of the Notes”). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together “Legended Notes”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “Subscription and Sale and Transfer and Selling Restrictions”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “Form of the Notes”.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken in an Amended and Restated Agency Agreement dated 3rd May, 2002, as amended and supplemented by the First Supplemental Agency Agreement dated 8th May, 2003 and a Second Supplemental Agency Agreement dated 28th April, 2004 (together with the Amended and Restated Agency Agreement and the First Supplemental Agency Agreement, the “Agency Agreement”) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

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In connection with the issue and distribution of any Tranche of Notes, the Dealer (if any) disclosed as the stabilising manager in the applicable Pricing Supplement or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes of the Series (as defined herein) of which such Tranche forms part at a level higher than that which might otherwise prevail for a limited period. However there may be no obligation on the stabilising manager or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period and will be carried out in accordance with all applicable laws and regulations. Such stabilising shall be in compliance with all relevant laws and regulations and will, in respect of Notes listed on the Euronext Amsterdam, in any event be discontinued 30 days after the relevant Issue Date.

Stabilisation transactions conducted on Euronext Amsterdam must be conducted by a member of Euronext Amsterdam on behalf of the initial purchasers and must be conducted in accordance with all applicable laws and regulations, including those of Euronext Amsterdam and article 32 of the Further Regulations on Market Conduct Supervision on the Securities Trade 2002 (“*Nadere Regeling Gedragstoezicht Effectenverkeer 2002*”).

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Prospectus:

- (a) the Articles of Association of the Issuer;
- (b) the publicly available audited annual financial statements for the most recent three financial years and the most recent interim financial statements of the Issuer;
- (c) the Issuer's Annual report on Form 20-F for the fiscal year ended 31st December, 2003 filed with the U.S. Securities and Exchange Commission and any supplements and amendments thereto;
- (d) all supplements to this Prospectus circulated by the Issuer from time to time in accordance with the undertaking given by the Issuer in the Programme Agreement (as defined in "Subscription and Sale and Transfer and Selling Restrictions" below); and
- (e) with respect to any tranche of Notes, the applicable Pricing Supplement,

save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The Issuer will provide, without charge, upon request of such person, a copy of any or all of the documents which are incorporated herein by reference. Requests for such documents should be directed to the Issuer at its registered office set out at the end of this Prospectus. In addition, such documents will be available from the specified office in The Netherlands of ABN AMRO Bank N.V. in its capacity as Paying Agent, and from the principal office in Luxembourg of Dexia Banque Internationale à Luxembourg in its capacity as Luxembourg listing agent (the "Luxembourg Listing Agent").

The Issuer will in connection with the listing of the Luxembourg Listed Notes, so long as any Luxembourg Listed Note remains outstanding and listed on such exchange, in the event of a material adverse change in the financial condition of the Issuer which is not reflected in this Prospectus, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Luxembourg Listed Notes.

The Issuer will, in connection with the listing of the Notes on Euronext Amsterdam, so long as any Note remains outstanding and listed on such exchange, in the event of a material adverse change in the financial condition of the Issuer which is not reflected in this Prospectus, prepare a supplement to this Prospectus or publish a new prospectus for use in connection with any subsequent issue of Notes to be listed on the Euronext Amsterdam.

If the terms of this Programme are modified or amended in a manner which would make this Prospectus inaccurate or misleading, a new prospectus will be prepared.

This Prospectus and any supplement will only be valid for listing Notes on the Luxembourg Stock Exchange and/or Euronext Amsterdam or any other exchange during the period of 12 months from the date of this Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$10,000,000,000 or its equivalent in other currencies. For the purpose of calculating the aggregate amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under "Form of the Notes" below) shall be determined, at the discretion of the Issuer, as of the date of agreement to issue such Notes (the "Agreement Date") or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading bank selected by the Issuer on such date;

- (b) the amount (or, where applicable, the U.S. dollar equivalent) of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under “Form of the Notes”) shall be calculated (in the case of Notes not denominated in U.S. dollars, in the manner specified above) by reference to the original nominal amount of such Notes (in the case of Partly Paid Notes, regardless of the subscription price paid); and
- (c) the amount (or, where applicable, the U.S. dollar equivalent) of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under “Form of the Notes”) and other Notes issued at a discount or premium shall be calculated (in the case of Notes not denominated in U.S. dollars, in the manner specified above) by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.

Issuer:	Koninklijke KPN N.V.
New Issuer:	The Programme Agreement provides that, upon satisfaction of certain conditions precedent, a further issuer, being a subsidiary of the Issuer, may be joined as an issuer under the Programme. In such event, a new prospectus giving details of such new issuer will be prepared.
Description:	Global Medium Term Note Programme
Arranger:	ABN AMRO Bank N.V.
Dealers:	ABN AMRO Bank N.V. Banc of America Securities Limited Bayerische Hypo- und Vereinsbank AG Citigroup Global Markets Limited Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International) Credit Suisse First Boston (Europe) Limited Deutsche Bank AG London ING Bank N.V. J.P. Morgan Securities Ltd. Scotia Capital Inc
Issuing and Principal Paying Agent:	Citibank, N.A.
Registrar, Exchange Agent and Transfer Agent:	Citibank, N.A.
Size:	Up to U.S.\$10,000,000,000 (or its equivalent in other currencies calculated as described herein) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer, including, without limitation, Australian dollars, Canadian dollars, Danish kroner, euro, Hong Kong dollars, New Zealand dollars, Sterling, Swedish kronor, Swiss francs, United States dollars and Japanese yen.
Certain restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale and Transfer and Selling Restrictions”) including the following restrictions applicable at the date of this Prospectus. <i>Swiss Francs</i> Issues of Notes denominated in Swiss Francs or carrying a Swiss Franc-related element with a maturity of more than one year will be effected in

compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 25th June, 1997. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the “Swiss Dealer”), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 (as amended). The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Notes.

Notes having a maturity of less than one year

Notes having a maturity of less than one (1) year will, if the proceeds of their issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a redemption value of at least £100,000 or its equivalent, see “Subscription and Sale and Transfer and Selling Restrictions”.

- Redenomination: The applicable Pricing Supplement may provide that Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
- Maturities: Any maturity, subject to applicable laws, regulations and restrictions and subject, in the case of Senior Notes, to a minimum maturity of one month.
- Issue Price: Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
- Form of Notes: The Notes will be issued in bearer or registered form as described in “Form of the Notes”. Registered Notes will not be exchangeable for Bearer Notes and vice versa.
- Fixed Rate Notes: Fixed interest will be payable on the date or dates specified in the applicable Pricing Supplement and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
- Floating Rate Notes: Floating Rate Notes will bear interest either at a rate determined on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series) or on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service or on such other basis as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Pricing Supplement).
- The Margin (if any) relating to such floating rate will be specified in the applicable Pricing Supplement.
- Index Linked Notes: Payments in respect of interest on Index Linked Interest Notes or in respect of principal on Index Linked Redemption Amount Notes will be calculated

by reference to such index and/or formula or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on the Interest Payment Dates specified in, or determined pursuant to, the applicable Pricing Supplement and will be calculated on the basis of the Day Count Fraction so specified.</p>
Dual Currency Notes:	<p>Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as may be specified in the applicable Pricing Supplement.</p>
Zero Coupon Notes:	<p>Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.</p>
Redemption:	<p>The applicable Pricing Supplement will indicate either that the Notes cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement.</p> <p>The applicable Pricing Supplement may provide that Notes may be repayable in two or more instalments in such amounts and on such dates as indicated in it.</p> <p>Notes having a maturity of less than one (1) year may be subject to restrictions on their denomination and distribution, see "Certain restrictions – Notes with a maturity of less than one year" above.</p>
Denomination of Notes:	<p>Notes will be issued in such denominations as may be specified in the applicable Pricing Supplement save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "Certain restrictions – Notes with a maturity of less than one year" above.</p>
Taxation:	<p>Payments in respect of the Notes will as specified in the applicable Pricing Supplement be made either subject to withholding of applicable Dutch taxes (if any) or without withholding or deduction for or on account of taxes levied in The Netherlands, subject to certain exceptions (including the IPMA Standard EU Exception) as provided in Condition 8. If the applicable Pricing Supplement provides that payments are to be made subject to withholding of applicable Dutch taxes (if any), it will also specify that Condition 7(b) will not apply to the Notes.</p>
Negative Pledge:	<p>See Condition 3.</p>
Cross Default:	<p>See Condition 10(iii).</p>

- Status of the Senior Notes: The Senior Notes will constitute direct, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without any preference among themselves and (with the exception of obligations in respect of national and local taxes and certain other statutory exceptions) equally with all other unsecured and unsubordinated obligations of the Issuer.
- Status and other terms of Subordinated Notes: The status of each Tranche of Subordinated Notes and any negative pledge and events of default applicable to Subordinated Notes will be set out in the applicable Pricing Supplement.
- Rating: The Programme has been rated by Standard & Poor's and by Moody's respectively. The rating applicable from time to time will be specified in the applicable Pricing Supplement. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
- Substitution: The Issuer may substitute for itself as principal debtor under the Notes any company of which more than 90 per cent. of the shares are directly or indirectly held by the Issuer (a "Substituted Debtor") on the terms and in the manner provided in Condition 17.
- Listing: Application has been made for the Notes to be issued under the Programme to be listed on Euronext Amsterdam and the Luxembourg Stock Exchange. The Notes may also be listed on such other or further stock exchange or stock exchanges as may be agreed between the Issuer and the relevant Dealer in relation to each issue. Unlisted Notes may also be issued. The applicable Pricing Supplement will state whether or not the Notes are to be listed and, if so, on which stock exchange.
- Governing Law: The Notes will be governed by, and construed in accordance with, the laws of The Netherlands.
- Selling Restrictions: There are selling restrictions in relation to Japan, The Netherlands, the United Kingdom and the United States, and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "Subscription and Sale and Transfer and Selling Restrictions" below.

FORM OF THE NOTES

The Notes of each Series will either be in bearer form (“Bearer Notes”), with or without interest coupons (“Coupons”) attached, or in registered form (“Registered Notes”), without Coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”) and Registered Notes will be issued both outside the United States in reliance on Regulation S and within the United States in reliance on Rule 144A under the Securities Act or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will (unless otherwise indicated in the applicable Pricing Supplement) be initially represented by a temporary bearer global Note (the “Temporary Bearer Global Note”) (or, if so specified in the applicable Pricing Supplement, a permanent bearer global Note (the “Permanent Bearer Global Note”)), without receipts, interest coupons or talons, which will either be delivered on or prior to the original issue date of the tranche to (i) a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and/or any other agreed clearing system or (ii) be deposited with the Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (“Euroclear Netherlands”). Whilst any Bearer Note is represented by a Temporary Bearer Global Note and subject to TEFRA D selling restrictions, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by the relevant clearing system(s) and the relevant clearing system(s) have given a like certification (based on the certifications they have received) to the Principal Paying Agent. Any reference in this section to the relevant clearing system(s) shall mean the clearance and/or settlement system(s) specified in the applicable Pricing Supplement. On and after the date (the “Exchange Date”) which is not less than 40 days nor more than 90 days after the date on which a Temporary Bearer Global Note is issued, interests in the Temporary Bearer Global Note will be exchangeable (free of charge), upon request as described therein, either for interests in a Permanent Bearer Global Note without receipts, interest coupons or talons or for definitive Bearer Notes (as indicated in the applicable Pricing Supplement), in each case (if the Bearer Notes are subject to TEFRA D selling restrictions) against certification of beneficial ownership as described in the second sentence of this paragraph unless such certification has already been given. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date, unless upon due presentation of the Temporary Bearer Global Note for exchange as aforesaid, delivery of any of the definitive Bearer Notes or Coupons is improperly withheld or refused.

Definitive Bearer Notes will be either in the standard euromarket form, in K-form (including *verzamelbewijs*) (with Coupons) and/or in CF-form (with Coupon sheets). Definitive Bearer Notes and global Bearer Notes will be to bearer. Bearer Notes in K-form may, if applicable, have Talons for further Coupons attached but will not be issued with Receipts attached. Bearer Notes in CF-form will have neither Talons nor Receipts attached on issue and will be governed by the rules of the “Algemeen Obligatiekantoor van het Centrum voor Fondsenadministratie B.V.” in Amsterdam.

Payments of principal and interest (if any) on a Permanent Bearer Global Note will be made through the relevant clearing system(s) against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification. A Permanent Bearer Global Note will be exchangeable (free of charge), in whole or (subject to the Bearer Notes which continue to be represented by the Permanent Bearer Global Note being regarded by the relevant clearing system(s) as fungible with the definitive Bearer Notes issued in partial exchange for such Permanent Bearer Global Note) in part, in accordance with the applicable Pricing Supplement for security printed definitive Bearer Notes with, where applicable, receipts, interest coupons or coupon sheets and talons attached. Such exchange may be made, as specified in the applicable Pricing Supplement, either: (i) upon not less than 30 days’ written notice being given to the Principal Paying Agent by a relevant clearing system (acting on the instructions of any of its participants) as described therein or (ii) upon the occurrence of an Exchange Event.

An “Exchange Event” means (1) the Issuer has been notified that both Euroclear and Clearstream Luxembourg and/or if applicable Euroclear Netherlands has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system is available or (2) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 which would not be required were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 upon the occurrence of an Exchange Event. In the event of the occurrence of an Exchange Event, a relevant clearing system acting on the instructions of any holder of an interest in the global Bearer Note may give notice to the Principal Paying Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (2) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur no later than 15 days after the date on which the relevant notice is received by the Principal Paying Agent. Global Bearer Notes and definitive Bearer Notes will be issued pursuant to the Agency Agreement (as defined under “Terms and Conditions of the Notes” below). At the date hereof, neither Euroclear nor Clearstream, Luxembourg, as opposed to Euroclear Netherlands, regard Bearer Notes in global form as fungible with Bearer Notes in definitive form.

The following legend will appear on all Bearer Notes which have an original maturity of more than 365 days and on all receipts and interest coupons (including talons) relating to such Notes which are subject to TEFRA D selling restrictions:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE OF 1986.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

The following legend will appear on all global Bearer Notes held in Euroclear Netherlands:

“Notice: This Note is issued for deposit with Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (“Euroclear Netherlands”) at Amsterdam, The Netherlands. Any person being offered this Note for transfer or any other purpose should be aware that theft or fraud is almost certain to be involved.

Notice: The custody of this global certificate by Euroclear Netherlands shall be subject to Euroclear Netherlands’ conditions as in force from time to time. The Issuer hereby declares that it will abide by these conditions.”

Registered Notes

Each Tranche of Registered Notes offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (“Regulation S Global Notes”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions (i) to “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act (“QIBs”) or (ii) to “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (“Institutional Accredited Investors”) and who execute and deliver an IAI Investment Letter (as defined under “Terms and Conditions of the Notes”) in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered

Notes of each Tranche sold to QIBs will be represented by a global note in registered form (“Rule 144A Global Notes” and, together with Regulation S Global Notes, the “Registered Global Notes”).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”) for its own account or for the accounts of Euroclear and Clearstream, Luxembourg or (ii) be deposited with a common depository for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (“Definitive IAI Registered Notes”). Unless otherwise set forth in the applicable Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under “Subscription and Sale and Transfer and Selling Restrictions”. Institutional Accredited Investors that hold Definitive IAI Registered Notes may not elect to hold such Notes through DTC, Euroclear or Clearstream, Luxembourg, but transferees acquiring the Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under “Subscription and Sale and Transfer and Selling Restrictions”. The Registered Global Notes and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(d)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (1) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or, DTC has ceased to constitute a clearing agency registered under the Exchange Act, or (2) in the case of Notes registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available, or (3) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 which would not be required were the Registered Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC and/or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (3) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 15 days after the date on which the relevant notice is received by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see “Subscription and Sale and Transfer and Selling Restrictions”.**

General

Pursuant to the Agency Agreement the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned an ISIN and a common code by Euroclear and Clearstream, Luxembourg, and where applicable, a CUSIP and CINS number by DTC and/or a Fondscode by the Securities Clearing Corporation of Euronext Amsterdam which are different from the ISIN, common code, CUSIP and CINS and Fondscode assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined under Regulation S) applicable to the Notes of such Tranche.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10 of the Terms and Conditions. In such circumstances, where any Note is still represented by a global Note and a holder of such Note so represented and credited to his account with the relevant clearing system(s) (other than Euroclear Netherlands) gives notice that it wishes to accelerate such Note, unless within a period of 15 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of such global Note, holders of interests in such global Note credited to their accounts with the relevant clearing system(s) (other than Euroclear Netherlands) will become entitled to proceed directly against the Issuer on the basis of statements of account provided by the relevant clearing system(s) (other than Euroclear Netherlands) on and subject to the terms of the relevant global Note. In the case of a global Bearer Note deposited with Euroclear Netherlands, the rights of Noteholders will be exercised in accordance with the provisions of such global Bearer Note and the provisions of the Securities Giro Transfer Act (“*Wet giraal effectenverkeer*”). In addition, holders of interests in a global Note credited to their accounts with DTC may require DTC to deliver definitive Notes in registered form in exchange for their interests in a global Note in accordance with DTC’s standard operating procedures.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant global Bearer Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

So long as DTC or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and such Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

Applicable Pricing Supplement

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

Koninklijke KPN N.V.

Incorporated in the Netherlands as a public limited liability company
(*naamloze vennootschap*) with its corporate seat in the Hague

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.\$10,000,000,000
Global Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 28th April, 2004. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Prospectus.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Prospectus dated [*original date*]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Prospectus dated [*current date*], save in respect of the Conditions which are extracted from the Prospectus dated [*original date*] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one (1) year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. Issuer: Koninklijke KPN N.V.
2. (i) Series Number: []
(ii) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
(i) Series: []
(ii) Tranche: []
5. (i) Issue Price of Tranche: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*]] (*in the case of fungible issues only, if applicable*)

(ii) Net Proceeds (*Required only for listed issues*): []
6. Specified Denominations: [] [*Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a*
(in the case of Registered Notes this means the minimum integral amount in which transfers can be made)

minimum redemption value of £100,000 (or its equivalent in other currencies)]

7. (i) Issue Date and Interest Commencement Date: []
- (ii) Interest Commencement Date (if different from the Issue Date): []
8. Maturity Date: [Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month].
9. Interest Basis: [[] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify others]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
11. Change of Interest Basis or Redemption/Payment Basis: []
[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. Status of the Notes: [Senior/Subordinated – give details, including any variations to the Negative Pledge and Events of Default]
14. Listing: [Luxembourg/Euronext Amsterdam/specify other/None]
15. Method of distribution: [Syndicated/Non-syndicated]

Provisions Relating to Interest (if any) Payable

16. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
(If payable other than annually, consider amending Condition 5)
- (ii) Interest Payment Date(s): [] in each year up to and including the Maturity Date/[specify other] *(NB: This will need to be amended in the case of long or short coupons)*
- (iii) Fixed Coupon Amount(s): [] per [] in nominal amount

- (iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]*
- (v) Day Count Fraction: *[30/360 or Actual/Actual (ISMA) or specify other]*
- (vi) Determination Date[s]: *[] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon (NB: This will need to be amended in the case of regular interest payments which are not of equal duration)]
(NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA))*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: *[None/Give details]*
17. Floating Rate Note Provisions *[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period(s)/Specified Interest Payment Dates: *[]*
- (ii) Business Day Convention: *[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]*
- (iii) Additional Business Centre(s): *[]*
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: *[Screen Rate Determination/ISDA Determination/specify other]*
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): *[]*
- (vi) Screen Rate Determination: *[Yes/No]*
- Reference Rate: *[]
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*
- Determination Date(s): *[]
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
- Relevant Screen Page: *[]
(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (vii) ISDA Determination: *[Yes/No]*
- Floating Rate Option: *[]*
- Designated Maturity: *[]*

- Reset Date: []
 - (viii) Margin(s): [+/-] [] per cent. per annum
 - (ix) Minimum Rate of Interest: [] per cent. per annum
 - (x) Maximum Rate of Interest: [] per cent. per annum
 - (xi) Day Count Fraction: [Actual/365 or Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See Condition 5 for alternatives)
 - (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
18. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [] per cent. per annum
 - (ii) Reference Price: []
 - (iii) Any other formula/basis of determining amount payable: []
 - (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7(e) and (j) apply/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)
19. Index Linked Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
 - (ii) Calculation Agent responsible for calculating interest due: []
 - (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
 - (iv) Specified Period(s)/Specified Interest Payment Dates: []
 - (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
 - (vi) Additional Business Centre(s): []
 - (vii) Minimum Rate of Interest: [] per cent. per annum

- (viii) Maximum Rate of Interest: per cent. per annum
- (ix) Day Count Fraction:
20. Dual Currency Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Calculation Agent, if any, responsible for calculating the interest payable:
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:
- (iv) Person at whose option Specified Currency(ies) is/are payable:

Provisions Relating to Redemption

21. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s):
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): per Note of Specified Denomination
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount:
- (b) Higher Redemption Amount:
- (iv) Notice period:
(N.B. if setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)
22. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s):

(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [] per Note of [] Specified Denomination

(iii) Notice period: []
(N.B. if setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

23. Final Redemption Amount of each Note: [[] per Note of [] Specified Denomination/specify other/see Appendix]

24. Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): []

General Provisions Applicable to the Notes

25. Form of Notes: [Bearer Notes:
[Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Bearer Notes [on 30 days' notice given at any time/only upon an Exchange Event].]
[Temporary Bearer Global Note exchangeable for Definitive Bearer Notes on and after the Exchange Date.]
[Permanent Bearer Global Note exchangeable for Definitive Bearer Notes [on 30 days' notice given at any time/only upon an Exchange Event].]]

[Registered Notes:
Regulation S Global Note (U.S.\$[] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]/Rule 144A Global Note (U.S.\$[] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]/Definitive IAI Registered Notes (*specify nominal amounts*).]

26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this item relates to the date and place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate)

27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details. NB: new forms of Global Note may be required for Partly Paid issues*]
29. Details relating to Instalment Notes:
 (i) Instalment Amount(s): [Not Applicable/*give details*]
 (ii) Instalment Date(s): [Not Applicable/*give details*]
30. Redenomination applicable: Redenomination [not] applicable
(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
31. Other terms or special conditions: [Not Applicable/*give details*]
32. For the purposes of Condition 14, notices to be published in the Financial Times: *(generally yes, but no for domestic issues)* [Yes/No]
33. Condition 8(a) or 8(b) of the Notes applies: [Condition 8(a) applies and Condition 7(b) does not apply/Condition 8(b) applies and Condition 7(b) applies]
34. Additional tax disclosure [Not Applicable/*required in the case of Floating Rate Notes and Indexed Linked Notes*]

Distribution

35. (i) If syndicated, names of Managers: [Not Applicable/*give names*]
 (ii) Stabilising Manager (if any): [Not Applicable/*give name*]
36. If non-syndicated, name of relevant Dealer: []
37. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
38. Additional selling restrictions: [Not Applicable/*give details*]
- 38a. Applicable Dutch securities option: [The Notes are offered under the Dutch securities law exemption set out in item c on page 107 of the Prospectus and accordingly are offered anywhere in the world only to

persons who trade or invest in securities in the conduct of their profession or trade (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities).]¹

[The Notes are offered under the Dutch securities law exemption set out in item [a][b][d][e] on page 107 of the Prospectus.]¹

39. The use of proceeds of the issue of the Notes: (*Euronext Amsterdam listed Notes only*) [give details]
40. The effective yield of the Notes: (*Euronext Amsterdam listed Notes only*) [] per cent.

Operational Information

41. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
42. Delivery: Delivery [against/free of] payment
43. Additional Paying Agent(s) (if any): []
44. Programme Rating: Standard & Poor's:
[] (in respect of Senior Notes with a maturity of more than one year)
[] (in respect of Senior Notes with a maturity of one year or less)
[] (in respect of Subordinated Notes)
Moody's:
[] (in respect of Senior Notes with a maturity of more than one year)
[] (in respect of Senior Notes with a maturity of one year or less)
[] (in respect of Subordinated Notes)

ISIN: []
Common Code: []
Fondscore: []
[Other relevant code such as CUSIP and CINS codes] []

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$10,000,000,000 Global Medium Term Note Programme of Koninklijke KPN N.V.]

[STABILISATION

1. Include as applicable

In connection with this issue and distribution of Notes, the [*insert name of Stabilising Manager*] (the “Stabilising Manager”) or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However there may be no obligation on the Stabilising Manager or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period and will be carried out in accordance with all applicable laws and regulations. Such stabilising shall be in compliance with all relevant laws and regulations and will, in respect of Notes listed on Euronext Amsterdam, in any event be discontinued 30 days after the relevant Issue Date.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:

Duly authorised

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 4, 5, 6, 7 (except Condition 7(b)), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 16, they will not necessitate the preparation of a supplement to this Prospectus. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Prospectus will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of Notes to be issued by the Issuer which will be incorporated by reference into each global Note and which will be endorsed on (or, if permitted by the rules of the relevant stock exchange and agreed between the Issuer and the relevant Dealer, incorporated by reference into) each definitive Note in the standard euromarket form and K-form and will be applicable to each definitive Note in CF-form. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Tranche of Notes. The applicable Pricing Supplement will be endorsed on, incorporated by reference into, or attached to, each global Note and definitive Note in the standard euromarket form and K-form and will be applicable to each definitive Note in CF-form. Reference should be made to "Form of the Notes" above for a description of the content of Pricing Supplements which includes the definition of certain terms used in the following Terms and Conditions.

This Note is one of a series of Notes issued by Koninklijke KPN N.V. (the "Issuer", which expression shall include any Substituted Debtor (as defined in Condition 17)) pursuant to the Agency Agreement (as defined below). References herein to the "Notes" shall be references to the Notes of this Series (as defined below) and shall mean (i) in relation to any Notes represented by a global Note, units of the lowest Specified Denomination in the Specified Currency, (ii) definitive Notes in bearer form ("Bearer Notes") issued in exchange (or part exchange) for a global Note in bearer form, (iii) any definitive Notes in registered form ("Registered Notes") (whether or not issued in exchange for a global Note in registered form) and (iv) any global Note. The holders of the Notes, the Receipts (as defined below) and the Coupons (as defined below) are deemed to have notice of, are entitled to the benefit of and are subject to the provisions of an Amended and Restated Agency Agreement dated 3rd May, 2002, as amended and supplemented by the First Supplemental Agency Agreement dated 8th May, 2003 and the Second Supplemental Agency Agreement dated 28th April, 2004 (together with the Amended and Restated Agency Agreement and the First Supplemental Agency Agreement, the "Agency Agreement"), as further amended and/or supplemented and/or restated from time to time and made between the Issuer, Dexia Banque Internationale à Luxembourg as issuing and principal paying agent and agent bank in relation to Notes issued prior to 26th January, 2001 and Citibank, N.A. as issuing and principal paying agent and agent bank in relation to Notes issued on or after 26th January, 2001 (together the "Principal Paying Agent", which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents), Citibank, N.A. as exchange agent (the "Exchange Agent", which expression shall include any successor exchange agent) and as registrar (the "Registrar", which expression shall include any successor registrar) and as transfer agent and the other transfer agents named therein (together with the Registrar, the "Transfer Agents", which expression shall include any additional or successor transfer agents).

Interest bearing definitive Bearer Notes in the standard euromarket form (unless otherwise indicated in the applicable Pricing Supplement) have interest coupons ("Coupons") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes in the standard euromarket form repayable in instalments have receipts ("Receipts") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and global Notes do not have Coupons, Talons or Receipts attached on issue. Any reference herein to "Noteholders" shall mean (in the case of Bearer Notes) the holders of the Notes, and (in the case of Registered Notes) the persons in whose names the Notes are registered, and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to "Receiptholders" shall mean the holders of the Receipts and any reference herein to "Couponholders" shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons. Any holders mentioned above include those having a credit balance in the collective depots held by a participant of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. ("Euroclear Netherlands").

Interest bearing definitive Notes in K-form will have Coupons and, if indicated in the applicable Pricing Supplement, Talons attached but will not be issued with Receipts attached. Interest bearing definitive Notes in CF-form will have Coupon sheets attached but will not be issued with Talons or Receipts attached. References in these Terms and Conditions to “Coupons” will include references to such Coupon sheets.

The Pricing Supplement for this Note is endorsed hereon or attached hereto or applicable hereto or incorporated by reference herein and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the “applicable Pricing Supplement” are to the Pricing Supplement for this Note.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) from the date on which such consolidation is expressed to take effect except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the applicable Pricing Supplement are available free of charge at the specified offices of the Paying Agents in Luxembourg and Breda save that a Pricing Supplement relating to an unlisted Note will only be available by a Noteholder upon such Noteholder producing evidence as to identity satisfactory to the relevant Agent. Copies of the Agency Agreement are available at the specified offices of each of the Paying Agents and Transfer Agents (such Agents being together referred to as “Agents”). The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, are entitled to the benefit of and are subject to all the provisions of the applicable Pricing Supplement which are binding on them.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated, and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. Form, Denomination and Title

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency, the Specified Denomination(s) and the Specified Form(s).

This Note is a Senior Note or a Subordinated Note as indicated in the applicable Pricing Supplement. This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Amount Note, a Dual Currency Interest Note, an Instalment Note, a Partly Paid Note, a Dual Currency Redemption Note or a combination of any of the foregoing, depending on the Interest Basis and Redemption/Payment Basis indicated in the applicable Pricing Supplement.

Bearer Notes in definitive form are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. For Notes held by Euroclear Netherlands deliveries will be made in accordance with the Securities Giro Transfer Act (“Wet giraal effectenverkeer”). Except as ordered by a court of competent jurisdiction or as required by law or applicable regulations, the Issuer and the Agents may deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and/or Clearstream Banking, société anonyme

(“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Bearer Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such Notes in accordance with and subject to the terms of the relevant global Note (and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly). Notes which are represented by a global Note held by a common depository for Euroclear or Clearstream, Luxembourg will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

For so long as the Depository Trust Company (“DTC”) or its nominee is the registered owner or holder of a Registered Global Note (as defined in Condition 2(h)), DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC’s published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

References to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement but shall not include Euroclear Netherlands.

2. Transfers of Registered Notes

(a) Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor’s nominee.

(b) Transfers of Registered Notes in definitive form

Subject as provided in paragraphs (e), (f) and (g) below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (i) the holder or holders must (a) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request and that the transfer is in compliance with the transfer restrictions set forth in such Registered Note. Any such transfer will be subject to such regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 9 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent

is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

(c) Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) Transfers of interests in Regulation S Global Notes

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

- (i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a “Transfer Certificate”), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:
 - (A) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or
 - (B) to a person who is an Institutional Accredited Investor, together with, in the case of (B), a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an “IAI Investment Letter”); or
- (ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (A) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (B) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period such certification requirements will no longer apply to such transfers.

(f) Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

- (i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that, in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of

the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(ii) to a transferee who takes delivery of such interest through a Legended Note:

(A) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(B) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

(iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(g) Exchanges and transfers of Registered Notes generally

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

(h) Definitions

In this Condition, the following expressions shall have the following meanings:

“Distribution Compliance Period” means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

“Institutional Accredited Investor” means “accredited investors” (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that are institutions;

“Legended Notes” means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) issued to QIBs which bear certain legends regarding U.S. restrictions on transfer;

“QIB” means a “qualified institutional buyer” within the meaning of Rule 144A;

“Registered Global Note” means a Regulation S Global Note or a Rule 144A Global Note;

“Regulation S” means Regulation S under the Securities Act;

“Regulation S Global Note” means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

“Rule 144A” means Rule 144A under the Securities Act;

“Rule 144A Global Note” means a Registered Global Note representing Notes sold in the United States to QIBs in reliance on Rule 144A or otherwise in private transactions exempt from the registration requirements of the Securities Act; and

“Securities Act” means the United States Securities Act of 1933, as amended.

3. Status of the Notes and Negative Pledge

(a) Status of the Senior Notes

The Senior Notes and the relative Receipts and Coupons constitute direct, unsecured and unsubordinated obligations of the Issuer and rank *pari passu* without any preference among themselves and (with the exception of obligations in respect of national and local taxes and certain other statutory exceptions) equally with all other unsecured and unsubordinated obligations of the Issuer.

(b) Negative Pledge relating to the Senior Notes

So long as the Senior Notes or any relative Receipts or Coupons remain outstanding, the Issuer will not secure by lien, pledge or other charge upon the whole or part of its assets or revenues any present or future Public Debt (as defined below) of the Issuer without at the same time securing the Senior Notes equally and rateably with such Public Debt or providing such other security as the Senior Noteholders may approve by an Extraordinary Resolution (as defined in the Agency Agreement). “Public Debt” means any loan, debt, guarantee or other obligation which is represented by bonds or notes or other securities which have an initial life exceeding two years and which are capable of being listed on any stock exchange or over-the-counter or other similar securities market.

(c) Status and Subordination of the Subordinated Notes

The status and subordination of the Subordinated Notes is as set out in the applicable Pricing Supplement.

4. Redenomination

(a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and, if applicable, Euroclear Netherlands and at least 30 days’ prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note and Receipt equal to the principal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders;
- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “Exchange Notice”) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to these Terms and Conditions as the Issuer may decide, after consultation with the Principal Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro.

(b) Definitions

In these Terms and Conditions, the following expressions have the following meanings:

“Established Rate” means the rate for conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“euro” means the currency of the member states of the European Union participating in the economic and monetary union pursuant to the Treaty;

“Redenomination Date” means (in the case of interest bearing Notes) a date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above which falls on or after the date on which the country of the specified currency first participates in the third stage of European economic and monetary union; and

“Treaty” means the Treaty establishing the European Community, as amended.

5. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from and including the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. As used in these Terms and Conditions, "Fixed Interest Period" means the Period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if "Actual/Actual (ISMA)" is specified in the applicable Pricing Supplement:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
 - (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (ii) if "30/360" is specified in the applicable Pricing Supplement, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360.

In these Terms and Conditions:

"Determination Period" means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"sub-unit" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate equal to the Rate of Interest payable in arrear on either:

- (A) the Specified Interest Payment Date(s) (each an “Interest Payment Date”) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, “Business Day” means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and in any Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London or any Additional Business Centre) or (2) in relation to any sum payable in euro, a day on which Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the “TARGET System”) is open.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of the Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “ISDA Definitions”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is the period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“LIBOR”) or on the Euro-zone inter-bank offered rate (“EURIBOR”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest pursuant to this subparagraph (B) in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be less than such Minimum Rate of Interest and/or if it specifies a Maximum Rate of Interest for any Interest Period, then the Rate of Interest for such Interest Period shall in no event be greater than such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and Calculation of Interest Amount

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

- (1) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (2) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (3) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (4) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (5) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (6) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and

(v) Notification of Rate of Interest and Interest Amount.

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the commencement of the relevant Interest Period (in the case of any notice to the Luxembourg Stock Exchange) and no later than the fourth London Business Day (as defined below) thereafter (in any other case). Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph (b) by the Principal Paying Agent or, if applicable, the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent, if applicable, the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. Payments

(a) *Method of Payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(b) Presentation of definitive Notes, Receipts and Coupons

Other than in the case of definitive Notes in CF-form, payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent (in the case of any payments to be made in U.S. dollars, outside the United States).

Payments of principal in respect of any definitive Bearer Notes in CF-form will be made in the manner provided in paragraph (a) above only against surrender of definitive Bearer Notes together with the Coupon sheet attached. Payments of interest in respect of any definitive Bearer Notes in CF-form will be made in conformity with the agreement concluded between the Issuer and the “Algemeen Obligatiekantoor van het Centrum voor Fondsenadministratie B.V.” (the “Obligatiekantoor”) in Amsterdam, under which agreement the Issuer has accepted the rules and regulations of the Obligatiekantoor.

Payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph (a) above against surrender of the relevant Bearer Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmaturing Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes and Long Maturity Notes (as defined below)) should be presented for payment together with all unmaturing Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmaturing Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmaturing Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due. Upon any Fixed Rate Note in bearer form becoming due and repayable prior to its Maturity Date, all unmaturing Receipts and Talons (if any) appertaining thereto will become void and no payments in respect of any such Receipts and no further Coupons in respect of any such Talons will be made or issued, as the case may be.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmaturing Receipts, Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. Where any such Note is presented for redemption without all unmaturing Receipts, Coupons or Talons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require. A “Long Maturity Note” is a Fixed Rate Note in bearer form (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall

cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) Payments in respect of global Bearer Notes

Payments of principal and interest (if any) in respect of Notes represented by any global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant bearer global Bearer Note against presentation or surrender, as the case may be, of such global Bearer Note at the specified office of any Paying Agent. A record of each payment made against presentation or surrender of such global Bearer Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Bearer Note by such Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

(d) Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "Register") at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "Record Date") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this

Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in registered form in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for payment in such Specified Currency for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) General provisions applicable to payments

The holder of a global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Euroclear and/or Clearstream, Luxembourg or DTC, for his share of each payment so made by the Issuer to, or to the order of, the holder of such global Note. No person other than the holder of such global Note shall have any claim against the Issuer in respect of any payments due on that global Note.

Notwithstanding the foregoing, U.S. dollar payments of principal and interest in respect of the Notes will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(f) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to any further interest or other payment in respect of such delay. For these purposes (unless otherwise specified in the applicable Pricing Supplement), "Payment Day" means any day which, subject to Condition 9, is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London; and
 - (C) any Additional Financial Centre specified in the applicable Pricing Supplement;
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business

(including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open; and

- (iii) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

(g) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Instalment Notes, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount as defined in Condition 7; and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. Redemption and Purchase

(a) At Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note, including each Index Linked Redemption Note and Dual Currency Redemption Note, will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) Redemption for Tax Reasons

If so specified in the applicable Pricing Supplement, Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes, Index Linked Interest Notes or Dual Currency Interest Notes) or on any Interest Payment Date (in the case of Floating Rate Notes, Index Linked Interest Notes or Dual Currency Interest Notes), on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable) if, on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of The Netherlands or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Notes. Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the Option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar,

(both of which notices shall be irrevocable), redeem all or some only of the Notes then outstanding on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date(s).

Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than a Higher Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear, Clearstream, Luxembourg, DTC and/or Euroclear Netherlands, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least 5 days prior to the Selection Date.

(d) Redemption of Notes at the Option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice or such other period of notice as is specified in the applicable Pricing Supplement, the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

If the Notes are in definitive form and held outside Euroclear and Clearstream, Luxembourg, to exercise the right to require redemption of the Notes its holder must deliver such Notes at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (the "Put Notice") and in which the holder must specify a bank account (or, if payment is by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b). If this Note is represented by a global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder

of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a global Note, at the same time present or procure the presentation of the relevant global Note to the Principal Paying Agent for notation accordingly. If this Note is in definitive form and not held through Euroclear or Clearstream, Luxembourg, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

(e) Early Redemption Amount

For the purpose of paragraph (b) above and Condition 10, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable to a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (ii) in the case of a Zero Coupon Note, at an amount (the “Amortised Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

“RP” means the Reference Price; and

“AY” means the Accrual Yield; and

“y” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for Redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

- (iii) in any other case, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at their nominal amount.

(f) Instalments

Instalment Notes will be repaid in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) Partly Paid Notes

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) Purchases

The Issuer or any of its subsidiaries may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmaturing Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, re-issued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

(i) *Cancellation*

All Notes which are redeemed will subject to paragraph (h) above forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be re-issued or resold.

(j) *Late Payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(ii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In such event, the Issuer will, depending on which provision is specified in the applicable Pricing Supplement either:

- (a) make the required withholding or deduction of such taxes, duties, assessments or governmental charges for the account of the holders of the Notes, Receipts or Coupons, as the case may be, and shall not pay any additional amounts to the holders of the Notes, Receipts or Coupons; or
- (b) pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:
 - (i) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with The Netherlands other than the mere holding of such Note, Receipt or Coupon or the receipt of principal or interest in respect thereof; or
 - (ii) presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
 - (iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day; or
 - (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th

November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (v) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of five years after the date on which such payment first becomes due.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. Events of Default

If any one or more of the following events (each an “Event of Default”) shall have occurred and be continuing:

- (i) there is failure for more than 14 days in the payment of any principal or interest in respect of any Note when and as the same is due to be paid; or
- (ii) the Issuer fails to perform or observe any of its other obligations under the Notes and such failure continues for a period of 30 days next following the service on the Issuer of notice requiring the same to be remedied; or
- (iii) the Issuer fails in the due repayment of borrowed money in an amount which exceeds U.S.\$30,000,000 (or its equivalent in other currency or currencies) and such failure continues for a period of 14 days after notice of such failure has been received by the Issuer or the Issuer fails to honour a guarantee or indemnity in respect of an amount in excess of U.S.\$30,000,000 (or its equivalent in other currency or currencies) and such failure continues for a period of 14 days after notice of such failure has been received by the Issuer, provided however always that in each case no Event of Default shall be deemed to have occurred if the Issuer is contesting its liability in good faith or shall have been ordered not to make such payment by a competent court; or
- (iv) the Issuer becomes bankrupt or subject to a “surséance van betaling” or an order is made or an effective resolution is passed for the winding-up or liquidation of the Issuer (except if such order or resolution is made or passed for the purposes of any merger, consolidation or reconstruction in the case where either (a) prior consent thereto has been given by Extraordinary Resolution of the Noteholders or (b) the surviving or resulting company assumes all of the rights and obligations of the Issuer with respect to the Notes); or
- (v) the Issuer ceases to carry on substantially the whole of its business except for the purposes of any merger, consolidation or reconstruction in the case where either (a) prior consent thereto has been given by Extraordinary Resolution of the Noteholders or (b) the surviving or resulting company assumes all of the rights and obligations of the Issuer with respect to the Notes;

then each Noteholder may by written notice to the Issuer, at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare the principal of and all interest accrued on its Notes to the date of payment to be forthwith due and payable, and the same

shall become immediately due and payable, unless prior to the time when such written notice is received all such defaults have been cured.

The applicable Pricing Supplement may specify any variations to the above Events of Default in the case of an issue of Subordinated Notes.

11. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. Agents

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (i) so long as the Notes are listed or admitted to trading on any stock exchange, there will at all times be a Paying Agent, which may be the Principal Paying Agent, (in the case of Bearer Notes) and a Transfer Agent, which may be the Registrar, (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (ii) there will at all times be a Paying Agent with a specified office in a city in a member country of the European Union;
- (iii) there will at all times be a Principal Paying Agent and a Registrar;
- (iv) there will at all times be a Paying Agent with a specified office situated outside The Netherlands.
- (v) so long as any of the Registered Global Notes are registered in the name of a nominee for DTC, there will at all times be an Exchange Agent with a specified office in New York City; and
- (vi) the Issuer will ensure that it maintains a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 6(e). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent. In the case of a change of any of the Paying Agents, a notice will be published in accordance with Condition 14.

13. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office

of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

14. Notices

All notices regarding the Bearer Notes shall be published (i) in at least one daily newspaper of wide circulation in The Netherlands, (ii) if so specified in the applicable Pricing Supplement, in a leading English language daily newspaper of general circulation in London, (iii) if and for so long as the Bearer Notes are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and (iv) if and for so long as the Bearer Notes are listed on Euronext Amsterdam, in the Official Daily List (“Officiële Prijscourant”) of Euronext Amsterdam N.V. It is expected that any such publication will be made in the Financial Times in London (in the case of (ii) above) and the *Luxembourger Wort* (in the case of (iii) above). Any such notice will be deemed to have been given on the date of the first publication in all the newspapers in which such publication is required to be made.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of the relevant authority of that stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules and regulations of that stock exchange which, in the case of any Registered Notes listed on the Luxembourg Stock Exchange, is expected to be the *Luxembourg Wort*.

Until such time as any definitive Notes are issued, there may (provided that, in the case of any publication required by a stock exchange, that stock exchange agrees), so long as the global Note(s) is or are held in its or their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for publication in some or all of the newspapers referred to above, the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Where the identity of all the holders of the Notes is known to the Issuer, the Issuer may (provided that, in the case of any publication required by a stock exchange, that stock exchange agrees) give notices individually to such holders in lieu of publication as provided above.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together in the case of any Note in definitive form with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar via Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

Whilst any of the Notes are represented by a global Note deposited with Euroclear Netherlands, the Issuer, the Agents and Euroclear Netherlands shall mutually agree on such rules for form and contents of communications between them as they may deem practical for the purpose of giving effect to these Terms and Conditions.

15. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification

of the Notes, the Receipts, the Coupons or certain provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (i) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is not materially prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. Substitution of the Issuer

- (a) The Issuer (which for the purpose of this Condition, save where the context requires otherwise, includes any previous substitute of the Issuer) under this Condition may and the Noteholders, the Receiptholders and the Couponholders hereby irrevocably agree in advance that the Issuer under this Condition may at any time substitute any company (incorporated in any country in the world), of which more than 90 per cent. of the shares or other equity interest carrying voting rights are directly or indirectly held by the Issuer, as the principal debtor in respect of the Notes (any such company, the "Substituted Debtor"), provided that:
 - (i) such documents shall be executed, and notices be given, by the Substituted Debtor and the Issuer as the Principal Paying Agent may deem reasonably necessary to give full effect to the substitution and pursuant to which the Substituted Debtor shall undertake in favour of each Noteholder, Receiptholders and Couponholders to be bound by these Terms and Conditions and the provisions of the Agency Agreement as the principal debtor in respect of the Notes, Receipts and Coupons in place of the Issuer;
 - (ii) in accordance with and subject to Condition 8, no taxes or duties shall be required to be withheld or deducted at source in the territory where the Substituted Debtor is incorporated, domiciled or resident (unless the withholding or deduction would be borne by the Substituted Debtor, in which case sub-clause (b) of Condition 8 shall apply);

- (iii) all necessary governmental and regulatory approvals and consents for such substitution and for the giving by the Issuer of the Guarantee (as defined below) in respect of the obligations of the Substituted Debtor shall have been obtained and be in full force and effect;
- (iv) Condition 10 shall be deemed to be amended so that it shall also be an Event of Default under the said Condition if the Guarantee (as defined below) shall cease to be valid or binding on or enforceable against the Issuer;

and (if the Substituted Debtor is not the Issuer) upon the Notes, Receipts and Coupons becoming valid and binding obligations of the Substituted Debtor, the Issuer undertakes that it will irrevocably and unconditionally guarantee in favour of each Noteholder, Receiptholder and Couponholder the payment of all sums payable by the Substituted Debtor as such principal debtor (such guarantee of the Issuer to be substantially in the form scheduled to the Agency Agreement and herein referred to as the “Guarantee”).

- (b) The Substituted Debtor shall forthwith give notice of the substitution to the Noteholders, the Receiptholders and the Couponholders in accordance with Condition 14.

18. Additional obligations

For so long as the Notes are listed on the Euronext Amsterdam, the Issuer will comply with the provisions set forth in Article 2.1.20 of Schedule B of the Listing and Issuing Rules (“Fondsenreglement”) of Euronext Amsterdam or any amended form of the said provisions in force for the time being.

19. Governing Law and Submission to Jurisdiction

The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, the laws of The Netherlands.

The Issuer submits to the exclusive jurisdiction of the courts of Amsterdam, The Netherlands, judging in first instance, and its appellate courts.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes.

DESCRIPTION OF THE COMPANY

All references to “we” in the description of the Company set out below on pages 49-85 of this Prospectus are references to the Company.

A. History and Development of the Company

Koninklijke KPN N.V. was incorporated under the laws of the Netherlands on 1st January, 1989. On 28th June, 1998 our name was changed from Koninklijke PTT Nederland N.V. to Koninklijke KPN N.V. We have our corporate seat in The Hague, the Netherlands. We are registered under number 02045200 at the Commercial Register of the Chamber of Commerce for Haaglanden, The Hague, the Netherlands, and our executive offices are located at Maanplein 55, 2516 CK The Hague, the Netherlands. Our telephone number is (+31) 70 4460986. Our agent for service of process in the United States is KPN INS, Inc., 494 8th Avenue, 23rd floor, New York NY 10001.

KPN was incorporated with two main subsidiaries: PTT Telecom B.V., offering telecommunications services; and PTT Post B.V., serving as the primary postal company in the Netherlands. In the period from incorporation until the listing of our shares on the Stock Exchange of Amsterdam (now Euronext (Amsterdam)) in June 1994, the State of the Netherlands was our sole shareholder. At the end of 2003, the State held 19.3% of our outstanding shares.

In 1997, Koninklijke KPN N.V. decided to separate its cable activities from its core business. Vision Networks, a wholly owned subsidiary holding interests in cable activities, was deconsolidated after an internal legal demerger in 1998. During 2002, Vision Networks sold its remaining material assets and, subsequently, the Supervisory Board of Vision Networks ceased its activities. As a result, we regained full control over Vision Networks, which is fully consolidated in our financial statements as of the end of 2002.

The demerger of our mail, express and logistics business operations to TNT Post Group (TPG) became effective on 28th June, 1998, with retroactive effect from 1st January, 1998. The demerger resulted in the transfer of approximately EUR 1.6 billion of our equity to TPG.

In 1998, we also established KPN Orange, a 50:50 joint venture with a wholly-owned subsidiary of Orange plc, to provide mobile telecommunications services in Belgium. In February 2001, we acquired the remaining shares (50%) of KPN Orange. As from April 2002, the brand name Orange was changed to BASE.

In November 1999, we transferred our mobile business to a separately incorporated subsidiary, KPN Mobile N.V. KPN Mobile issued new shares to NTT DoCoMo in August 2000, as a result of which NTT DoCoMo held a 15% interest in KPN Mobile. Upon the financial restructuring of KPN Mobile in December 2002, NTT DoCoMo decided not to exercise its anti-dilution rights, resulting in a decrease of its interest to 2.16%.

In February 2000, we completed our acquisition of a 77.49% indirect interest in E-Plus, Germany's third largest mobile network operator. Until 13th March, 2002 we shared control of E-Plus with BellSouth Corporation (BellSouth), which held the remaining 22.51% indirect interest. On 13th March, 2002, BellSouth converted its 22.51% indirect interest in E-Plus into 234.7 million of our ordinary shares (which BellSouth subsequently sold), and since then we have had full control of E-Plus.

On 4th August, 2000, we acquired one of five UMTS licenses in the Netherlands for EUR 711 million. On 31st August, 2000, E-Plus (through a subsidiary) acquired one of six UMTS licenses in Germany for EUR 8.4 billion. On 2nd March, 2001, we acquired a UMTS license in Belgium for EUR 150 million.

On 21st September, 2000, we acquired a 15% interest in Hutchison 3G UK Holdings Limited (Hutchison 3G UK) for EUR 1.5 billion. Hutchison 3G UK indirectly owns a UMTS license in the UK. NTT DoCoMo also acquired a 20% interest in Hutchison 3G UK. In August 2002, we announced that we no longer considered Hutchison 3G UK a strategic participation and, accordingly, we wrote off our investment at that time, based on an analysis of the recoverable value. On 7th November, 2003, Hutchison

Whampoa Limited (HWL) and KPN Mobile entered into agreements whereby the Hutchison 3G UK shares held by KPN Mobile and related documents were placed with an independent escrow agent pending completion of the transfer of the shares. KPN Mobile agreed not to exercise its voting rights on the Hutchison 3G UK shares during the escrow period. The consideration amounts to GBP 60 million plus three further planned payments of GBP 10 million each in 2005, 2006 and 2007. The shareholders' agreement between the parties has been terminated and related court actions settled, and accordingly we have no further financial commitments to Hutchison 3G UK.

On 14th May, 2001, we announced that Vodafone's offer for the shares of Eircom, the mobile operator of eircom (Ireland), had been accepted and as a result of which we received approximately 220 million shares in Vodafone. We sold these shares for approximately EUR 572 million in June 2001.

On 28th September, 2001, we sold our data center activities to French IT service provider Atos Origin for approximately EUR 163 million. Atos Origin will manage these activities for us for a minimum period of six years as from 2001.

In November 2001, we sold our 21% interest in the Irish telecommunications operator eircom to Valentia for EUR 632 million.

In November 2001, with retroactive effect to 1st July, 2001, we sold and transferred our call company and call centers to SNT, a company in which we hold a 50.78% stake. SNT is listed on Euronext (Amsterdam) and is fully consolidated in our financial statements.

On 11th December, 2001, KPN Mobile sold its 22.28% interest in the Indonesian mobile operator Telkomsel to Singapore Telecommunications for EUR 668 million.

On 4th February, 2002, we completed the sale of our 44.66% interest in Pannon GSM, the Hungarian mobile operator, to Telenor SA for EUR 603 million.

On 5th February, 2002, we sold our End User Services business to Atos Origin for approximately EUR 6.32 million. Atos Origin has agreed to manage these services for a minimum period of six years as from 2002. On 19th August, 2002, we reached a definitive agreement with Atos Origin for its acquisition of the activities of KPN's Software House for EUR 24 million.

On 31st May, 2002, KPNQwest N.V. (KPNQwest), in which we held a 39.9% stake, filed for bankruptcy.

On 31st July, 2002, we sold 55% of the shares of KPN Netwerk Bouw B.V., our network construction unit, to Volker Wessels Stevin (VWS) for EUR 13.75 million. It is expected that VWS will acquire the remaining 45% on 1st January, 2005.

On 13th February, 2003, we sold our telephone directory business, Telefoongids Media B.V., formerly known as TeleMedia Nederland B.V., to a syndicate led by 3i Group plc and Veronis Sulher Stevenson for EUR 500 million.

On 28th February, 2003, we sold our 16.33% participation in Ukrainian Mobile Communications for USD 55 million.

On 25th April, 2003, we finalized the sale of the assets and activities of KPN Belgium and of our Belgian Internet provider, Planet Internet Belgium, to Scarlet Telecom.

On 5th May, 2003, we acquired 51% of WiFi provider HubHop. On 31st December, 2003, we acquired the remaining 49%. HubHop offers fast wireless Internet connections in public venues in the Netherlands.

On 16th June, 2003, we sold our direct stake (6.48%) in the Czech telecommunications provider Cesky Telecom to Credit Suisse First Boston for EUR 223 million. On 8th December, 2003, we completed the sale of our indirect stake in Cesky Telecom for EUR 347 million. We no longer have an interest in Cesky Telecom.

On 1st November, 2003, we sold our repair activities to Teleplan International NV.

On 1st December, 2003, the shareholders of the international satellite company Inmarsat accepted the offer by Grapeclose Limited for all of the issued share capital of Inmarsat. Xantic (owned 65% by us and 35% by Telstra of Australia) received approximately USD 88 million (EUR 70 million) in proceeds from the sale of its shares in Inmarsat on 31st December, 2003.

On 29th December, 2003, we sold our remaining 30% interest in KPN Lease to De Lage Landen.

Recent developments

On 17th February, 2004, we sold our stake in Eutelsat S.A., one of the world's leading satellite operators and based in Paris for an amount of EUR 73 million.

In February 2004, we swapped the EUR 1.5 billion Eurobond 1998 - 2008 and the EUR 280 million Eurobond 2001–2008 (GBP 175 million) from fixed interest rates (4.75% and 7.9% respectively) into floating interest rates. After these transactions, the fixed/floating ratio equalled approximately 72% fixed and 28% floating. Combined with the interest rate swap on the EUR 280 million Eurobond 2001–2008 (GBP 175 million), we also rehedged the swap on the Euro/GBP cross currency rate, which resulted in a higher net debt of EUR 17 million.

As a result of efficiency measures and the introduction of new technologies, approximately 800 jobs will be lost from KPN's Fixed division in 2004. The largest part of the reduction, approximately 500 jobs, will be realized through natural attrition. The bundling of marketing and sales activities at the head office will result in some 300 compulsory redundancies. Costs amount to approximately EUR 20 million.

During the period 11th March through 31st March, 2004, we purchased 45.7 million shares (for an average price of EUR 6.32) for an aggregate amount of EUR 289 million.

On 2nd April, 2004, we received an amount of EUR 31 million in connection with the sale of our stake in PTC, a Hongkong based operator.

At the Annual General Meeting of Shareholders of KPN held on 15th April, 2004, a dividend for the 2003 financial year of EUR 0.25 per ordinary share (resulting in a total dividend amount of approximately EUR 611 million) was approved. This dividend amount of EUR 0.25 per ordinary share comprises a dividend of EUR 0.12 and an additional special dividend of EUR 0.13.

On 15th April, 2004, we announced that, with respect to the expected first quarter results for 2004, the first indications were that such results will be approximately in line with our expectations.

B. Business Overview

Introduction

We offer telecommunications services to both consumers and business customers. Our core activities are telephony and data services through our fixed network in the Netherlands, mobile telecommunications services in Germany, the Netherlands and Belgium and data services in Western Europe. We are the market leader in the major segments of the Dutch telecommunications market. Through E-Plus in Germany and BASE in Belgium, we hold the number three position in the mobile market in these countries.

At the end of December 2003, we had 7.7 million fixed-line subscribers and 1.5 million Internet customers in the Netherlands and 14.7 million mobile customers in the Netherlands, Germany and Belgium. As of the same date, we had 32,736 employees.

Business Segments

Fixed division

Our Fixed division consists of Fixed Networks and Business Solutions.

Fixed Networks

Fixed Networks comprises our fixed-line voice services (wholesale and retail) and our Internet Service Providers (ISPs): Planet Internet, Het Net and XS4ALL. Our Fixed Telephony business unit provides access services to business and residential customers. Our business unit Carrier Services provides interconnection and other wholesale carrier services. We also own 50.78% of SNT, a company that delivers Customer Relationship Management (CRM) services.

Other units within Fixed Networks are Fixed Network Operator (customer equipment installation and service provider) and two distribution channels: External Distribution (through business partners) and KPN.com (our Internet distribution channel).

FIXED TELEPHONY

Fixed Telephony includes access services through analog and digital lines and local, national long-distance and international calling services, as well as calls to mobile and Internet service providers. Fixed Telephony targets both residential and business customers. Our network connects over 85% of households in the Netherlands.

Access services

We are the largest provider of fixed-line telephony services in the Netherlands. As of 31st December, 2003, we supplied approximately 7.7 million connections to customers, including 1.6 million ISDN connections. Our access services include providing homes in the Netherlands with public switched telephone network (mainly analog) lines (PSTN lines), ISDN (digital) access lines, ADSL access lines and various supplementary services. ADSL access services are provided by our ISPs. ADSL access revenues are accounted for partly by our ISPs and external ISPs and partly by our IP Services business unit, which is part of Business Solutions.

PSTN lines are connected to our network through digital exchanges. Each PSTN line provides a single telecommunications channel. In addition, we offer ISDN access lines with two, 15, 20 and 30 channels. Unlike a PSTN line, ISDN allows a single access line to be used for a number of purposes at the same time, including voice, video telephony, data, Internet and facsimile transmission. ISDN also provides higher quality voice connections and a larger bandwidth, which increases the overall capacity of the access network.

Value-added services

We are continuing to develop new, value-added services and we focus increasingly on customer care. We have also responded to changing usage patterns by offering services in the Netherlands that integrate fixed, mobile and Internet services, such as voicemail, call waiting, call forwarding from fixed to mobile phones, calling line identification and automatic call back features when the line is busy. Services also include tailor-made business packages, number portability, multimedia kiosks, billing for 0900 paid information services provided by other operators, reduced rate numbers, on-line access to telephone bills and Internet call alert (BelBericht), signaling calls if a line is in use for Internet.

We have introduced discount packages for the residential and business markets, combining call bundles with discounts. Three discount packages for the residential market offer 100, 200 or 300 local/national minutes subject to certain restrictions (in particular, the call credit can only be used in the evenings and during the weekends) at a flat fee and a discount on calls that are excluded from the bundle. The discount package for the business market gives customers a call bundle ranging from EUR 20 to EUR 1,000 per month, with discounts of up to 25% depending on the call category and the call bundle. It is expected that the discount packages for the business market will increase our competitiveness in the business market segment, customer loyalty and our market share.

In 2002, we fully implemented a wholesale Internet originating service, which offers Internet Service Providers the possibility of billing their customers directly for the time spent on our network. We have

retail and wholesale originating access services that use a special prefix (0676) for Internet access in order to accommodate special tariff plans, to relieve pressure on our exchanges and to allow Internet traffic to be handled more efficiently. In addition, we intend to introduce further products and services based on our DSL broadband platform, which are designed to be attractive to both ISPs and end users. We aim to connect as many ISPs as possible to our network so that our customers have a wide choice of service providers, while at the same time offering ISPs a large potential customer base, a strong supporting brand and low costs due to economies of scale. ADSL access revenues are accounted for partly at our and external ISPs and partly at our IP Services business unit.

Calling services

As a result of the liberalization of the telecommunications market in the Netherlands, telephone customers are free to choose providers either through carrier pre-selection, which allows the user to select a carrier to handle any domestic local (from 1st August, 2002) and long-distance or international call on a default selection basis, or through carrier selection, which allows the user to select a carrier on a call-by-call basis by dialing the carrier's numeric prefix before dialing the telephone number. We have responded to the challenge posed by our competitors by introducing discount packages and what we believe to be innovative, customer-oriented products and services.

Traffic

We market:

- Local telephony traffic: call minutes from calls within a call area or to the adjacent call area, including call minutes for dial-up to ISPs.
- Domestic long-distance traffic: call minutes from calls between customers in different local call areas in the Netherlands.
- Fixed-to-mobile traffic: call minutes from one of our fixed lines to a mobile telephone.
- Outbound international traffic: call minutes from international calls by direct dialing.

Tariffs

Our tariffs for fixed-line voice telephony services are subject to regulatory approval. Under the regulatory framework that applies to the Dutch telecommunications sector, these tariffs will continue to be subject to regulation for as long as the Dutch regulator designates us as having significant market power. In 1999, tariffs for our public fixed-line voice telephony services became subject to a price cap regime. In 2001, the Dutch regulator ordered us to increase the price difference between our wholesale and retail prices. This led to a new tariff structure for local traffic, whereby the call setup charge was reduced and the price per minute was increased. In 2002, we were allowed to raise both our traffic and subscription tariffs by 4.5%, on 1st August and 1st September, respectively. On 1st July, 2003 we increased both the call setup charge and traffic charges by 3.5%.

Connection and subscription fees

These revenues consist principally of monthly subscription fees charged bi-monthly to customers for providing access lines, as well as one-time initial connection fees. Total net sales from connections, for which we charge a one-off connection fee and subscriptions, depend on the number of new connections and customer lines, the percentage of 'do-it-yourself' packages (which have lower fees), the mix of the customer base (fees for digital lines are higher than for analog lines) and fees charged for our services. The level of monthly subscription fees is higher for ISDN access lines than for standard analog access lines. In 2002, we changed our billing policy to a policy that requires all subscription fees be paid in advance. In 2003, we introduced discount packages for the residential and business markets. Charges, connection and subscription fees are subject to regulatory approval. As described above under 'Tariffs', we were allowed to raise both our traffic and subscription tariffs in 2002. Following a reduction by each of

the Dutch mobile operators of their mobile terminating access tariffs, we reduced our fixed-to-mobile tariffs on average by 17% as of January 2004.

Traffic charges

All traffic charges are based on per-second charges plus a call setup charge. Prices are set according to the distance called, the time of day and whether the day is a business day, a weekend or a public holiday and whether the customer preselected the number dialed as a reduced rate number.

Competition

Primarily due to the early liberalization of the telecommunications sector in the Netherlands, we believe that our home market has become one of the most competitive telecommunications markets in Europe. Carrier select and carrier preselect operators are very active in the Netherlands. Our major competitors in this field are Tele2 and Scarlet, which target the residential and small and medium-sized business markets. Several fixed operators (for instance Versatel, BT Netherlands and MCI (formerly known as WorldCom) are also active in the Netherlands with their own networks. They focus mainly on business customers and offer a wide range of services, from voice to data/IP and bandwidth services. During 2003, we and other operators such as Colt and Versatel, gradually introduced VoDSL in the Dutch telecommunications market. An increasing number of Dutch households (estimated by us to be approximately 8% at the end of December 2003) use mobile-only solutions.

Distribution and sales

Fixed telephony uses a variety of sales and distribution channels, including KPN.com (our Internet distribution channel) and our retail stores, part of our Other activities, for residential customers. Business customers are mainly serviced through KPN Sales, supported by our own dedicated sales teams.

CARRIER SERVICES

We are the leading provider in the Netherlands of interconnection and other wholesale carrier services to third party telecommunications companies. Our Carrier Services business unit provides national and international carrier and network access and other services for the wholesale market. The three principal activities are national wholesale services, international wholesale voice services and local loop services.

National wholesale services

We offer access and interconnection in the Netherlands and transit services in the Netherlands and abroad to numerous telecommunications companies, including other international, national and regional fixed-line operators, mobile telecommunications operators, carrier select operators and ISPs. Carrier Services provides Main Distribution Frame (MDF) access services to the market. MDF access services are also provided by Carrier Services as a semi-finished product internally to IP Services (part of Business Solutions), which sells ADSL products.

We offer a comprehensive range of network access services that give other telecommunications companies access to our fixed telephony network, including:

- Terminating services. Callers from other telecommunications operators' networks calling users of our fixed telephone network.
- Originating services. Carrier preselect and carrier select operators have access to calls originating on our network. We also offer callers on our network interconnection with premium rate numbers (with prefixes of 0800 or 0900) and pagers or virtual private networks.
- Internet-originating services. We provide these services to ISPs, allowing them (through the use of dial-up numbers with the 0676 prefix) to bill their customers directly for their Internet airtime usage.

- Transit services. We route incoming and outgoing national and international calls between other telecommunications operators' networks, for example mobile telecommunications operators, through our network.

International wholesale voice services

We are an internationally active network operator specialized in wholesale international telecommunications services. These global switched services include international voice transmission handling, transit through our network of international calls from one foreign network to another (voice hubbing), wholesale freephone services and solutions for mobile operators. We are expanding our entire portfolio by introducing new services throughout Europe. Most of these services are based on the European voice platform developed by us, which utilizes transmission services supplied by KPN EuroRings.

Local loop services

These services include MDF access and MDF co-location. Competing telecommunications operators may request a connection through our main distribution frame to their customers. We have been offering main distribution frame access since 1st June, 2000. We offer line sharing as part of the MDF access portfolio.

Tariffs

Wholesale tariffs are subject to regulatory approval. We believe our wholesale tariffs for terminating services are among the lowest in Europe. Our wholesale tariffs for originating services approximate the average tariffs of our competitors. In 2001, we were required to increase the difference between our wholesale tariffs and end-user tariffs. This led to a substantial reduction of approximately 25% in our wholesale tariffs.

Competition

National wholesale services and local loop services are regulated, due to our significant market power in this market. International wholesale voice services are not regulated. Our main competitors in this area are international telecommunication companies, including AT&T, MCI (formerly known as WorldCom), Deutsche Telekom and France Télécom.

Distribution and sales

Our wholesale carrier services business supplements the efforts of our distribution channels with their own dedicated sales teams.

OTHER UNITS WITHIN FIXED NETWORKS

Other units within Fixed Networks include SNT (customer relationship management provider), the ISPs Planet Media Group and XS4ALL, Fixed Network Operator (customer equipment installation and service provider) and the distribution channels External Distribution (through business partners) and KPN.com.

SNT

Our 50.78% owned and fully consolidated subsidiary SNT provides Customer Relationship Management (CRM) concepts for clients. Management information, which clients can use to further shape their marketing strategy and build up lasting relationships with customers, is distilled from these customer contacts using data mining technologies. SNT provides services to millions of consumers annually in the Netherlands, Belgium and Germany. SNT consists of three companies: SNT Netherlands, SNT Belgium and SNT Germany. Within SNT Netherlands, the market research bureau Interview-NSS operates under its own name.

In 2003, SNT transferred all its Scandinavian assets and operations to a new alliance company Excellent-SNT in exchange for 24% of the shares in the alliance company. A similar structure has been set up for the French operations, resulting in an interest of 30% in the new French alliance company VITALICOM. In February 2003, SNT and Capital One signed an agreement covering a long-term collaboration in Europe. We believe that the strong position of SNT in the Dutch and other European markets will enable us to grow further in these markets.

Internet Service Providers

Our ISPs comprise Planet Media Group and XS4ALL. As of 31st December, 2003, we had the most registered ISP subscribers in the Netherlands. Planet Media Group consists of two ISPs: Het Net and Planet Internet. Our strategy is focused solely on the Netherlands. We are building on our existing customer base and on the strength of our brand names in the Netherlands.

Fixed Network Operator

Our Fixed Network Operator operates and maintains our networks. Revenues of the Fixed Network Operator unit are primarily generated internally.

Tariffs

SNT charges customers on the basis of subscriptions or transactions. We charge our customers a monthly subscription fee for Internet use. Additional services are charged per service. Technological developments are putting prices under pressure.

In September 2001, we ceased offering free Internet access in the Dutch market. We migrated customers from subscription-free to paying services and broadband. All our ISP customers are now paying Internet subscribers. Through the Internet-originating services offered by Carrier Services, we changed the business model for our own ISPs and other ISPs from a terminating model to an originating model, whereby the use of the infrastructure is charged to the customer through the ISP.

Competition

Competition in the ISP market remains strong. Our main competitors in the ISP market are: Chello, Tiscali, Wanadoo and Zonnet.

Technological developments in CRM are putting CRM prices under pressure. Nevertheless, we believe that SNT is well positioned in the Dutch and other European markets and has a solid foundation for further growth. Our main competitors in the CRM market include Teleperformance (France), ClientLogic (Canada), Sitel (US), and Stream (US).

Distribution and sales

KPN.com is our Internet distribution channel, which helps to generate sales and provides information to customers. We use the Internet as a low-cost alternative distribution channel for our retail and business products and services.

External Distribution acts as an agent for the sales and distribution of Fixed Network Services through external sales channels. It is essential for some of our business units to promote sales of their products and services through third party retailers and dealers. Business operators in telecommunications related industries (IT software and hardware) are expanding their portfolios with telecommunications products and services.

Business Solutions

Business Solutions comprises our data/IP services, which we mainly sell in the Dutch market and through our KPN EuroRings unit in Western Europe. We believe that we are the leading provider of data/IP connectivity services in the Dutch corporate market in terms of revenues.

The demand for secure, high quality bandwidth data transmission is driven by:

- liberalization of the telecommunications market in Europe, resulting in declining prices;
- technologies allowing easier broadband access;
- development of end-to-end solutions using managed high-quality and high-bandwidth applications;
- digitization of the business environment, leading to demand for higher capacity leased lines; and
- growth of intranet and extranet applications.

We provide business customers access to reliable, high capacity bandwidth, using our CityRings and Lambda networks. Our CityRings network is located in and around the main cities of the Netherlands. We believe that our Lambda fiber optic network in the Netherlands, which is jointly used by all of our business segments, will enable us to respond quickly to future changes in capacity demand. The Lambda network is an important part of our data/IP backbone and is connected to the EuroRings fiber optic network and our CityRings network.

Business Solutions currently comprises the following units:

TRANSMISSION SERVICES (TS)

The TS business unit provides a range of transmission services to our other units and to third party operators, as well as semi-manufactured components used in our other business units and divisions. Leased or private line services (analog and digital lines in several bandwidth categories) and value-added network services are provided to businesses that wish to build their own networks.

IP SERVICES (IPS)

This business unit provides xDSL services, which are targeted at corporate clients and Internet Service Providers. The activities of IPS are structured in the business lines Wholesale Access & Connectivity Services (WACS), Ecapacity (business xDSL) and Broadband Networks (LAN-i/IAS). The service portfolio of WACS is based on access networks and backbone or connectivity networks, mainly offered to ISPs for ADSL. Ecapacity includes business xDSL services for business customers. Broadband Networks offers Internet Access Services to medium-sized businesses in connection with other services.

INTEGRATED SOLUTIONS (IS)

The IS business unit sells all-inclusive business solutions packages to corporate clients based on the one-stop shopping concept. Revenues are generated based on fees charged for component parts of services offered (e.g., data communication and private network services) and consulting services fees based on the amount of time spent.

OTHER UNITS WITHIN BUSINESS SOLUTIONS

Other units within Business Solutions include:

Managed Application Services (MAS)

This unit provides applications to customers in a joint effort with partners such as PeopleSoft, Oracle and SAP, as well as e-business services, consulting services and housing and hosting services.

KPN EuroRings

This unit commenced operations in January 2003 and provides international connectivity services based on our KPN EuroRings portfolio. The KPN EuroRings networks consist of fiber optic networks in the Netherlands, Germany, Belgium and the United Kingdom. Furthermore, KPN EuroRings has expanded its network in Europe by obtaining Indefeasible Rights of Use (IRUs) or lease rights in several cities and parts of Europe, including the Northern region of France, Lyon, Luxembourg, Vienna, Milan, Barcelona, Madrid, Dublin, Copenhagen, Helsinki, Stockholm, Oslo, Zurich, Geneva, Prague, Bratislava and Budapest. This unit also conducts transit activities through our submarine cable assets and our 100% stake in Infonet Nederland. We are the exclusive distributor of Infonet Services Corporation's portfolio in the Netherlands. Through Infonet Nederland we offer worldwide connectivity services that cannot be covered by the current EuroRings portfolio.

Tariffs

Pricing for data transmission and connectivity services is provided under monthly subscription fees based on the amount of capacity or functionality provided, and for leased lines based also on the communication distance. For a limited range of services pricing is provided under traffic fees, some of which are flat fees. Customers are typically billed for capacity made available to them on a monthly basis. We offer various levels of quality and functionality in our services and this is reflected in our rates. The leased line business is almost completely regulated and service fees are therefore based on prescribed cost-based calculations as stipulated by the Dutch telecommunications regulator (OPTA). For other services, including value-added networks, we compete on the basis of service quality. The market for broadband services is very competitive. The increasing migration of customers to higher bandwidth services has resulted in lower prices for leased lines and frame relay connections. The international connectivity services and the national broadband business are being negatively affected by overcapacity, which has contributed to declining prices since 2002.

Competition

We believe we are the leading provider of data/IP services in the Netherlands in terms of revenues. In the Netherlands, we have constructed several networks to assure the efficient handling of the rapidly increasing demand for larger volumes of data communications. These networks will use capacity available on our Lambda network. International offerings are primarily based on our international network of KPN EuroRings. We have many competitors in the data transmission services market, such as BT Ignite, MCI (formerly known as WorldCom), Colt, Enertel and Versatel. Our competitors are investing in the construction of backbone infrastructure in the Netherlands and in building local networks in large Dutch cities, comparable to our CityRings network. Our competitors offer services ranging from digital leased lines to value-added network services. In 2003, competition on IP-based connectivity for the business market further intensified. The international portfolio, in particular, is competing in a market with excess capacity and, consequently, declining prices.

Distribution and sales

Distribution and sales of our data/IP Services are mainly done through KPN Sales and dedicated sales teams for corporate and business clients. Integrated Solutions has consultants that integrate data/IP Services with custom-made programs for customers.

Mobile division

We are a mobile telecommunications provider in Germany, the Netherlands and Belgium. In 2003, we succeeded in increasing our customer base by 9.1% to 14.7 million as of 31st December, 2003.

In Germany, we are the third largest mobile telecommunications provider with 8.2 million customers as of 31st December, 2003, representing an estimated market share of approximately 12.7%. The two largest mobile telecommunications providers together have an estimated market share of 80.0%.

In the Netherlands, we are the largest mobile telecommunications provider with 5.2 million customers, representing an estimated 40.2% share of the total Dutch mobile telecommunications market as of 31st December, 2003.

In Belgium, we are the third largest mobile telecommunications provider and we were the first to provide DCS 1800 services in Belgium. BASE had 1.3 million customers as of 31st December, 2003, representing an estimated market share of 15.0%. There are two other Belgian mobile telecommunications providers.

We provide mobile telecommunications services ranging from standard voice services and value-added services (such as call waiting, call forwarding, voicemail and short text messaging services (SMS)) to advanced data applications. We expect person-to-person communication services (such as voice, SMS and e-mail) to remain the main source of revenue for mobile operators in the coming years, while mobile multimedia services will increasingly become a differentiator in mobile operator offerings:

- Usage of information, entertainment and mobile commerce services will gradually increase and gain mass-market acceptance in future years.
- Growth will come increasingly from encouraging our existing customers to use progressively more advanced data services, as well as from improving the quality of the customer base and increasing our market share in Germany and Belgium. Our goal is to be one of the leading providers of mobile communication services.
- In future years, we expect that the introduction of UMTS based services will accelerate the use of new dedicated data services. We have committed substantial resources to the development of new services and applications for mobile telecommunications users, including the commercialization of UMTS.

An increasing number of consumers are becoming mobile-only users, reflecting a growing trend that will lead to further usage of mobile networks at the expense of fixed networks.

i-mode

Pursuant to license agreements with NTT DoCoMo, we began introducing i-mode services in Germany in March 2002, in the Netherlands in April 2002 and in Belgium in October 2002. i-mode users have access to numerous mobile multimedia services via an attractive, user-friendly terminal with a large color display and high-quality sound. The i-mode services consist of communication, information, and entertainment and transaction services on so-called content sites, especially provided for i-mode. Some of our major i-mode content partners are CNN, Disney, Dow Jones, Sony, Financial Times Deutschland, E-Bay and Atari. Ring tones, games and news are currently the favorite i-mode services.

Besides access to multimedia services, i-mode also provides an e-mail service (i-mail). The second-generation i-mode handsets, introduced in the summer of 2003, support Java, the exchange of multimedia attachments via MMS or i-mail, and an integrated camera (optional). We plan to continuously enhance our i-mode services. Next steps include the support of video services (video download, video messaging and streaming video) and video telephony. UMTS will enhance i-mode services with faster access, richer content and more services (such as video telephony).

We closely coordinate with other i-mode operators, which include NTT DoCoMo of Japan, KGT of Korea, Telefónica Moviles of Spain, Wind of Italia, Bouygues of France and Cosmote of Greece (as of May 2004). The coordination covers several business areas, including marketing, content development and handset sourcing, as well as the sharing of learning experiences and quality insurance.

As of 31st December, 2003, we had 868,000 i-mode customers (including 622,000 postpaid customers) in the three core markets in which we operate. Industry sources indicate that the total number of i-mode customers worldwide was approximately 42 million as of 31st December, 2003, of which 40.3 million were in Japan.

Germany

On 24th February, 2000, we acquired a 77.49% interest in E-Plus. On 13th March, 2002, BellSouth converted its 22.51% indirect interest in E-Plus into 234.7 million of our ordinary shares. As from this date, we obtained full control over E-Plus. Accordingly, all information concerning E-Plus in this section reflects all of E-Plus' business, even though we indirectly owned only 77.49% of E-Plus during the period from 24th February, 2000 to 13th March, 2002.

Reflecting the growth of the mobile market in Germany and increased market share for E-Plus, the customer base of E-Plus increased to over 8.2 million at year-end 2003. In 2002, our focus on more profitable postpaid customers led to a significant decrease in the prepaid customer base, resulting in a customer base of about 7.0 million by mid-2002. A balanced growth strategy, with a focus on both profitability and market share, succeeded in attracting new customers. With more than 8.2 million customers in Germany, representing an estimated market share of approximately 12.7% as of 31st December, 2003, E-Plus is continuing to strengthen its position as the number three operator in the German market based on revenues and customer base. E-Plus' network currently covers 98.7% of the German population. The number of prepaid customers as of 31st December, 2003 was approximately 4.3 million, while the number of postpaid customers as of the same date was approximately 3.9 million, representing a 47.2% share of the total customer base.

We acquired one of six UMTS licenses in Germany for approximately EUR 8.4 billion on 31st August, 2000. E-Plus plans to develop the network components required to utilize the frequencies made available under the license. In June 2003, E-Plus acquired 3,727 UMTS sites from MobilCom Multimedia GmbH. Of these sites, 942 were already equipped.

By the end of 2003, E-Plus had over 12,000 GSM network base stations covering approximately 73.7% of the country (and 98.7% of the population). To be on a par with the competition, E-Plus refocused on its rollout activities, launching an extensive GSM program in 2003. E-Plus also expects that improvements in GSM indoor coverage will contribute to profitable growth. At the end of 2003, E-Plus also had integrated approximately 1,000 Node Bs (UMTS sites) into its network. The UMTS pilot networks are installed in Berlin, Hanover, Munich and Düsseldorf/Duisburg. E-Plus plans to launch our UMTS services only once they meet their standards with respect to quality of network, devices and services. E-Plus expects to commercially launch UMTS services in the second half of 2004.

Products and services

In addition to standard mobile telecommunications services, E-Plus offers a wide range of value-added mobile voice and data products and services, together with fixed and mobile Internet applications.

In March 2002, E-Plus was the first operator in Europe to introduce i-mode services. As of 31st December, 2003, E-Plus had 440,000 i-mode customers. The fast growing handset portfolio is accelerating the rate of i-mode adoption. i-mode prepaid services were launched in November 2003, and are expected to contribute to further growth in the number of i-mode users.

In April 2003, E-Plus launched a successful new image campaign. The TV-campaign had the highest advertising recall rates for E-Plus to date. The campaign was characterized by a focus on brand values and services.

In May 2003, E-Plus also introduced the E-Plus online data tariffs. These data tariffs, with their highly competitive pricing, have helped accelerate the acceptance of mobile data usage.

E-Plus currently offers a broad range of mobile voice and data communications services in the German market under the brand name E-Plus and is playing a leading role in introducing innovative products and services in that market. E-Plus offers its customers the ability to use mobile telecommunications services outside of Germany in approximately 137 countries and, as of 31st December, 2003, had signed international roaming agreements with 248 mobile telecommunications providers.

E-Plus has successfully introduced a number of promotional Jubilee Tariffs, such as 'Privat MU Jubilee' (no monthly fee; EUR 9.95 minimum turnover) and 'Time & More Jubilee' (1,000 free minutes during the weekend for E-Plus to E-Plus and E-Plus to PSTN) as a first approach to attract customers using fixed telephony services. These Jubilee Tariffs had a positive impact on subscriber growth and usage.

As part of our mobile data communication portfolio, E-Plus offers Wireless LAN as a complementary technology, enabling wireless broadband services in areas where mobility is not required or practical. The first hotspots were launched in January 2004. The WiFi offer was launched as a pilot in February 2004.

Tariffs

E-Plus offers a variety of tariff structures, both under monthly subscription fees and in a prepaid format. This also applies to i-mode services. Under our postpaid offerings, we offer bundled minutes at a discounted price per minute in return for a commitment to a minimum amount of minutes each month. For i-mode, we structured the pricing to be flat up to a usage threshold, beyond which the customer starts paying per data volume. For prepaid cards, we offer reloading of call credit by means of cash purchase, credit card or bank transfer. In all tariff plans, we have different tariffs per minute, depending on the time of the day or day of the week, in order to stimulate calls outside peak hours.

Competition

Four mobile network operators, all of whom have acquired UMTS licenses, are currently competing in the German mobile telecommunications market: T-Mobile, Vodafone, E-Plus and O2. Quam and MobilCom acquired the remaining two UMTS licenses in Germany. In 2002, Quam and MobilCom decided to suspend their UMTS activities. MobilCom has since returned its UMTS license to the German authorities.

We believe that, as of 31st December, 2003, T-Mobile and Vodafone together had an estimated market share of 80.0%. In addition, there are a number of independent service providers in Germany that package and sell the products and services of various network operators, either under the network operator's brand or re-branded as their own. Some of these service providers operate exclusively with one network operator, while others offer competing products and services. In all cases, the service providers sell to both the business and residential markets. The main service providers in Germany are Debitel, Talkline, Victor Vox and MobilCom.

In the mature and very competitive German market, the strategy of E-Plus is to offer competitive services and tariffs in order to grow its customer base further. Fixed-line tariffs are also considered in our pricing policies since fixed-to-mobile substitution is increasing in Germany.

Distribution and sales

We offer our services through our own chain of 140 shops. Apart from these, we offer our services through resellers and service providers, who may repackage our offers tailoring them to their needs. Among these providers are Debitel, MobilCom, Talkline and Alphatel. We also sell our products via our Internet website. For the business market, we also use these channels as well as a direct sales force.

The Netherlands

We were the sole provider of mobile telecommunications services in the Netherlands during the 1980s and the first half of the 1990s with our analog networks. In 1994, we began building our GSM 900 network and providing digital mobile telecommunications services.

The opening of the mobile telecommunications market to competition in 1995, the introduction of prepaid connections during December 1997 and the subsequent launch of three competitive new GSM networks between September 1998 and February 1999, in combination with reduced call charges per minute, led to significant market penetration and a mature mobile telecommunications customer base in the Netherlands. The mobile penetration rate in the Netherlands increased from 75% in January 2003 to 80% in December 2003. As of 31st December, 2003 we had a total of 5.2 million mobile customers, representing an

estimated 40.2% share of the mobile telecommunications market in the Netherlands. The number of prepaid customers as of 31st December, 2003 was 3.2 million and the number of postpaid customers as of the same date was 2.0 million, or 37.5% of our total customer base.

Our current network is based on both the GSM 900 and DCS 1800 standards, which are the dominant digital standards in Europe. We believe that we have the largest mobile network in the Netherlands, with more spectrum availability than any of our competitors (Vodafone, Telfort, Orange and T-Mobile). Our mobile network provides approximately 99.6% outdoor coverage in the Netherlands.

On 4th August, 2000 we acquired one of five UMTS mobile telecommunications licenses in the Netherlands for approximately EUR 711 million. In 2003, we began the rollout of our UMTS network. By the end of 2003, about 217 sites had been installed and approximately 334 were under construction. We plan to launch our UMTS services only once they meet our standards with respect to quality of network, devices and services. We currently anticipate that the commercial rollout of UMTS services in the Netherlands will begin in the second half of 2004.

The first step towards the introduction of data services on the UMTS network in the Netherlands consists of extensive pilots. For these pilots we are utilizing our UMTS network in large parts of the province of South Holland in addition to our GSM/GPRS network. The UMTS pilots will run for several months. They form part of our preparations for the broader market introduction of services over UMTS.

Products and services

In April 2002, we introduced i-mode services for postpaid subscribers. As of 31st December, 2003, we had 403,000 i-mode customers. In August 2003, we introduced Multimedia Message Services (MMS) and i-mode for prepaid subscriptions. Besides i-mode and MMS, we offer a range of standard and value-added mobile voice and data services, such as voicemail, SMS and call waiting. We also offer data and fax transmission, virtual private networks for business customers, and multimedia services. Our customers also have the capability of using mobile telecommunications services outside of the Netherlands in approximately 175 countries. As of 31st December, 2003, our Dutch operator had international roaming agreements with 234 other mobile telecommunications operators.

In the Netherlands, we expect to offer Wireless LAN services as part of our mobile data communication portfolio in the second half of 2004. A pilot is underway in which the mobile product Internet Everywhere (GPRS) is being offered in a package together with hotspot access. The growing demand for mobile data services, particularly those that implement the latest Internet technologies, is expected to lead to increased usage of mobile telecommunications. We have developed several innovative mobile data services, such as our EasyInfo information service, which allows users to receive news from CNN, and weather, traffic and share price information via voice messages or SMS, and our FaxMail service, which allows customers to receive and store faxes.

Other innovative products and services include Grip, which enables our business customers to integrate their fixed and mobile networks.

Tariffs

In the Netherlands, we offer our mobile services as a prepaid or postpaid proposition. The prepaid proposition is mainly based on traffic-based pricing. The postpaid proposition is based on a combination of a monthly subscription fee and traffic-based pricing. Under our postpaid offerings, we offer bundled minutes at a discounted price per minute in return for a commitment to a minimum amount of minutes per month. In 2003, prices for mobile services stabilized.

Competition

Our mobile operator competitors, all of whom have acquired UMTS licenses, are Vodafone, Telfort, Orange and T-Mobile. In addition, we signed wholesale service provider contracts with OneTel, Debitel and Albert Heijn. These contracts provide for the distribution of only non-branded wholesale packages by

these service providers. In 2001, Tele2 began offering mobile telecommunications services as a Mobile Virtual Network Operator (MVNO) using Telfort's network.

The strategy in the Dutch mobile market has historically focused on growth in customer base and market share. This strategy led to significant growth in the number of subscribers in both the prepaid and postpaid segments. This has been justified based on the positive prospects for the mobile telecommunications industry, including the rapid development of mobile data services. Gradually, however, there has been increasing pressure to deliver profitable growth. In addition, the market for mobile voice services is becoming saturated, accompanied by increasing competition and downward price pressures. As the market leader in a saturating market, our focus shifted in 2003 from customer acquisition to retention, while at the same time stimulating customer loyalty and usage of services.

We believe that our leading role in both the business and residential segments of the Dutch mobile telecommunications market is due to our well-known brands KPN and Hi, the quality of our network, our extensive distribution network, our commitment to customer care, and the introduction of a range of innovative products and services.

We have been designated as an operator with significant market power for mobile public telephone networks and services. As a result, we are required to meet reasonable requests for special access and to offer interconnection and special access in a non-discriminatory way.

Distribution and sales

In the Netherlands, we offer our services via KPN-branded sales channels dedicated to the main market segments, third party channels for both the consumer and the business market and our 86 Primafoon shops, one i-mode shop and 17 Business Centers (which shops are part of our Other activities). Wholesale services are provided to a few external service providers. For handling their customers' traffic abroad, we use roaming partners and we offer roaming services to foreign operators.

Belgium

The Belgian mobile telecommunications market offers growth potential for BASE, our mobile operator in Belgium. BASE launched its commercial operations in September 1999 and its prepaid service in November of the same year. BASE had approximately 1.3 million customers as of 31st December, 2003, representing an estimated market share of approximately 15.0% (2002: 14.4%, 2001: 13.0%). We re-branded KPN Orange as BASE in 2002. During the summer of 2003, BASE ran a large-scale repositioning campaign under the slogan 'Freedom of Speech', which caused spontaneous brand awareness to improve from 36% in May to 86% in December of 2003. At the beginning of the fourth quarter of 2003, BASE started to advertise with specific propositions and has since positioned itself as a low-cost operator with a transparent tariff structure, which is also competitive with fixed offerings. This provided the basis for an accelerated growth of the customer base over the fourth quarter of 2003. In that quarter the customer base increased by 7.7%. BASE's growth in net additions in 2003 amounted to approximately 10%, compared to 15% for 2002 and 20% for 2001. BASE's network currently covers more than 99% of the Belgian population. During 2003, indoor coverage improved from 81% to 91% after investing EUR 100 million in the GSM network during 2003. The number of GSM sites increased from 1,717 to 1,993. Also, most of the existing 1800MHz sites were extended with 900MHz antennas, giving extended coverage to these sites. As the third entrant to the market, BASE's first objective has been to build up network coverage, which we believe has now reached competitive levels.

In March 2001, we acquired one of the three UMTS licenses in Belgium for EUR 150 million. In September 2003, BASE successfully tested UMTS services at its site in Aartselaar and thus satisfied the first UMTS license requirement of the Belgian telecommunications regulator (BIPT). Pursuant to a license agreement with NTT DoCoMo in October 2002, BASE introduced i-mode services, which have also been available as prepaid services from November 2003. As of 31st December, 2003, BASE had 25,000 i-mode customers.

Products and services

BASE offers a portfolio of voice and data products and services focused on ease of use and supported by a clear tariff structure. In the course of 2003, BASE introduced i-mode to the Belgian market.

Tariffs

BASE offers prepaid and postpaid propositions. Characteristic of all propositions is the simplicity of the offer and the possibility of choosing flat rates, if preferred by the customer. BASE always invoices calls per second. For i-mode, customers pay a fixed rate excluding subscriptions on content sites. Postpaid propositions do not include a fixed monthly subscription fee. Instead, customers buy a package with a set number of minutes. Prepaid cards can be reloaded using a scratch card, ATM or credit card.

Competition

The other mobile operators in Belgium are Proximus and Mobistar. The shareholders of Proximus are Vodafone (25%) and Belgacom (75%). Orange owns a 50.79% equity interest in Mobistar.

Distribution and sales

BASE products and services are available at well-known nationwide retail chains like BelCompany, The Phone House, Expert, Carrefour, Mediamarkt and Cora as well as at our BASE shops and web channels. Currently, we operate approximately 40 BASE shops.

Other activities

During 2003, our Other activities included KPN EnterCom (which delivers, installs and services communications equipment for business customers), our international participations (Xantic, PanTel, Euroweb and Infonet), KPN Retail (Primafoon stores and Business Centers), Corporate Center (head office functions) and KPN Services (group services). Our Corporate Center and KPN Services mainly generate internal revenues.

KPN ENTERCOM

Through our EnterCom business unit, we provide a range of business communications solutions for the Dutch business market. We also sell a wide variety of voice communications equipment for use at customers' premises and offer complementary consultancy, implementation, outsourcing and maintenance and support services.

Our activities are divided into two separate companies:

- KPN EnterCom Solutions B.V., which designs, delivers and integrates voice and data communication solutions; and
- Telecom Management B.V., which manages integrated communication solutions.

KPN EnterCom Solutions has organized its activities into five business lines offering communication solutions:

- Voice for large business systems;
- Voice for small and medium-sized business systems;
- Specials, concentrating on solutions for special events, call centers and dealing and trading;
- Enterprise Networks, providing communication solutions for data, including Voice over IP (VoIP), network solutions and managed firewalls; and

- Cablecom, a strong player in the Dutch market for in-house cabling systems in the form of both voice and data communication, including Wireless LAN. For large enterprises with complex private cable networks, Cablecom offers on-premise maintenance, repair and network management services.

All business lines offer implementation, maintenance and support and consultancy services.

Telecom Management offers management and outsourcing solutions for telecommunications management and the infrastructure of organizations and 'Professional Services', consultants, implementation/project managers and specialists in management or technology.

Several of the largest companies in the Netherlands have outsourced their voice networks to Telecom Management. Since November 2002, Telecom Management has also been managing our voice network.

XANTIC

Xantic is the result of a merger between Station 12, SpecTec and Telstra Global Satellite. We hold a 65% interest in Xantic, the other 35% being held by Telstra Australia. Xantic offers a broad portfolio of solutions in the area known as CAT (Content, Applications and Transactions). Xantic is a leading satellite communications provider, delivering high-level information and communication technology and CAT oriented solutions for the business-to-business environment. Xantic is particularly strong in maritime oriented businesses. In December 2003, Xantic sold its 5.3% stake in Inmarsat, an international satellite company.

PANTEL

As the leading alternative choice for business customers in Hungary and a wholesale provider in the Central Eastern European region, PanTel offers a complete nationwide package of fixed-line telecommunications services (voice, data, Internet). We hold a 75.19% interest in PanTel.

EUROWEB

We hold a 50.2% stake in EuroWeb International Corp. EuroWeb is fully consolidated in our financial statements and is listed on Nasdaq. EuroWeb provides telecommunications solutions to the Central European corporate market via the Internet. EuroWeb clients include Central European governments, multinationals, insurance companies and various media enterprises. We intend to sell our stake in EuroWeb.

INFONET SERVICES

Infonet is a supplier of international network services, active in approximately 180 countries and listed on the New York Stock Exchange. Infonet provides international communication solutions for voice and data, electronic mail services and global network services, based on the one-stop shopping concept. We hold a 17.7% stake in Infonet Services Corporation.

CESKY TELECOM

Cesky Telecom, the incumbent operator in the Czech Republic, provides fixed and mobile services. The company is listed on the Prague and London Stock Exchanges. We held a direct interest (6.48%) and an indirect interest (13.8%) in Cesky Telecom, which we sold in 2003. Accordingly, we no longer have an interest in Cesky Telecom.

KPN RETAIL

Primafoon shops and Business Centers are retail stores where KPN's products are sold. The shops sell telephones, mobile and fixed communications as well as personal computers and facsimile machines.

As part of our restructuring program, we reduced the number of KPN shops from 187 at the end of 2001 (2002: 108) to 107 at the end of 2003. No further reductions are planned in the number of shops.

Research and development

On 1st January, 2003, the Dutch Organization for Applied Scientific Research (TNO) took over KPN Valley, which encompassed our research and development activities. The research activities have become the core of a new TNO institute, named TNO Telecom. Parts of other institutes, specializing in telecommunications and ICT, are expected to be added by TNO to this new institute.

We intend to maintain and develop further our relationship with TNO Telecom. We wish to benefit from the telecommunications knowledge that will be acquired by TNO Telecom in order to support the necessary innovations within KPN. Since we intend to remain a key client of TNO Telecom, a long-term contract with TNO has been signed. Under this contract, we have annual purchase commitments ending 31st December, 2006, with such commitments declining each year. The commitments amount to EUR 68 million in total.

Our research and development expenditures charged by TNO Telecom in 2003 totalled approximately EUR 23 million. Our research and development expenditures related to KPN Valley totalled EUR 32 million in 2002 and EUR 46 million in 2001.

Intellectual property

We pursue an active strategy aimed at developing and protecting our intellectual property rights. To protect these rights, we currently rely on a combination of patents, trademarks, service marks, trade secrets, copyrights, database protection, confidentiality agreements with our employees and third parties and protective contractual provisions. Our current portfolio of intellectual property rights consists of approximately 2,250 registered trademarks, 125 design right registrations and 330 patent families. We intend to invest in the growth of our intellectual property rights portfolio, to take steps to protect these rights, and to generate revenue from these rights where appropriate (for example, through licensing arrangements). KPN owns a number of patents that are essential for the commercial exploitation of telecommunication technology and services. A number of suppliers entered into license agreements with us on a number of these patents.

We may be subject to claims alleging that we have infringed upon third party intellectual property rights. Claims of this nature could require us to spend significant amounts of time and money to defend ourselves, regardless of their merit. If any of these claims were to prevail, we could be forced to pay damages, comply with injunctions or halt the provision of our services while we re-engineer them or seek licenses to necessary intellectual property, which might not be available on commercially reasonable terms, or at all.

Regulatory developments

European Union – New regulatory framework for electronic communications

In 2002, the European Union (EU) adopted a new regulatory framework for the electronic communications sector, which replaced the existing EU regulatory framework. The new framework consists of five principal directives, aiming at a further harmonization of regulation within the European Union, clear policy objectives to be pursued by national regulatory authorities (NRAs) and ‘technological neutrality’. The directives include regulation on licensing regimes, measures to be taken to protect consumers and ensure universal provision of certain telecommunications services, specific privacy regulation for electronic communication and the terms and conditions for access to networks and interconnection. The directives making up the main elements of the new regulatory framework were to be transposed into national law by 25th July, 2003, which date was not met in the three main countries in which we operate (the Netherlands, Germany and Belgium). We anticipate that the implementation will be effected during the course of 2004 in all three countries.

One of the most important changes to the previous framework is the alignment of thresholds for ex ante regulation with general competition law. It is also intended to ensure greater consistency of approach amongst NRAs within the Member States of the EU. When defining markets for potential ex ante

regulation, NRAs are required to take utmost account of the list of markets, which are specified by the European Commission in a Recommendation. NRAs may, with the Commission's consent, also propose markets not included in the Recommendation. The Commission will periodically review the Recommendation, with the first such review expected in June 2004.

Specific obligations can only be imposed on undertakings with an individual or collective significant market power (SMP) in the markets so identified. SMP under the new framework is consistent with the concept of dominance under general EU competition law. This generally implies a market share of at least 40-50%, with other factors to be taken into consideration. The SMP threshold under the existing EU regulatory framework required only a 25% market share and was applicable to markets predefined in the legislation. The obligations to be applied ('remedies') may vary and are expected to be the subject of further consultation during 2004. Ex ante regulatory obligations may only be imposed where there is no effective competition, i.e. in markets where there are one or more undertakings with SMP, and where competition law remedies are not sufficient to address the problem. Also, the imposition of a specific obligation on an undertaking with SMP requires a justification that the obligation in question is appropriate and proportionate in relation to the nature of the problem identified. The practical consequences of the new framework for us depend on how the directives are implemented, how NRAs apply the new rules and how the Commission seeks to interpret and harmonize the application of the new regulatory framework.

The modified directive concerning privacy and electronic communication contains amendments and additions to the existing directive that apply to matters like the use of location data in electronic communication networks and services and unsolicited communication (including spamming).

The Netherlands

The Telecommunications Act (the "Act") embodies the main telecommunications regulations in the Netherlands. The present Act is based on European rules introduced in the 1990s. In November 2003, the Lower House of Parliament (*Tweede Kamer*) adopted the legislative proposals for the transposition of the new European directives for electronic communication into national law. The amended Act is expected to become effective in the spring of 2004.

Certain requirements in the present Act apply to all operators of public telecommunication networks or telecommunications services, including the requirement to offer interconnection and number portability. In the current legislation, operators of fixed public telephony networks and fixed public telephony services, mobile public telephony networks and mobile public telephony services and leased lines which have been designated as having significant market power (generally a market share in excess of 25%) are subject to more stringent requirements. The most important of these are offering end users and other market players transparent and non-discriminatory access to their networks and services. Designated operators of fixed public telephony networks, fixed public telephony services and leased lines are also required to offer this access at cost oriented prices. Operators of mobile public telephony networks and mobile public telephony services are only required to charge cost oriented prices for interconnection if they have been designated as having significant market power on the national interconnection market with regard to fixed and mobile public telephone services together. In 2003, as in previous years, we were designated as an operator with significant market power in three markets: fixed telephony, mobile telephony and leased lines, but not on the national market for fixed and mobile telephony together.

The obligations imposed upon us under the current regulatory framework remain applicable (with a maximum period of 24 months) until the new regulatory framework is implemented and the NRA (OPTA) has executed its obligations to investigate the markets and decide on the designation of operators with SMP thereupon. If no SMP designation – based on the new European SMP concept in line with competition law dominance – were to follow on the market under investigation, the current obligations would be lifted. If a new SMP designation were to follow under the new regime, the obligations imposed would replace the existing obligations.

General anti-trust legislation in the Netherlands is embedded in the Competition Act and the EU Treaty. The provisions of the Competition Act are based on European competition rules. Netherlands Anti-Trust

Authority (NMa) enforces the rules in the Netherlands. Like the European Commission, the NMa may impose on companies that have breached competition laws penalties of up to 10% of their total turnover in the previous business year.

Fixed telephony – the Netherlands

We are required to charge cost oriented prices for fixed public telephone services, consisting of telephone lines, local telephone calls, national telephone calls, fixed-to-mobile telephone calls, standard telephone directory listings and the directory enquiries services. Determination of whether prices are cost oriented has taken place since 1st July, 1999 through a price ceiling system. Under this system, we had to reduce our prices by at least 5.3% each year, with the proviso that we were allowed to correct these prices for inflation. This price ceiling system was replaced by a system of safety caps, running from 1st July, 2002 until 1st July, 2006. Under this system, the prices of telephone lines, local telephone calls, national telephone calls and fixed-to-mobile telephone calls are allowed to rise only by the rate of inflation. Inflation for the first year, ending 30th June, 2003, has been pegged at 4.5%. For the period from 1st July, 2003 through 1st July, 2004, inflation has been pegged at 3.5%. In 2003, we raised our prices to the full extent permitted under this system.

Since 1st July, 2002, we have been obliged to allocate our wholesale specific costs to our retail traffic on a proportionate basis. This includes the costs of wholesale billing and the Carrier Services organization, wholesale interest on billable amounts receivable and costs directly attributable to carrier preselection. This measure is part of the integration of the systems that regulate our end-user and interconnection prices.

In October 2002, OPTA published a consultation document regarding the development of an integrated regulatory framework for the floor of our end-user prices. Although the policy proposals set forth in the consultation document held out the prospect of improving, to a certain extent, our ability to introduce tariff packages and call bundles, as in neighboring countries, we informed OPTA that, in our view, the terms and conditions of the tariff regulation were still far too rigid. However, in August 2003, OPTA relinquished its policy proposals and decided that in view of the uncertainty entailed in the introduction of the new regulatory framework, the present price squeeze guidelines and system for examining discounts would remain unchanged. In its decision, OPTA considered that our competing retailers might be forced out of business if OPTA were to relax the current lower limit tariff regulation. In line with this decision, OPTA rejected a number of tariff packages and call bundles proposed by us. In all cases we appealed OPTA's decisions, which appeals remain outstanding.

Some fixed operators significantly increased their terminating fees in 2002. We have filed notices of disputes with OPTA citing three operators, Priority, UPC and Versatel, which in our view are charging unreasonably high fees. Following this step, OPTA published policy guidelines setting out how it will scrutinize the fairness of fixed terminating fees of non-designated operators. By way of a guideline for a maximum fair fee, OPTA considers it reasonable to phase in for other operators the fees applicable to the designated operator (KPN) with a delay of three years. However, if an operator charges a terminating fee that is higher than our own terminating fee, we retain the ability to pass on the surplus to our retail customers by differentiating our end-user prices. In its 18th November, 2003 decisions, OPTA confirmed its earlier decisions ruling that the terminating fees of the three operators were unreasonably high and must be lowered to the maximum level set out in the policy guidelines. We have appealed this ruling before the Rotterdam District Court because we take the view that call termination rates, which are not reciprocal to our call termination rates, will distort competition even if end-user prices are differentiated.

INTERCONNECTION

The prices we charge competitors for the use of our fixed network must be cost oriented. This is examined once a year and, no later than 1st July each year, OPTA sets the prices we may charge in the coming twelve months. The cost basis deemed to exist for a hypothetical efficient operator is used as the yardstick for cost oriented prices for the terminating access service.

This cost basis has been modelled on the 'Bottom-up Long Run Incremental Costs' (BU-LRIC) cost allocation model. Our actual cost basis is taken as the criterion for prices for originating access services

(special access) and unbundled access services. The Embedded Direct Cost (EDC) model is used to allocate these costs.

As part of the ongoing integration of the systems used to regulate the prices of our end-user and interconnection services, OPTA had the intention of introducing a multi-year tariff regulation system for interconnection and special access offered by us, designed to give both us and other market players certainty for a prolonged period and to give us an extra incentive to improve efficiency. Based on continuing new insights, the uncertainty entailed in the introduction of the new regulatory framework, the responses to OPTA's policy plans and the unpredictability of traffic volumes, OPTA decided not to go ahead with its plans for the time being and to maintain the current wholesale tariff regulation regime for the period from 1st July, 2003 through 1st July, 2004.

Within that context, OPTA decided, on 24th July, 2003, not to approve the cost allocation system submitted by us to determine the tariffs applied by us for the terminating access, originating access and unbundled access services. In its decision, OPTA listed the tariffs that would apply if we had submitted the cost price allocation in accordance with OPTA's instructions, requiring us to reduce the tariffs payable by other operators for traffic terminating on our network by 5%, to reduce the wholesale tariffs for calls originating in our fixed network by 10%, and to reduce the tariffs for various unbundled access services by 30% on average. As we do not agree with OPTA's cost calculation method, we have lodged an objection against this decision. We also filed a request for injunctive relief with the President of the Rotterdam District Court, but on 9th October, 2003, the request was dismissed. We will now await OPTA's ruling on our objections. If OPTA's ruling is upheld, we estimate that the ruling will reduce our annual revenues and operating profit by approximately EUR 35 million.

UNBUNDLED ACCESS

We are required to provide our competitors (including our own services and our associated companies) with full and shared unbundled access to our local copper loops on fair, transparent and non-discriminatory terms and at cost-oriented prices. We must also allow a new entrant to co-locate its own network equipment. Within the context of a dispute referred to OPTA by Tiscali, OPTA has ruled on periodic co-location prices (rent and electricity). Based on a comparison with commercial real estate prices for 'ordinary' business accommodation, OPTA has set the prices at approximately 10% of our original prices. We lodged an objection, but in March 2003 the claim was dismissed. Both KPN and Tiscali have appealed this ruling before the Rotterdam District Court.

In its 11th March, 2003 decision, OPTA imposed a EUR 375,000 fine on us for violating a prohibition on discrimination in providing unbundled access to part of our company that offers DSL services on behalf of KPN as well as competing providers of DSL services. Our business unit is said to possess details of our subscribers that allowed it to place orders for unbundled access lines easier and more accurately. OPTA holds this to be at the disadvantage of competing operators because they lacked the same details. We filed an objection against this ruling, but in November 2003 the claim was dismissed. We have appealed this ruling before the Rotterdam District Court. In another decision of 19th December, 2003, OPTA imposed a EUR 90,000 and a EUR 180,000 fine on us for violating the obligation to charge cost-oriented prices and the prohibition on discrimination in providing unbundled access to competing providers of DSL services, respectively. We have submitted a notice of objection to this ruling.

BITSTREAM ACCESS

OPTA imposed a penalty-carrying order on us requiring us to submit to OPTA an offering for a bitstream access service. According to OPTA, this service falls under the definitions of special access and leased lines. OPTA is of the opinion that we are breaching non-discrimination rules by providing the service to parts of our own company but not to other parties. We have filed an objection to the decision to impose a penalty because we dispute that bitstream access can be construed as a regulated service, which was dismissed by OPTA as unfounded. We have appealed this ruling before the Rotterdam District Court. Pending the outcome of the appeal, and to avoid having to pay penalties, we have published an offering for bitstream access, albeit under protest.

Within the context of another dispute referred to OPTA by Tiscali, OPTA obliged us to make an offer to Tiscali for a bitstream access service identical to the bitstream access service provided to our own retail service (ADSL by KPN) and at cost-oriented prices. We requested, and obtained, injunctive relief from the President of the Rotterdam District Court on the grounds that the bitstream access service does not qualify as special access to our telephone network. Nonetheless, in its decision on our objections OPTA upheld its earlier views, whereupon we lodged an appeal to the Rotterdam District Court and at the same time asked for a preliminary injunction. On 30th October, 2003, the President of the Rotterdam District Court sustained our claims, referring to the grounds set out in the Court's earlier judgment, and ordered OPTA to review its original decision in light of our objections on the grounds set out in the Court's judgment.

LEASED LINES

Enacted by order of 27th March, 2002, OPTA designated us as having significant market power in seven market segments, namely the national markets for national analog leased lines, international analog leased lines, national leased lines with a capacity smaller than 2 Mb/s, international leased lines with a capacity smaller than 2 Mb/s, national leased lines with a capacity of 2 Mb/s, international leased lines with a capacity of 2 Mb/s and national leased lines with a variable capacity. The designation does not apply to the market segment for leased lines with a capacity greater than 2Mb/s. We have lodged an objection against our designation in the distinct markets for national leased lines with variable capacities and international leased lines with a capacity of 2 Mb/s. Following a succession of injunctive relief proceedings, OPTA eventually revoked our designation in the market for international leased lines with a capacity of 2 Mb/s, pending the outcome of its further investigation of geographical demarcation to see whether we possess significant market power in the international leased lines market. However, OPTA maintained our designation in the market for national leased lines with variable capacities. We appealed this ruling and also obtained an injunction from the Rotterdam District Court temporarily suspending our designation in the market concerned pending the outcome of the appeal proceedings. In its 9th December, 2003 judgment, the Rotterdam District Court quashed OPTA's ruling on the grounds that OPTA had inadequately defined and analyzed the market for Permanent Virtual Circuits and ordered OPTA to take a new decision on our objections, taking into account the grounds set out in the Court's judgment. Furthermore, the Court extended the injunction pending OPTA's new decision.

Mobile telecommunications – General

INTERNATIONAL ROAMING

The market for international roaming has been under investigation by the European Commission since 1999 with an initial sector inquiry resulting in a working document in December 2000 and unannounced inspections of the offices of mobile network operators in the United Kingdom and Germany, including E-Plus, in July 2001. The Commission said it was seeking evidence of collusion or excessive prices in relation to both retail and wholesale roaming charges, and the Commission has subsequently sought, or been provided with, additional information about roaming charges. The Commission has not yet indicated how, when or if it may proceed in these specific matters or in relation to its general inquiries into the roaming market.

One of the markets defined in the Recommendation under the new European regulatory framework to be investigated by NRAs is the wholesale roaming market. It is not currently clear how the investigations will be conducted on a national level.

Mobile telecommunications – Germany

GENERAL

To date, in Germany no operators have been designated as having significant market power on the market for mobile public telephone networks and services.

NEW COMMUNICATIONS ACT

Germany did not meet the deadline of 24th July, 2003 for the implementation of the new regulatory framework. The official draft of the new German Communications Act was released in October 2003. The first reading in the Federal Parliament (*Bundestag*) was scheduled for January 2004. It is expected that the Bundestag and Bundesrat (the second legislative body representing the German States at the federal level) will adopt the act in the first half of 2004. In line with the new regulatory framework, the new Communications Act will introduce a number of important changes to the previous regulatory framework. In December 2003, in accordance with the recommendation of the Commission on relevant markets susceptible to ex ante regulation, the German regulatory authority started the analysis of the three recommended mobile markets by issuing questionnaires to market parties.

UMTS

In November 2003, Germany's Regulatory Authority for Telecommunications (RegTP) commenced administrative procedures to verify satisfaction of the coverage obligations under the UMTS licenses. At the end of 2003, we met the requirement that mobile UMTS networks must cover 25% of the population. As of 31st December, 2005, the minimum coverage requirement will increase to 50%.

CONSUMER PROTECTION

In August 2003, an amendment to the current Customer Protection Ordinance (TKV) came into force, which aims to reduce the fraudulent use of 0190/0900 premium rate services. Under the new law, operators are only permitted to charge more than EUR 2 a minute for a so-called premium rate service if subscribers have given their prior consent. Subscribers can make use of an opt-in procedure to be established by the operators. Because of an insufficient implementation period (approximately one year is needed to launch the required opt-in procedure), E-Plus had to lower its tariffs for certain services.

BUILDING PERMIT

Between 1998 and 2000, several Upper Administrative Courts ruled that mobile communication should be designated as a business enterprise. Therefore, the installation of high-frequency installations on the roofs of residential buildings contravenes the regulations for use exclusively as a residential building and consequently requires a building permit, even though the antenna is lower than 10 meters (which is the case for the vast majority of the network). The Upper Administrative Court Munster upheld the decisions in 2002. Meanwhile, six of the sixteen German States (Bundesländer) have amended the respective law to the effect that a change in the use of buildings does not require a building permit. Accordingly, we must obtain permits for such installations on all residential buildings as well as commercial buildings in ten of the German States.

Mobile telecommunications – the Netherlands

LICENSES

KPN Mobile The Netherlands B.V. holds licenses for GSM 900, DCS 1800, UMTS and paging (SMF and ERMES). Our Traxys network (a trunking based network for closed user group communication) will be closed down at year-end 2004.

Orange instituted civil proceedings against the State of the Netherlands claiming a refund of approximately EUR 270 million paid for its DCS 1800 license. According to Orange, the State allowed the creation of an unbalanced situation in the Dutch mobile market because KPN Mobile and Vodafone were not required to pay separate fees for the GSM 900 frequencies, whereas the DCS 1800 frequencies were put up for auction at high prices. These claims were rejected in the first instance, but Orange has lodged an appeal. The Trade and Industry Appeals Tribunal (*College van Beroep voor het bedrijfsleven*) rejected at highest instance earlier objections on similar grounds by Orange on 30th January, 2002.

Along with the other operators in the Dutch mobile market (Vodafone, T-Mobile, Orange and Telfort), KPN Mobile acquired a UMTS license on 7th August, 2000. Versatel filed complaints about the auction procedure and the awarding of the licenses, which were rejected by the Rotterdam District Court in November 2002. Versatel has appealed this decision.

Under the license, the operators must meet certain rollout obligations for the UMTS networks. As of 1st January, 2007, all built-up areas in municipalities with over 25,000 inhabitants, all main roads (car, rail and waterways) in between, all motorways to Germany and Belgium and the areas around the airports of Schiphol, Rotterdam and Maastricht should be covered at a minimum level of 144 Kb/s outdoors.

SIGNIFICANT MARKET POWER

KPN Mobile is designated as an operator with significant market power in the market for mobile public telephone networks and services. As a result of the designation, KPN Mobile is required to meet reasonable requests for special access and to offer interconnection and special access in a non-discriminatory way.

INTERCONNECTION AND SPECIAL ACCESS

On 4th December, 2003 the NMa announced that it had terminated its investigation into a potential abuse of dominant position in relation to MTA tariffs, following an announced agreement between mobile operators to amend their MTA tariffs according to a schedule published on the same date. As of 1st January, 2004, the tariffs of KPN Mobile and Vodafone can be no higher than EUR 0.155 per minute. On 1st December, 2004, this maximum will be EUR 0.130, and on 1st December, 2005, EUR 0.110. On the same dates, the DCS 1800 operators (Orange, Telfort and T-Mobile) and the virtual mobile operator (on Telfort's network) Tele2 Mobiel, must have reduced their tariffs to EUR 0.175, EUR 0.147 and EUR 0.124, respectively. OPTA has published a new policy on MTA, which includes a two-year adherence to these tariff reductions. OPTA announced that remaining MTA disputes would be decided in line with these reductions. For the period after 1st December, 2005, OPTA reserves its position. Based on the new regulatory framework, OPTA will investigate the MTA market(s) and see whether further reductions are required as of that date. In its policy guidelines, OPTA announced that, based on its current views, it expects to regulate MTA based on a cost allocation system (Long Run Incremental Costs (LRIC)) on or after 1st December, 2005. In order to avoid distortion, OPTA expects that it will introduce a sliding scale to the cost-oriented level in connection with the last step of the published schedule.

KPN Mobile must offer interconnection to the networks of other telecommunication service providers. All providers are connected with KPN Mobile's network via the transit service of KPN Telecom except for Orange that has a direct interconnection with KPN Mobile's network. UPC has also requested direct interconnection with KPN Mobile's network. Following a judgment of OPTA on the reasonableness of KPN Mobile's offer for direct interconnection, KPN Mobile is preparing an amended offer for this interconnection.

Following an original request by Yarosa, a mobile entertainment company, on 28th November, 2003, OPTA obliged KPN Mobile on appeal to present an offer for access by Yarosa to KPN Mobile's MSC against a much lower tariff than originally offered. KPN Mobile appealed to the Rotterdam District Court.

At the end of 1999, MCI (formerly known as WorldCom) filed a complaint with the European Commission against what it called the excessively high interconnection prices being charged by KPN Mobile and other operators. In March 2002, KPN Mobile received a statement of objections from the European Commission in which it reached the preliminary conclusion that we have abused our position of power by discriminating in relation to the conditions for direct interconnection and setting unfair prices resulting in a margin squeeze between mobile terminating access and certain services offered to business customers. KPN Mobile has provided arguments that refute the preliminary analysis. In the fall of 2002, the Commission asked for further information. It is unclear when the Commission will take a final stand, but the Commission may ultimately require KPN Mobile to lower its interconnection prices and could impose a penalty upon us of up to 10% of our sales in the year preceding the year the Commission has taken its final stand.

DEALER COMMISSIONS

After an investigation into the reduction of subsidies to mobile handset retailers by the mobile phone operators in the Netherlands, including KPN Mobile, the Dutch Anti-trust Authority (NMa) concluded that all five mobile operators had coordinated a decrease of the commissions to their distributors and a decrease of the handset subsidy for prepaid subscriptions. On 30th December, 2002, NMa fined KPN Mobile for EUR 31.3 million. KPN Mobile has appealed the decision and in particular the disproportionate level of the fine.

NUMBERS AND NUMBER PORTABILITY

In late 2001, a change in the number plan for telephone services took effect, in which short codes were introduced for certain network-related services. Many of these services currently use operator-specific reduced numbers. OPTA has been instructed to supervise the number changes in the number plan within a reasonable timeframe.

OPTA has formulated policy guidelines concerning the quality of number portability. These policy guidelines set deadlines for realizing number portability in 95% of cases. OPTA may impose penalties if operators fail to meet these targets. As of October 2003, OPTA introduced an amendment to the guidelines requiring operators to port numbers within 10 days upon a customer's request, notwithstanding existing terms of contract duration. KPN Mobile does not agree with the amendment and OPTA imposed a penalty-carrying order of EUR 50,000 per month (up to a maximum of EUR 300,000) on us, which we have appealed. Upon our request, on 18th December, 2003, the president of the Rotterdam District Court granted injunctive relief, on the grounds that the Telecommunications Act only obliges operators to provide number portability upon termination of a contract. OPTA will decide upon our appeal in early 2004.

Mobile telecommunications – Belgium

GENERAL

The principal telecommunications regulations in Belgium are contained in the Telecommunications Act of 21st March, 1991.

To date, the new European regulatory framework for telecommunications has not been transposed into Belgian law. Nevertheless, in the course of October 2003 the Belgian telecommunications regulator (BIPT) published several questionnaires on its website relating to the analysis of the relevant telecommunications markets in Belgium.

UMTS

In March 2001, the three existing operators (BASE, Proximus and Mobistar) obtained a UMTS license in the auction organized by the Belgian Government. The license was obtained upon payment of a license fee of EUR 150 million. The license contains rollout obligations, which so far have been met. The future requirements to be met on December 2005, 2006, 2007 and 2008 are population coverage of 30%, 40%, 50% and 85%, respectively.

SIGNIFICANT MARKET POWER OF PROXIMUS AND MOBISTAR

In 2000, Proximus was designated an operator with significant market power in both the mobile and interconnection markets and Mobistar in the mobile market. At the beginning of 2003, Mobistar was also designated as an operator with significant market power in the interconnection market. The designation obliges both Proximus and Mobistar, among other things, to offer cost-oriented interconnection tariffs. On several occasions, BIPT reduced Proximus' interconnection rates. Following an advice of BIPT on Mobistar's interconnection rates, Mobistar lowered its interconnection rates as from 1st November, 2003. The BIPT's advice is currently being appealed by Proximus.

BASE INTERCONNECTION RATES

As of 1st October, 2003, BASE introduced new peak/off-peak windows for the application of its interconnection rates, approved by BIPT.

NUMBER PORTABILITY

Mobile number portability was introduced in Belgium on 1st October, 2002. On 17th October, 2003, BIPT determined the cost a donor operator (porting out a customer) might charge to the recipient operator (porting in the customer). Mobistar is currently appealing this decision. The traffic related costs of number portability are still to be determined.

CLAIM AGAINST PROXIMUS

On 25th June, 2003, BASE announced that it lodged a complaint against Proximus with the Brussels commercial court to end Proximus' discrimination of non-Proximus-subscribers by forcing Proximus to lower its interconnection tariffs and also to submit the details of its exclusive contracts to the inspection of the Anti-trust Council ('Raad voor Mededinging'). Furthermore, BASE aims to obtain compensation for losses it suffered due to Proximus' restrictions.

In November 2003, Proximus filed its defence and submitted a counterclaim asking the court to order the liquidation of BASE subject to article 634 of the Belgian company's code. Section 634 of the Belgian Company Code entitles interested parties to claim the liquidation of a company if its net equity amounts to less than EUR 61,500. As of 22nd December, 2003, KPN Mobile increased the net equity of BASE to an amount above EUR 61,500, thus invalidating Proximus' claim for liquidation.

C. Organizational structure

The following table sets forth the name and jurisdiction of incorporation of, and our ownership and voting interest (if different) in, our principal operating subsidiaries and other principal interests as of 27th February, 2004.

Name of Subsidiaries and other principal interests	Country of incorporation	Percentage ownership/ voting interest
KPN Telecom B.V.:	The Netherlands	100.0
● KPN EnterCom Solutions B.V.	The Netherlands	100.0
● KPN EuroRings B.V.	The Netherlands	100.0
● EuroWeb International Corp.	USA	50.2
● KPN Satcom B.V.:	The Netherlands	100.0
○ Xantic B.V.	The Netherlands	65.0
● Infonet Services Corp.	USA	17.7
● Infonet Nederland B.V.	The Netherlands	100.0
● HubHop B.V.	The Netherlands	100.0
● PanTel Rt.	Hungary	75.19
KPN Telecommerce B.V.:	The Netherlands	100.0
● KPN Consumer Internet and Media Services B.V.	The Netherlands	100.0
○ Planet Media Group N.V.	The Netherlands	100.0
○ XS4ALL Holding B.V.	The Netherlands	100.0
○ SNT Group N.V.	The Netherlands	50.78
KPN Mobile Holding B.V.:	The Netherlands	100.0
● GMI Mobilfunk Beteiligungen GmbH	Germany	100.0
○ E-Plus Mobilfunk GmbH & Co.KG	Germany	22.51
● KPN Mobile N.V.:	The Netherlands	97.84 (a)
○ KPN Mobile The Netherlands B.V.	The Netherlands	100.0 (b)
○ KPN Mobile International B.V.	The Netherlands	100.0 (b)
○ BASE N.V./S.A.	Belgium	100.0 (b)

o E-Plus Mobilfunk GmbH & Co.KG	Germany	77.49 (b)
Volker Wessels Netwerk Bouw B.V.	The Netherlands	45.0
KPN Vastgoed & Facilities B.V.	The Netherlands	100.0

(a) NTT DoCoMo owns the additional 2.16% of KPN Mobile N.V.

(b) Ownership interest of KPN Mobile N.V.

D. Property, plant and equipment

Network infrastructure

FIXED TELEPHONY

Our public switched telephone network (PSTN) and ISDN network in the Netherlands consist of approximately 1,350 access areas and 40 trunk exchanges connected by a long-distance transmission network. As of 31st December, 2003, our network connected over 85% of the total households in the Netherlands. Our network is also connected to networks of other operators.

Customer access to the network consists primarily of twisted pair copper access lines (two twisted pair wire and four wire accesses). In some areas, ISDN-30 connections are made through the fiber optic CityRings network.

Each customer line ends in one of the 1,350 access areas and is served by one of our 483 local exchanges. Each local exchange is connected through independent transmission routes to 40 independent trunk exchanges located at 34 sites in the Netherlands. These trunk exchanges are interconnected in two independent networks of 20 trunk exchanges each that cover the entire Netherlands.

We have managed to maintain a low percentage of unannounced outage time per subscriber line, and our telephony network is designed and engineered to have general availability, internal blocking and outages during peak hours below 1% end-to-end, measured on a yearly basis.

TRANSMISSION NETWORKS

Transmission services are provided primarily on the basis of synchronous digital hierarchy and dense wavelength division multiplexing (DWDM) technology.

To accommodate the fast growth in demand for high-speed transmission, defined as 155 Mb/s and higher, KPN has implemented a fiber optic network with synchronous digital hierarchy and dense wavelength division multiplexing-based transmission technology. This fiber optic (Lambda) network became operational in its current form at the end of 2000 and consists primarily of a countrywide network linking 34 backbone locations and providing transmission capacity to connect 1,350 access network areas to the backbone. The 34 main locations on the backbone are all interconnected with 2.5 Gb/s routes. Each of the access network areas is connected to the backbone network to two separate locations.

INTERNATIONAL NETWORK

For the provision of international wholesale voice services we operate an international transmission network (in consortia) that includes land and submarine cables as well as satellite transmission systems, which, based on management estimates, directly connects approximately 200 telecommunications operators worldwide. The network is partly circuit-switched and partly based on IP trunking technology with a flexible capacity and main international switches located in the Netherlands. In addition, we have nine points of presence in Europe (Frankfurt, Düsseldorf, Paris, London, Brussels, Milan, Madrid, Zurich and Vienna) and an exchange in New York and Hong Kong.

Data networks

The average quarterly usage levels of our Data/IP networks in 2003 are summarized in the following table:

	<u>Q4 03</u>	<u>Q3 03</u>	<u>Q2 03</u>	<u>Q1 03</u>
Lambda (fiber optic backbone)	58%	53%	52%	50%
Hirka (traditional backbone).	64%	61%	62%	62%
CityRings	20%	20%	20%	26%

The increase in the usage rates of the Lambda and Hirka networks is a result of the high utilization of the equipment/networks and the accelerated rollout of ADSL. The small decrease in the third quarter of 2003 (Hirka) is due to migration to the Lambda network.

FR/ATM NETWORKS

We operate a frame relay (FR) network, known as Natvan, to provide a large number of data services for:

- the backbone infrastructure that supports the KPN dial-in network from 20 dial-in PoPs to the ISPs;
- LAN interconnect services for corporate customers;
- supporting the backbone infrastructure that enables the bulk transport of X.25 services through leased lines as well as through ISDN channels; and
- native frame relay (64 Kb/s through 2 Mb/s) VPNs.

Our ATM network is used to provide flexible leased line services and a carrier network for our frame relay network and to connect ADSL/SDSL customers to our data/IP services backbone.

ETHERNET NETWORK

Metro rings have been rolled out in the 80 largest access areas of KPN Ethernet. Apart from providing a regional Ethernet transport service, ATM-based offnet connections can also be provided.

IP/MPLS BACKBONE

Our data/IP services are deployed on the Lambda (DWDM) network. This network connects our data/IP MPLS backbone routers: IP service routers are connected through the MPLS core.

ACCESS NETWORK

Our access network consists primarily of twisted pair copper, providing nearly all of the eight million Dutch homes with two pairs of copper wire in the tertiary part of the access network. The percentage of these double pairs connected to the secondary and primary level of the access network depends on when the particular portion of the network was constructed. The access network terminates in 1,350 access areas. Over 85% of the Dutch households are actively connected to our access network.

At 31st December, 2003, 251 city ring areas (in 107 access areas), forming our CityRings network, and 328 non-city ring areas (in 328 access areas) were accessed by fiber. Fiber access generally permits speeds in excess of 155 Mb/s.

In certain cases, wireless transmission systems are used in the access network, (for example, as backup or if fiber access is not available. By the end of 2003, approximately 250 wireless transmission systems had been deployed in the access network.

KPN EURORINGS NETWORK

The KPN EuroRings network is based on DWDM technology up to 10 Gb/s in the Netherlands, Germany, France and Belgium, with links to the United Kingdom and the United States.

Development of the telephony network

The Internet has significantly changed the way in which the fixed telephony network is being used. Based on management estimates, the principal consequences of the growth of Internet traffic for us are as follows:

- in December 2003, 35% of the traffic minutes on our domestic fixed telephony network were Internet traffic. This percentage is expected to decrease slowly as a result of the introduction of ADSL; and
- whereas the average voice session lasts approximately 3.5 minutes, the average Internet session lasts about twice as long.

DEVELOPMENTS IN PSTN/ISDN

Depending on the development of voice traffic on the fixed telephony network, we are upgrading our network as follows:

- we are replacing old local exchanges (with analog switching fabric) with fully digital exchanges, spread over several years;
- to prevent disturbance of voice traffic handling in the trunk network, we have removed Internet traffic from the fixed telephony network at the local exchange level. Using a separate set of trunk exchanges, we feed this traffic to dial-in platforms and hence into the data network. We implemented this concept at the end of 2002 by using specialized technology at the local exchange level and introducing an Internet dial-in prefix (0676);
- we have installed xDSL at about 800 sites, reaching 95% of the Dutch population, and delivered co-locations at 263 sites (of which 100 are currently in use), making approximately 67% of the access network available for competitors. This offloads Internet traffic from the telephony network; and
- we have introduced a new Mass Calling platform, which has been developed to protect the network against high traffic volumes during a short period as a result of mass calling and media events. These services also have the capability to handle calls from mobile networks.

VOICE OVER IP

We currently deliver voice services primarily on the basis of PSTN, ISDN and GSM. In the coming years, we expect that the importance of voice services originating from or delivered over IP networks will increase. The development of voice over IP started mainly in the business environment and is confined mostly to voice services in closed business domains (VoIP over VPN and LAN). We believe that a market will emerge for interconnection between existing public platforms for voice services and voice over IP. The cost structure of voice services based on IP connectivity may be very different from that of traditional switch-based voice services, allowing price differentiation. When market developments are favorable we intend to provide interconnection services for IP-based originating voice traffic seeking termination on traditional voice platforms, as well as replacement of PSTN trunk routes by voice over trunk routes. We will also develop voice over data services for the corporate and consumer markets.

Development of the data network

To carry the exponential growth in volume and bandwidth associated with the advent of multimedia services, we foresee major developments in our data communications network in order to enhance quality, coverage and customer service. We have already taken the initial development and rollout steps for this new data-centric network.

The larger building blocks in this evolution of the data network are broadband access systems. ADSL/SDSL is becoming a mainstream technology for us, providing broadband access to large numbers of customers using the copper access network. In areas with major business activity, we employ fiber to office systems, predominantly based on our CityRings network. Our access networks built after December

2000 are generally prepared for fiber for home use, by means of ducts. We believe that our IP/MPLS backbone will become our core transport platform. We anticipate that our frame relay and ATM networks will develop into feeder networks for our IP/MPLS backbone and that the NatVan network will be mainly used for X.25 services and frame relay service up to 2 Mb/s. The ATM network is designed to provide access at 150 Mb/s. 10Mb/s and higher speeds in the largest areas will be provided through Ethernet Access. We believe that the Lambda network will carry the majority of our traffic in the future. Using the 2x14 core locations as hubs, the network is designed to be extended to 300 smaller locations to provide 2.5 Gb/s SDH connections as market demand arises.

Mobile networks

DEVELOPMENT OF THE MOBILE NETWORK

The world around us and the services and devices in it are increasingly becoming wireless and online. This is caused by a number of major trends, including progressive individualization among the younger generation and a growing harmonization of private and professional life in the business market. Our view is that mobile connectivity will increase further over the years to come. Several kinds of devices will become mobile-connected, such as laptops, high-quality digital cameras, gaming consoles, car/truck management and machine-to-machine communication. In addition to the current 2G technology, an entire range of mobile data technologies is emerging to support this need for wireless and online usage:

- 2.5G: narrowband data technologies (10 – 100 Kb/s): GPRS, HSCSD; and
- 3G: broadband data technologies (100 and more Kb/s): UMTS, Wireless LAN, DVB, EDGE.

Our strategy is to profit from the increasing demand for secure mobile data access and the increasing penetration of mobile access devices, and offer our customers solutions for secure access via GPRS, HSCSD and UMTS, in accordance with the industry standards as set by the Third Generation Partnership Project (3GPP). Next to these access technologies we are offering customer convenience with Wireless LAN hotspots. We will keep investing in our GSM networks in order to maintain and improve quality and coverage, and provide sufficient voice and data capacity.

Broadband offers three unique selling points over narrowband technologies that will prove to be crucial for future success:

- higher speed: this makes current services richer and thus more user friendly, as is the case with video-like services;
- larger data volumes, which enhance the number of services (pictures, clips, sounds, radio) and renders them more useful (attachments for business users); and
- higher data service quality. This makes guaranteed throughput and quality possible rather than 'best effort' services.

ROLLOUT OF MOBILE NETWORKS

The current network rollout is focused on achieving maximum synergy between GSM and UMTS, for example with infrastructure and transmission. Reuse of our GSM infrastructure in some areas can provide up to 75% of the basic UMTS infrastructure. The UMTS rollout planning is in line with the license obligations set by the regulatory authorities. Nokia and Ericsson will be our primary UMTS network suppliers in Germany, the Netherlands and Belgium. We will at least comply with all regulatory requirements on the rollout and will accelerate the rollout as and when it becomes commercially attractive.

Selected user tests are currently being conducted in Germany and the Netherlands. The commercial launch of UMTS in Germany and the Netherlands is anticipated to take place in 2004 with coverage in the main cities and important business areas. Timing also depends on the availability of handsets and on when our quality standards have been met.

The following table summarizes the number of base stations equipped and installed as of 31st December, 2003:

Number of base stations integrated in the network	Germany	Netherlands	Belgium
2G sites	12,241	3,910	1,993
3G sites	1,033	217	2
Total sites	13,274	4,127	1,995

The average utilization of our 2G networks in 2003 is summarized in the following table:

	Germany	Netherlands	Belgium
Average usage in %	40.6	66.4	19.1

The coverage of our 2G network as of 31st December, 2003 is shown in the following table:

Coverage in %	Germany	Netherlands	Belgium
Outdoor population	98.7	99.6	99.3
Indoor population	73.7	88.3	91.4
Area	94.3	96.8	96.3

Properties

KPN holds approximately 1,945 buildings as of 31st December, 2003, the majority of which are owned freehold and located principally in the Netherlands. Approximately 1,828 of our buildings house telephone and data transmission network equipment, which cannot readily be adapted to alternative uses. The remainder of the properties comprises offices, shops, storage facilities, residential properties and buildings for other miscellaneous uses. As of 31st December, 2003, our land and buildings had a book value of EUR 881 million, our plant and equipment had a book value of EUR 7,082 million, and our other tangible fixed assets had a book value of EUR 1,156 million.

Directors and senior management

SUPERVISORY BOARD

The current members of our Supervisory Board are:

Name	Date of birth	Start of term	End of term
A.H.J. Risseeuw (Chairman)	9th November, 1936	2nd May, 2001	2005
D.G. Eustace (Vice-Chairman)	3rd July, 1936	27th April, 2000, 15th April, 2004*	2008
M. Bischoff	22nd April, 1942	12th May, 2003	2007
V. Halberstadt	16th June, 1939	11th May, 1995, 29th April, 1999,* 12th May, 2003*	2007
D.I. Jager	30th April, 1943	25th April, 2002	2006
M.E. van Lier Lels	19th October, 1959	2nd May, 2001	2005
J.B.M. Streppel	11th October, 1949	12th May, 2003	2007

* Re-appointed

A.H.J. Risseeuw (1936)

Mr. Risseeuw joined the Supervisory Board in 2001 and his term expires in 2005. He has been the Chairman of the Supervisory Board since 10th September, 2001, and he chaired the Remuneration & Nomination Committee in 2003. He has held various management positions with Dutch international companies and is the former President of Getronics N.V. He is a member of the supervisory boards of Heineken N.V., Samas-Groep N.V. and AOT N.V. Mr. Risseeuw is a Dutch citizen.

D.G. Eustace (1936)

Mr. Eustace has been a member of the Supervisory Board since 2000. Mr Eustace was re-appointed a member of the Supervisory Board on 15th April, 2004 and his term expires in 2008. Mr. Eustace has been the Vice Chairman of the Supervisory Board since 10th September, 2001, and he also chairs the Audit Committee. He is the former Vice Chairman of the Board of Management and Chief Financial Officer of Royal Philips Electronics N.V. He is the Chairman of the Board of Smith & Nephew Plc., Chairman of the Board of Sendo Holding Plc., and a member of the Supervisory Boards of AEGON N.V., KLM N.V. and Hagemeyer N.V. Mr. Eustace was interim Chief Financial Officer at Ahold N.V. for part of 2003. Mr. Eustace is a British citizen.

Dr. M. Bischoff (1942)

Dr. M. Bischoff was appointed a member of the Supervisory Board on 12th May, 2003 and his term expires in 2007. He is Chairman of the board of directors of the European Aeronautic Defence and Space Company (EADS) N.V. He was a member of the board of management of DaimlerChrysler AG, a member of the board of directors of Mitsubishi Motors Corporation (MMC) and chairman of the supervisory board of MTU Aero Engines GmbH until the end of 2003. He is a member of the supervisory boards of Bayerische Hypo- und Vereinsbank AG, Fraport AG, Gerling Konzern Versicherungs-Beteiligungs-AG, Lagardère-Sociétés S.A. and J.M. Voith AG. Dr. Bischoff is a German citizen.

Prof. V. Halberstadt (1939)

Prof. Halberstadt was reappointed Member of the Supervisory Board on 12th May, 2003 and his term expires in 2007. He was a member of the Remuneration & Nomination Committee. He is Professor of Public Finance at the University of Leiden, Crown Member of the Social Economic Council (SER), International Advisor of Goldman Sachs Group Inc., non-executive director of PA Holding Ltd. and Chairman of the International Advisory Board of DaimlerChrysler AG. He is a member of the Supervisory Boards of TPG N.V., DaimlerChrysler AG and Het Concertgebouw N.V. Prof. Halberstadt is a Dutch citizen.

D.I. Jager (1943)

Mr. Jager has been a member of the Supervisory Board since 2002 and his term expires in 2006. Mr Jager was a member of the Remuneration & Nomination Committee. He held various management positions at Procter & Gamble in Europe, Asia and the United States. He was Chairman of the Board, President and/or Chief Executive Officer from January 1995 through June 2000. He currently is an independent consultant and private investor. Mr Jager also serves on the Boards of Eastman Kodak Inc., Chiquita Brands International Inc. and Polycom Inc. as a non-executive board member. Mr. Jager is both a US and Dutch citizen and resides in the United States.

M.E. van Lier Lels (1959)

Ms. van Lier Lels has been a member of the Supervisory Board since 2001 and her term expires in 2005. Ms. van Lier Lels was a member of the Audit Committee. She is the Executive Vice President and Chief Operating Officer of Schiphol Group N.V. She is a member of the Supervisory Boards of United Services Group N.V. and Delft University of Technology and is a member of the Advisory Board of Rabobank Nederland. Ms. van Lier Lels is a Dutch citizen.

J.B.M. Streppel (1949)

Mr. J.B.M Streppel was appointed a member of the Supervisory Board on 12th May, 2003 and he is also a member of the Audit Committee. His term expires in 2007. He currently is a member of the Executive Board of Aegon N.V. Mr Streppel held various management positions at Aegon N.V., Labouchere N.V. and FGH Bank N.V. He is a member of the Commission for public bids of the Netherlands Authority for

the Financial Markets (AFM), a member of the Committee of Listed Companies of Euronext (Amsterdam) and Chairman of the Shareholders Communication Channel. Mr. Streppel is a Dutch citizen.

The business address of each of the members of the Supervisory Board is Maanplein 55, 2516 CK, The Hague, the Netherlands.

The Supervisory Board oversees strategic and organizational policymaking by the Board of Management and the way in which it manages and directs our operations and affiliated/associated companies. It oversees and supervises the Board of Management. Under the current regime for large companies, the Supervisory Board appoints and reappoints its own members. The Annual General Meeting of Shareholders and the Central Works Council can make recommendations for nominating members of the Supervisory Board and make objections against intended nominations. According to our Articles of Association, our Supervisory Board must consist of at least five and not more than nine members. In 2003, our Supervisory Board consisted of seven members. Members of the Supervisory Board resign according to a schedule set by the Supervisory Board. They step down at the first General Meeting of Shareholders following their four-year term of office. Under the current profile of the Supervisory Board, they can be reappointed twice, leading to a maximum term of office of twelve years.

The Supervisory Board drew up a profile in 2001 defining the basic principles for the composition of the Supervisory Board. According to this profile, the Supervisory Board must be composed in such a way that its members are able to operate independently of each other and of the Board of Management. The Supervisory Board has further adopted other principles and more rules about its working methods and decision-making. One of the stipulations is that only one former member of the Board of Management may sit on the Supervisory Board at any time.

Certain decisions of the Board of Management require the approval of the Supervisory Board. These decisions (which are specified by law) include approval of the annual plan and budget, approval of resolutions that exceed certain thresholds, expanding the business materially affecting the existing business and the closing down of business if this results in a material change for a considerable number of employees.

In 2003, each of the members of the Supervisory Board was independent from the Company within the meaning of the Corporate Governance Code. This means that neither the Supervisory Board member concerned nor his/her spouse, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree: a) has been an employee or member of the Management Board of the Company (including associated companies as referred to in section 1 of the Disclosure of Major Holdings in Listed Companies Act (WMZ) 1996) in the five years prior to the appointment; b) receives personal financial compensation from the Company, or a company associated with it, other than the compensation received for the work performed as a Supervisory Board member and in so far as this is not in keeping with the normal course of business; c) has had an important business relationship with the Company, or a company associated with it, in the year prior to the appointment. This includes the case where the Supervisory Board member, or the firm of which he is a shareholder, partner, associate or adviser, has acted as adviser to the Company (consultant, external auditor, civil notary and lawyer) and the case where the Supervisory Board member is a Management Board member or an employee of any bank with which the Company has a lasting and significant relationship; d) is a member of the Management Board of a company in which a member of the Management Board of KPN is a Supervisory Board member; e) holds at least ten percent of the shares in the Company (including the shares held by natural persons or legal entities which cooperate with him under an express or tacit, oral or written agreement); f) was a member of the Management Board or Supervisory Board - or is a representative in some other way - of a legal entity which holds at least ten percent of the shares in the Company, unless such entity is a member of the same group as the Company; or g) has temporarily managed the Company during the previous twelve months when Management Board members have been absent or unable to discharge their duties.

Committees of the Supervisory Board

In 2003, two committees assisted the Supervisory Board: an Audit Committee and a Remuneration & Nomination Committee. The committees assist the Supervisory Board in its decision taking and report their findings to the Supervisory Board. The committees are not empowered to take decisions. The working of the committees is governed by written charters.

Audit Committee

The Audit Committee consists of three Supervisory Board Members, Mr. Eustace (Chairman), Mr. Streppel and Dr. Bischoff.

The Audit Committee's task is to supervise the (quality of the) accounting and financial reporting practices, including quarterly and annual reporting, accounting and financial reporting policies and procedures, the (quality of the) internal control system and internal audit function, the independent external audit of the Financial Statements, and the performance and evaluation of the external auditor. The task of the Audit Committee in the area of financial reporting and accounting practices is to provide reasonable assurance that the financial disclosures prepared by management adequately reflect KPN's financial condition, results of operations, cash flows and long-term commitments. As such, it is not the duty or responsibility of the Audit Committee or its members to conduct 'field work' or other types of auditing or accounting reviews or procedures. We consider Mr. Eustace and Mr. Streppel to be our financial experts.

Remuneration & Nomination Committee

The Remuneration & Nomination Committee consisted in 2003 of three Supervisory Board Members, Mr. Risseeuw (Chairman), Mr. Halberstadt and Mr. Jager.

The task of the Remuneration & Nomination Committee is to assist the Supervisory Board on deciding the remuneration of the members of the Board of Management for the coming year; the individual bonuses of members of the Board of Management on the basis of the policy framework for performance related pay, achieved targets and goals; allocation policies for options and the conditions under which options are granted; allocation of management options to members of the Board of Management and to other KPN senior management and the remuneration of members of the Supervisory Board for submission to the Supervisory Board and to the General Meeting of Shareholders.

Changes in 2004

In order to comply with the Corporate Governance Code, the Supervisory Board allocated the responsibilities of the Remuneration & Nomination Committee to two separate committees: a Remuneration & Organization Development Committee and a Nominating & Corporate Governance Committee. The first committee will be responsible for the development and appropriate application of remuneration policies for our Board of Management. The second committee will be responsible for the nomination of the Board of Management and the Supervisory Board and the oversight of development policies for senior management and corporate governance policies. The members of the Remuneration & Organization Development Committee are: Mr. D.I. Jager (Chairman), Mr. V. Halberstadt, Mr. A.H.J. Risseeuw and Ms. M.E. van Lier Lels. The members of the Nominating & Corporate Governance Committee are: Mr. A.H.J. Risseeuw (Chairman), Mr. V. Halberstadt, Mr. D.I. Jager and Ms. M.E. van Lier Lels.

BOARD OF MANAGEMENT

The Board of Management, supervised and advised by the Supervisory Board, manages our strategic, financial and organizational matters and appoints senior managers. The Supervisory Board appoints and discharges members of the Board of Management and establishes their remuneration.

Certain decisions of the Board of Management, which are defined in greater detail by law, the Articles of Association and the by-laws of the Board of Management, are subject to Supervisory Board approval. The written by-laws govern the responsibilities and working methods of the Board of Management. They cover such matters as resolutions to issue shares, major investments, entering into cooperation agreements and undertaking major reorganizations. Currently, our Board of Management consists of four members: the Chairman of the Board, the Chief Financial Officer, the Managing Director of the Fixed division and the Managing Director of the Mobile division. A small Corporate Center supports the Board of Management.

Current Members

The current members of our Board of Management are:

<u>Name</u>	<u>Date of birth</u>	<u>Position</u>	<u>Appointed on</u>
A.J. Scheepbouwer	22nd July, 1944	Chairman of the Board and Chief Executive Officer	1st November, 2001
J.M. Henderson	10th April, 1948	Member of the Board and Chief Financial Officer	9th November, 1999
G.J.M. Demuynck	21st March, 1951	Member of the Board	1st January, 2003
E. Blok	3rd August, 1957	Member of the Board	15th April, 2004

Mr. A.J. Scheepbouwer was appointed Chairman of our Board of Management and Chief Executive Officer on 1st November, 2001. From 1976 to 1988, he was President of the Airfreight division of Pakhoed Holding N.V. (Pandair Group). In 1988, he was appointed as Managing Director of PTT Post, then part of the Dutch national post and telecommunications operator, Koninklijke PTT Nederland N.V. In 1992, Mr. Scheepbouwer joined the Board of Management of Koninklijke PTT Nederland N.V. In June 1998, the mail, express and logistics activities were demerged from Koninklijke PTT Nederland N.V. and incorporated as a separate company, TPG N.V., of which Mr. Scheepbouwer became Chief Executive Officer. From June 1998 until 9th September, 2001, he was a member of our Supervisory Board. He is currently Chairman of the Supervisory Board of KPN Mobile N.V.

Mr. J.M. Henderson was appointed a member of the Board of Management on 9th November, 1999 and has been the Chief Financial Officer since 1st February, 2000. He is a former member of the Board of Management and Chief Financial Officer of Schmalbach Lubeca A.G., in Germany. Before that, he spent many years working for subsidiaries of the Philips Electronics Group in a variety of roles. His last position was that of member of the Board of Management and Chief Financial Officer of Philips Kommunikations Industrie A.G. He is currently a member of the Supervisory Board of KPN Mobile N.V., Chairman of the Supervisory Board of E-Plus Geschäftsführung GmbH and member of the Committee of Listed Companies of the Stock Exchange of Amsterdam. On 15th March, 2004, it was announced that Mr. Henderson will resign as a member of the Board of Management. The Supervisory Board of KPN intends to appoint Mr M. Smits (42) as Chief Financial Officer and member of the Board of Management by 1st September, 2004 at the latest.

Mr. G.J.M. Demuynck was appointed a member of the Board of Management on 1st January, 2003 and is responsible for our Mobile division. He joined our Company from Royal Philips Electronics N.V., where he had been CEO of the Consumer Electronics Division since 2000. He had been with Philips since 1976 and worked for the company in the USA as Vice-President Marketing Audio, in South Korea as the Chief Executive Officer of Philips Electronics South Korea, and in Hong Kong as General Manager Business Group Audio. He was appointed member of the Group Management Committee in April 2000 and was responsible for the Division of Consumer Electronics until 31st December, 2002. He is currently a member of the Supervisory Board of E-Plus Geschäftsführung GmbH and Chairman of the Supervisory Board of Xantic.

Mr. E. Blok was appointed a member of the Board of Management on 15th April, 2004 and is responsible for our Fixed division. From 2000 to 2003, he held the position of Senior Vice President of KPN Fixed Network Operations. Before that, he was Senior Vice President of KPN Corporate Networks and was

responsible for KPN's Benelux data communication activities. From 1996 to 1998, he was Senior Vice President of KPN Carrier Services. From 1994 to 1996, he was Vice President Marketing & Sales of KPN Carrier Services. Before that, he held several positions in the KPN Finance organization.

The business address of each of the members of the Board of Management is Maanplein 55, 2516 CK, The Hague, the Netherlands.

MANAGEMENT

A managing director, who is also a member of our Board of Management, heads each of our divisions. Currently, Mr. Demuynck heads the Mobile division and Mr. Blok heads the Fixed division. Management teams assist the managing directors. The managing director and his management team are responsible for achieving targets defined for their divisions and for organizing, managing and controlling business processes within their division. They are required to observe our codes of conduct governing such matters as financial accounting, investment decisions, cash management and internal control. The Fixed division consists of several reporting units, whereas the Mobile division primarily consists of our three mobile operators in Germany, Belgium and the Netherlands.

Employees

AVERAGE NUMBER OF FULL-TIME EQUIVALENTS

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Fixed	19,245	23,871	23,924
Mobile	5,869	6,617	6,916
Other activities	6,153	9,707	14,880
Total	<u>31,267</u>	<u>40,195</u>	<u>45,720</u>

NUMBER OF EMPLOYEES AT END OF PERIOD

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Fixed	20,479	24,441	28,005
Mobile	6,111	6,051	7,388
Other activities	6,146	7,626	13,728
Total	<u>32,736</u>	<u>38,118</u>	<u>49,121</u>

CAPITALISATION TABLE

Amounts in millions of euro	<u>As of 31st December, 2003</u>
Cash and cash equivalents ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	1,839
Current interest-bearing liabilities ⁽⁶⁾⁽⁷⁾⁽⁸⁾	<u>952</u>
Long term liabilities	
Bonds ⁽¹⁾	7,669
Zero Coupon	4
Convertible Notes (Subordinated)	1,127
Other Borrowings	<u>407</u>
Total long term-liabilities	9,207
<i>Group Equity</i>	
Issued share capital	598
Additional paid-in capital ⁽³⁾	16,268
Reserves ⁽⁵⁾	-9,703
Minority Interests	<u>196</u>
Total Group Equity	<u>7,359</u>
Total capitalisation	<u><u>16,566</u></u>

- (1) On 16th February, 2004, the re hedge of the Eurobond 2001- 2008 (GBP 175 million) resulted in a higher net debt of EUR 17 million.
- (2) On 17th February, 2004, we sold our stake in Eutelsat S.A., one of the world's leading satellite operators and based in Paris, for an amount of EUR 73 million.
- (3) During the period 11th March through 31st March, 2004, we purchased 45.7 million shares (for an average price of EUR 6.32) for an aggregate amount of EUR 289 million (of which EUR 40 million was settled at the beginning of April).
- (4) On 2nd April, 2004, we received an amount of EUR 31 million in connection with the sale of our stake in PTC, a Hongkong based operator.
- (5) At the Annual General Meeting of Shareholders of KPN held on 15th April, 2004, a dividend for the 2003 financial year of EUR 0.25 per ordinary share was approved. This dividend amount of EUR 0.25 per ordinary share comprises a dividend of EUR 0.12 and an additional special dividend of EUR 0.13, resulting in a total amount of approximately EUR 611 million (based on the outstanding amount of shares, after the repurchase of shares, mentioned in note (3)).
- (6) In the period 1st January through 28th April, 2004, E-Plus and SNT redeemed approximately EUR 13 million of capital lease obligations out of a total outstanding of EUR 83 million as at the end of 2003.
- (7) In the period 1st January through 28th April, 2004, SNT redeemed approximately EUR 3 million of loans out of total outstanding loans of EUR 47 million as at the end of 2003.
- (8) In March and April 2004 we redeemed approximately EUR 13 million of private loans due in 2004 (with an interest range between 6.485 – 6.75 per cent).
- (9) Other than as disclosed herein, there has been no material change in the capitalisation of KPN N.V. since 31st December, 2003.

SELECTED FINANCIAL INFORMATION

Consolidated Balance Sheet (in accordance with Dutch GAAP)

Assets

Amounts in millions of euro	31st December,		
	2003	2002	2001
<i>Fixed assets</i>			
<i>Intangible fixed assets</i>			
Licenses	4,457	4,419	7,958
Goodwill	4,126	4,484	5,623
Total intangible fixed assets	8,583	8,903	13,581
<i>Property, plant and equipment</i>			
Land and buildings	881	984	1,154
Plant and equipment	7,082	7,899	8,740
Other fixed assets	431	571	771
Assets under construction	725	407	471
Total property, plant and equipment	9,119	9,861	11,136
<i>Financial fixed assets</i>			
Participating interests	194	901	2,492
Loans to participating interests	19	–	2,211
Other loans	119	103	42
Prepayments and accrued income	1,986	159	792
Total financial fixed assets	2,318	1,163	5,537
Total fixed assets	20,020	19,927	30,254
<i>Current assets</i>			
Inventory	164	230	343
Accounts Receivable	1,452	1,601	2,292
Prepayments and accrued income	641	731	865
Marketable securities and other financial interests	9	15	25
Cash and cash equivalents	1,839	2,657	7,343
Total current assets	4,105	5,234	10,868
Total	24,125	25,161	41,122

Consolidated Balance Sheet (Continued)

Liabilities

Amounts in millions of euro	31st December,		
	2003	2002	2001
<i>Group equity</i>			
Shareholders' equity	7,163	4,508	11,988
Minority interests	196	272	184
Total group equity	7,359	4,780	12,172
Exchange right.	–	–	712
<i>Provisions</i>			
Pension provisions	814	811	859
Deferred tax liabilities	2,111	449	257
Other provisions	414	337	288
Total provisions	3,339	1,597	1,404
<i>Long-term liabilities</i>			
Loans	9,207	12,648	16,747
Other debts	–	–	11
Accruals and deferred income	23	32	138
Total long-term liabilities	9,230	12,680	16,896
<i>Current liabilities</i>			
Other debts	2,107	3,769	7,906
Accruals and deferred income	2,090	2,335	2,032
Total current liabilities	4,197	6,104	9,938
Total	24,125	25,161	41,122

To the Board of Management of Koninklijke KPN N.V.

AUDITORS' REPORT

In our opinion, the consolidated balance sheets of Koninklijke KPN N.V. for the years ended 31st December, 2003, 2002 and 2001, as included in this Prospectus on pages 86 and 87, are consistent, in all material respects, with the financial statements for those years from which they have been derived. We issued an unqualified auditors' report on those financial statements on 8th March, 2004, 28th February, 2003 and 15th March, 2002 respectively.

For a better understanding of the company's financial position and results and of the scope of our audit, the consolidated balance sheets should be read in conjunction with the financial statements from which they have been derived and our auditors' reports thereon.

The Hague, 28th April, 2004

PricewaterhouseCoopers Accountants N.V.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “Rules”), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC’s book-entry settlement system (“DTC Notes”) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (“Owners”) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC’s records. The ownership interest of each actual purchaser of each DTC Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participant’s records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC’s records reflect only the identity of the Direct

Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "Subscription and Sale and Transfer and Selling Restrictions".

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note,

DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in such a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "Subscription and Sale and Transfer Selling Restrictions", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("Custodian") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there

is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

A. United Kingdom taxation

The following applies only to persons who are the beneficial owners of Notes, is of a general nature based on current United Kingdom law and Inland Revenue practice and is not intended to be exhaustive, dealing only with withholding tax and information reporting regarding interest. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

Interest on the Notes

1. *Payment of interest on the Notes*

Payments of interest on the Notes may be made without withholding on account of United Kingdom income tax.

However, Noteholders who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual, or who either pays amounts payable on the redemption of Notes that constitute relevant discounted securities as defined in Schedule 13 to the Finance Act 1986 to or receives such amounts for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

2. *EU Savings Directive*

On 3rd June, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which Member States will be required, if a number of important conditions are met and from a date not earlier than 1st January, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during the period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

B. Netherlands taxation

General

The following summary describes the principal Netherlands tax consequences of the acquisition, holding, redemption and disposal of Notes, which term, for the purpose of this summary, includes Coupons, Receipts and Talons. This summary does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant to a decision to acquire, hold and dispose of the Notes. Each prospective Noteholder should consult a professional adviser with respect to the tax consequences of an investment in the Notes. The discussion of certain Netherlands taxes set forth below is included for general information purposes only.

This summary is based on The Netherlands tax legislation, published case law, treaties, rules, regulations and similar documentation, in force in The Netherlands as of the date of this Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

This summary does not address The Netherlands tax consequences of a Noteholder who holds a substantial interest (aanmerkelijk belang) in the Issuer, within the meaning of Section 4.3 of the Income Tax Act 2001. Generally speaking, a Noteholder holds a substantial interest in the Issuer, if such

Noteholder, alone or together with his or her partner (statutory defined term) or certain other related persons, directly or indirectly, holds (i) an interest of 5 per cent. or more of the total issued capital of the Issuer or of 5 per cent. or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in the Issuer. For the purpose of this summary, the term Issuer includes the Substituted Debtor.

Withholding Tax

No Netherlands withholding tax is due upon payments on the Notes, provided that the Notes are considered debt for Dutch tax purposes and do not in fact have the function of equity of the Issuer within the meaning of Article 10(1)(d) of the Corporate Income Tax Act 1969.

Corporate Income Tax and Individual Income Tax

Residents of The Netherlands

If the Noteholder is subject to Netherlands corporate income tax and the Notes are attributable to its (deemed) business assets, income derived from the Notes and gains realised upon the redemption and disposal of the Notes are taxable.

If the Noteholder is an individual, resident or deemed to be resident of the Netherlands for Netherlands tax purposes (including an individual Noteholder who has opted to be taxed as a resident of The Netherlands), the income derived from the Notes and the gains realised upon the redemption and disposal of the Notes are taxable at the progressive rates of the Income Tax Act 2001, if:

- (i) the Noteholder has an enterprise, or an interest in an enterprise, to which enterprise the Notes are attributable; or
- (ii) such income or gains qualify as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands within the meaning of Section 3.4 of the Income Tax Act 2001, which include the performance of activities with respect to the Notes that exceed “regular, active portfolio management” (*normaal, actief vermogensbeheer*).

If the above-mentioned conditions (i) or (ii) do not apply to the individual Noteholder, the actual income derived from the Notes and the actual gains realised with respect to the Notes will not be taxable. Instead, such Noteholder will be taxed at a flat rate of 30 per cent. on deemed income from “savings and investments” (*belastbaar resultaat uit sparen en beleggen*) within the meaning of Section 5.1 of the Income Tax Act 2001. This deemed income amounts to 4 per cent. of the average of the individual’s “yield basis” (*rendementsgrondslag*) within the meaning of article 5.3 of the Income Tax Act 2001 at the beginning of the calendar year and the individual’s yield basis at the end of the calendar year, insofar the average exceeds a certain threshold. The fair market value of the Notes will be included in the individual’s yield basis.

Non-residents of The Netherlands

A Noteholder that is not a resident nor deemed to be a resident of The Netherlands for Netherlands tax purposes is not taxable in respect of income derived from the Notes and gains realised upon the redemption and disposal of the Notes, unless:

- (i) the Noteholder has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands to which permanent establishment or permanent representative the Notes are attributable; or
- (ii) the Noteholder is entitled to a share in the profits of an enterprise that is effectively managed in The Netherlands, other than by way of securities or through an employment contract, and to which enterprise the Notes are attributable; or

- (iii) the Noteholder is an individual and such income or gains qualify as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands within the meaning of Section 3.4 of the Income Tax Act 2001, which include the performance of activities in The Netherlands with respect to the Notes that exceed “regular, active portfolio management” (*normaal, actief vermogensbeheer*).

Gift and Inheritance Taxes

Residents of The Netherlands

Generally, gift and inheritance taxes will be due in The Netherlands in respect of the acquisition of the Notes by way of a gift by, or on the death of, a Noteholder who is a resident or deemed to be a resident of The Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death.

An individual of The Netherlands nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax, if he or she has been resident in The Netherlands during the ten years preceding the gift or his or her death. An individual of any other nationality is deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax only if he or she has been residing in The Netherlands at any time during the twelve months preceding the time of the gift.

Non-residents of The Netherlands

No gift or inheritance taxes will arise in The Netherlands in respect of the acquisition of the Notes by way of gift by, or as a result of the death of, a Noteholder who is neither a resident nor deemed to be a resident of The Netherlands for the purposes of The Netherlands gift and inheritance tax, unless:

- (i) such Noteholder at the time of the gift has or at the time of his or her death had an enterprise or an interest in an enterprise, that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which Netherlands permanent establishment or permanent representative the Notes are attributable; or
- (ii) the Notes are or were attributable to the assets of an enterprise that is effectively managed in The Netherlands and the donor is or the deceased was entitled to a share in the profits of that enterprise, at the time of the gift or at the time of his or her death, other than by way of securities or through an employment contract; or
- (iii) in the case of a gift of the Notes by an individual who at the date of the gift was neither a resident nor deemed to be a resident of The Netherlands, such individual dies within 180 days after the date of the gift, while at the time of his or her death being a resident or deemed to be a resident of The Netherlands.

Treaties

Treaties may limit the Dutch sovereignty to levy gift and inheritance tax.

Other Taxes and Duties

No Netherlands capital duty, registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be due in The Netherlands by a Noteholder in respect of or in connection with the subscription, issue, placement, allotment or delivery of the Notes.

EU Savings Directive

Please refer to the equivalent section under “*United Kingdom Taxation*” above, which is also applicable to The Netherlands.

C. Certain U.S. Federal Income Tax Considerations

*The following is a general summary of certain United States Federal income tax consequences of the purchase, ownership and disposition of the Notes. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Code”), applicable income tax regulations, published rulings, administrative pronouncements and court decisions, as of the date hereof, all of which are subject to change or differing interpretations at any time and possibly with retroactive effect. This summary does not discuss all aspects of United States Federal income taxation that may be relevant to a particular investor in light of the investor’s particular circumstances. In particular, this summary does not apply to investors who own, directly or through attribution, 10 per cent. or more of the Company’s outstanding voting share capital, or to certain types of investors subject to special treatment under the United States Federal income tax laws (such as tax-exempt organisations (including qualified pension plans), banks, insurance companies, regulated investment companies, brokers, dealers, foreign persons and entities, persons holding Notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle”, or persons whose functional currency is not the United States dollar). In addition, this summary does not consider the effect of any foreign, state, local or other tax laws, or any other United States tax consequences other than income tax consequences, that may be applicable to particular investors. This summary also assumes that the Notes are held as capital assets. **EACH PROSPECTIVE PURCHASER OF THE NOTES SHOULD CONSULT ITS OWN TAX ADVISORS CONCERNING THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX LAWS TO ITS PARTICULAR SITUATION AS WELL AS ANY CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.***

The following summary deals only with holders who purchase Notes at original issuance and is limited to a general discussion of the tax consequences of the purchase, ownership and disposition of Notes. The Pricing Supplement for each series of Notes will describe additional tax consequences, if any, that relate to the specific Notes to be issued. Accordingly, this discussion should be read only in connection with the discussion, if any, of U.S. Federal income tax considerations contained in the Pricing Supplement to which investors are referred and does not, by itself, necessarily discuss all of the material U.S. Federal income tax issues of a particular series of Notes.

This summary deals only with holders who purchase Notes in this offering at the “issue price” (which will be the price at which a substantial amount of the Notes is sold to persons other than bond houses, brokers or similar persons acting in the capacity of underwriters, agents or shareholders). In addition, this summary deals only with Notes that are due to mature 30 years or less from the date on which they are issued.

As used herein, the term “U.S. Holder” means a beneficial owner of a Note that is for U.S. Federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. Federal income taxation regardless of its source; (iv) a trust the administration of which is subject to the primary supervision of a court in the United States and with respect to which one or more U.S. persons have the authority to control all substantial decisions; or (v) any other person whose income or gain in respect of such Note is effectively connected with the conduct of a United States trade or business. If a partnership holds Notes, the consequences to a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partner in a partnership holding Notes should consult its own tax advisor.

A “Non-U.S. Holder” means a beneficial owner other than a U.S. Holder.

Payments of Interest and Discount on the Notes

Stated Interest

Except as described below, the amount of any stated interest payments on a Note will be taxable to a U.S. Holder as ordinary interest income in accordance with such U.S. Holder’s method of accounting for U.S. Federal income tax purposes. If an interest payment is denominated in or determined by reference to a

“Foreign Currency” (a currency other than the U.S. dollar), then special rules, described below under “Foreign Currency Notes” apply.

Original Issue Discount

If a U.S. Holder holds Notes which have original issue discount (“OID”) and which have a maturity of more than one year from their date of issue, such U.S. Holder will generally be required to recognise such OID as ordinary interest income under a constant yield method in advance of the receipt of cash payments to which such income is attributable, regardless of the U.S. Holder’s method of accounting. Special rules apply to OID on a Note that is denominated in Foreign Currency. See “Foreign Currency Notes”.

A Note has OID to the extent that the Note’s “stated redemption price at maturity” exceeds its “issue price,” but only if such excess equals or exceeds a specified minimum amount (generally, an amount equal to one quarter of one per cent. of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). The stated redemption price at maturity of a Note generally is the sum of all payments provided by the Note other than payments of “qualified stated interest”. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments, of the issuer) at least annually at a single fixed rate (or at certain floating rates) that appropriately takes into account the length of the interval between stated interest payments. The issue price of a Note is the first price at which a substantial amount of such issue of Notes has been sold (ignoring sales to bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, agents, or wholesalers).

In general, if the excess of a Note’s stated redemption price at maturity over its issue price is less than the specified minimum amount, then such excess constitutes “*de minimis* OID”. Unless the election described below under “Election to Treat All Interest as OID” is made, such a Note will not be treated as issued with OID (in which case the following paragraphs under “Original Issue Discount” will not apply) and a U.S. Holder of such a Note will recognise capital gain with respect to such *de minimis* OID as stated principal payments on the Note are made. The amount of such gain with respect to each such payment will equal the product of the total amount of the Note’s *de minimis* OID and a fraction, the numerator of which is the amount of the principal payment and the denominator of which is the stated principal amount of the Note.

Except as described below with respect to Short Term Notes (defined herein), the amount of OID that a U.S. Holder will be required to include in income in a taxable year will be determined by allocating to each day of the taxable year for which the U.S. Holder holds the Note the pro rata daily portions of OID attributable to the “accrual period.” An accrual period may be of any length selected by the U.S. Holder and the accrual periods may vary in length over the term of the Note as long as (i) each accrual period is no longer than one year, and (ii) each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of OID allocable to each accrual period generally will equal the product of (i) the Note’s “adjusted issue price” at the beginning of such accrual period and (ii) its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period), less the amount of any qualified stated interest payments allocable to such accrual period. The adjusted issue price of a Note at the beginning of the first accrual period is the issue price. Thereafter, the adjusted issue price of a Note is the sum of the issue price plus the amount of OID previously includable in the gross income of the holder reduced by the amount of any payment previously made on the Note, other than payments of “qualified stated interest”. Thus, under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID over the life of the Note. Special rules apply for calculating OID in short initial or final accrual periods.

If the Issuer has an unconditional option to redeem or prepay a Note before the Note’s stated maturity, such option will be presumed to be exercised if, by utilising any date on which such Note may be redeemed or repurchased as the maturity date and the amount payable on such date in accordance with the terms of the Note (the “redemption price”) as the stated redemption price at maturity, the yield on the Note would be lower than its yield to stated maturity and the yield to maturity of the Note will be determined based on this earlier maturity date. If such option is in fact exercised or not exercised contrary to the presumption made (*i.e.*, there is a “change in circumstances”), then the Note would be treated, solely for

OID purposes, as if it were retired and reissued on the date of the change in circumstances for an amount equal to the Note's adjusted issue price on that date.

Floating Rate Notes

Floating Rate Notes will be subject to special rules. Generally, if a Floating Rate Note qualifies as a "variable rate debt instrument" (as defined in applicable Treasury Regulations) then (i) all stated interest with respect to such Floating Rate Note will be qualified stated interest and hence included in a U.S. Holder's income in accordance with such U.S. Holder's normal method of accounting for United States Federal income tax purposes, and (ii) the amount of OID, if any, will be determined under the general OID rules (as described above under "Original Issue Discount") by assuming that the variable rate is a fixed rate equal, in general, to the value, as of the issue date, of the floating rate.

If any of the Floating Rate Notes do not qualify as "variable rate debt instruments," such Floating Rate Notes will be classified as contingent payment debt instruments and will be subject to special rules for calculating the accrual of stated interest and OID.

Any special considerations with respect to the tax consequences of holding a Floating Rate Note will be provided in the applicable Pricing Supplement.

Index Linked Notes

Special U.S. Federal income tax rules apply with respect to Index Linked Notes. If any Index Linked Notes are issued, information concerning the United States Federal income tax consequences of such Notes to U.S. Holders will be provided in the applicable Pricing Supplement.

Short Term Notes

Generally, an accrual basis U.S. Holder of "Short Term Notes" (*i.e.*, Notes having a fixed maturity date not more than one year from the date of issue) is required to accrue OID on Short Term Notes on either a straight-line basis or, at the election of the U.S. Holder, under the constant yield method (based on daily compounding). An individual or other cash basis U.S. Holder of a Short Term Note is generally not required to accrue OID for U.S. Federal income tax purposes unless it elects to do so.

Any U.S. Holder of a Short Term Note can elect to apply the rules in the preceding paragraph taking into account the amount of "acquisition discount", if any, with respect to the Note (rather than the OID with respect to such Note). Acquisition discount is the excess of the stated redemption price at maturity of the Short Term Note over the U.S. Holder's purchase price (and hence may differ from the amount of OID if such U.S. Holder's basis is not equal to the issue price of the Note). Acquisition discount will be treated as accruing on a ratable basis, or, at the election of the U.S. Holder, on a constant yield basis.

For purposes of determining the amount of OID subject to these rules, applicable Treasury Regulations provide that, unlike the rules applicable to the determination of OID with respect to Notes which are not Short Term Notes, no interest payments on a Short Term Note will be qualified stated interest. Consequently, such interest payments are included in the Short Term Note's stated redemption price at maturity and therefore may give rise to OID (or acquisition discount) even if the Short Term Notes are not actually issued at a discount. U.S. Holders should consult their own tax advisors as to the application of these rules.

Amortisable Bond Premium

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts, other than qualified stated interest, payable on the Note after the purchase date will be considered to have purchased the Note at a premium ("bond premium") and will not be required to include any OID in income with respect to such Note. A U.S. Holder generally may elect to amortise the premium over the remaining term of the Note under a constant yield method. For any Floating Rate Note or Index Linked Note that is a "variable rate debt instrument" under applicable income tax regulations, that method is implemented by constructing an "equivalent fixed rate instrument", as provided in applicable Treasury Regulations. The amount amortised in any year reduces both the U.S. Holder's adjusted basis in the Note and interest income from the Note. Any excess bond premium allocable to an accrual period is deductible by the holder

for that accrual period. The amount deductible, however, is limited by the amount of the holder's prior income inclusions on the instrument, and any excess is carried forward to the next accrual period. In addition, in the case of instruments that have alternative payment schedules that are predicated on the unilateral exercise of an option by the issuer or the holder, the amount of bond premium that is amortisable in an accrual period is calculated by assuming that both the issuer and the holder will exercise or not exercise options in a manner that maximises the holder's yield. Thus, a holder may be required to amortise bond premium by reference to the stated maturity, even if it appears likely that the Note will be called. The Treasury Regulations also contain rules applicable if such contingency occurs or fails to occur contrary to the assumption utilised.

U.S. Holders not making an election to amortise bond premium are not required to reduce the adjusted basis of their Notes and consequently may recognise less gain or more loss upon their disposition. The election to amortise bond premium, once made, applies to all debt instruments held or subsequently acquired by the electing U.S. Holder on or after the first day of the taxable year to which the election applies and may not be revoked without the consent of the IRS. Holders should consult their own tax advisors concerning the consequences, means and advisability of making this election.

Election to Treat All Interest as OID

Subject to certain limitations, a U.S. Holder of a debt instrument generally may elect to treat all interest that accrues on the instrument as OID. Interest for this purpose includes stated interest not previously included in income, OID (including any *de minimis* OID), and acquisition discount, adjusted for amortisable bond premium and acquisition premium. If a U.S. Holder makes this election for a Note with amortisable bond premium, the election is treated also as an election under the amortisable bond premium provisions, described above, and the electing U.S. Holder will be required to amortise bond premium currently for all of the U.S. Holder's other debt instruments with amortisable bond premium. U.S. Holders of Notes should consult their own tax advisors concerning the consequences, means and advisability of making such an election.

Non-U.S. Holders

Non-U.S. Holders will generally not be subject to U.S. Federal income tax on payments of principal, interest (including OID) and premium (if any) on any Note unless such principal, interest or premium payment is effectively connected with the conduct of a trade or business by the Non-U.S. Holder within the United States.

Disposition of a Note

U.S. Holders

Except as discussed above, upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest not previously included in income, which will be taxable as such) and such U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note generally will equal such U.S. Holder's initial investment in such Note increased by any OID included in income and any accrued market discount included in income and, decreased by the amount of any payments that are not deemed qualified stated interest payments and amortisable bond premium applied to reduce interest with respect to such Note. Such gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year. Deduction of capital losses for U.S. Federal income tax purposes is subject to limitations.

Non-U.S. Holders

Non-U.S. Holders generally will not be subject to U.S. Federal income taxation on gain or income unless (a) such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year and has certain other connections with the United States or (b) such gain is effectively connected with the conduct of a trade or business by the Non-U.S. Holder within the United States.

Foreign Tax Credit Sourcing Rules

Interest and OID on the Notes should be treated as income from sources without the United States for purposes of the foreign tax credit limitation and, depending on a U.S. Holder's particular circumstances, as either "passive income" or "financial services income" for such purposes.

Gain or loss recognised on the sale, exchange or retirement of a Note by a U.S. Holder generally will constitute income from sources within the United States.

U.S. Holders of Notes should consult their own tax advisors concerning the source of income or loss with respect to the Notes and the application of the foreign tax credit limitation generally.

Foreign Currency Notes

The following summary relates to Notes that are denominated in a currency or basket of currencies other than the U.S. dollar ("Foreign Currency Notes").

Payments of Interest in a Foreign Currency

A U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including OID or market discount and reduced by amortisable bond premium to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Note during an accrual period. The U.S. dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. Holder may elect, however, to translate such accrued interest income using the spot rate on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, using the spot rate on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder may translate such interest using the spot rate on the date of receipt. U.S. Holders should consult their own tax advisors concerning the consequences, means and advisability of making such an election.

A U.S. Holder who receives a payment of interest in Foreign Currency may recognise exchange gain or loss (which will be treated as ordinary income or loss) with respect to accrued interest income on the date such income is received. The amount of ordinary income or loss recognised will equal the difference, if any, between the U.S. dollar value of the Foreign Currency payment received (determined using the spot rate on the date such payment is received) in respect of such accrued interest and the U.S. dollar value of the income inclusion with respect to such accrued interest (as determined above).

Special rules apply to market discount and bond premium received on Foreign Currency Notes. U.S. Holders of Notes should consult their own tax advisors regarding such special rules.

Foreign Currency Discount Notes

OID for any accrual period on a Note that is denominated in a Foreign Currency will be determined in the Foreign Currency and then translated into U.S. dollars in the same manner as stated interest accrued before receipt, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder may recognise exchange gain or loss (which will be treated as ordinary gain or loss) measured by the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued.

Foreign Currency Gain or Loss on Sale, Exchange or Retirement

If a U.S. Holder receives Foreign Currency on a sale, exchange or retirement of a Note, the amount realised will be based on the U.S. dollar value of the Foreign Currency on the date the payment is received or the instrument is disposed of (or deemed disposed of). Gain or loss realised upon the sale, exchange or retirement of a Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in

exchange rates will equal the difference between the U.S. dollar value of the Foreign Currency principal amount of a Note, determined using the spot rate on the date such payment is received or such Note is disposed of, and the U.S. dollar value of the Foreign Currency principal amount of such Note, determined using the spot rate on the date the U.S. Holder acquired such Note. Such Foreign Currency gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange or retirement of such Note.

Payment of Interest or Principal in Dollars

If a U.S. Holder receives such payment in U.S. dollars, the receipt of payment should be treated as though payment were made in the Foreign Currency and such Foreign Currency immediately exchanged for U.S. dollars. With respect to the deemed payment in Foreign Currency, the rules described above should apply. With respect to the deemed exchange of Foreign Currency for U.S. dollars, additional currency exchange gain or loss would be realised to reflect the difference between (i) the U.S. dollar value of the Foreign Currency at the spot rate in effect on the payment date, and (ii) the actual amount of U.S. dollars received.

Backup Withholding and Information Reporting

U.S. Holders

In general, information reporting and “backup withholding” may be required with respect to principal and interest payments, and proceeds from certain sales of an obligation prior to maturity, made within the United States and the accrual of OID to a non-corporate U.S. Holder if such holder fails to (i) furnish a taxpayer identification number, (ii) certify that such holder is not subject to backup withholding or (iii) otherwise comply with applicable requirements of the backup withholding rules.

Non U.S. Holders

Information reporting and backup withholding generally will not apply to payments made to a Non-U.S. Holder unless the Issuer or the relevant paying agent has reason to know that such holder is a United States person. Principal and interest on a Note paid by the U.S. office of a custodian, nominee or agent of the beneficial owner, or the payment by the U.S. office of a broker of the proceeds of a sale or exchange of a Note will be subject to backup withholding and information reporting unless the beneficial owner complies with the certification procedures for non-United States persons, or otherwise establishes an exemption from information reporting.

If interest payments are collected outside of the United States by a foreign office of a custodian, nominee or other agent on behalf of a beneficial owner of a Note, backup withholding or information reporting by such custodian, nominee or other agent generally will not be required with respect to interest payments made to such owner. However, if such custodian, nominee or other agent is a United States person or a U.S. controlled person (as herein defined), information reporting will be required with respect to interest payments made to such owner unless such custodian, nominee or other agent has documentary evidence in its records that such owner is not a United States person and does not have reason to know that such evidence is false, or the beneficial owner otherwise establishes an exemption from backup withholding.

Payment of the proceeds on the retirement or sale of a Note outside the United States or to or through a foreign office of a broker generally will not be subject to information reporting and backup withholding. However, if such broker is a United States person or a U.S. controlled person information reporting will apply to such payment unless, in general, such broker has documentary evidence in its records that the owner is not a United States person and does not have reason to know that such evidence is false or the beneficial owner otherwise establishes an exemption from such reporting.

For purposes of the above, “U.S. controlled person” means: (i) a controlled foreign corporation for United States Federal income tax purposes; (ii) a foreign person 50 per cent. or more of whose gross income for the three year period ending with the close of its taxable year preceding the year of payment is effectively connected with a U.S. trade or business; or (iii) a foreign partnership if, at any time during its tax years, one or more of its partners are U.S. persons who in the aggregate hold more than 50 per cent. of the income or capital interest of the partnership or if, at any time during its taxable year it is engaged in the conduct of a trade or business within the United States.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have in an Amended and Restated Programme Agreement dated 3rd May, 2002, as amended and supplemented by the First Supplemental Programme Agreement dated 8th May, 2003 and the Second Supplemental Programme Agreement dated 28th April, 2004 (together, the “Programme Agreement”), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes” above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection herewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions with a view to supporting the market price of the relevant Notes during and after the offering of the Tranche at a level higher than that which might otherwise prevail. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may support the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to support the market price of the Notes at a level higher than that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time and must be brought to an end after a limited period and will be carried out in accordance with all applicable laws and regulations. Such stabilising shall be in compliance with all relevant laws and regulations and will, in respect of Notes listed on the Euronext Amsterdam, in any event be discontinued 30 days after the relevant Issue Date.

Stabilisation transactions conducted on Euronext Amsterdam must be conducted by a member of Euronext Amsterdam on behalf of the initial purchasers and must be conducted in accordance with all applicable laws and regulations, including those of Euronext Amsterdam and article 32 of the Further Regulations on Market Conduct Supervision on the Securities Trade 2002 (“*Nadere Regeling Gedragstoezicht Effectenverkeer 2002*”).

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (c) it is outside the United States and is not a U.S. person;
- (ii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be

registered under the Securities Act or any U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

- (iii) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the date which is two years after the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only (a) to the Issuer or any affiliate thereof, (b) to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;
- (iv) that it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;
- (vi) that the Notes, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING (OR HOLDING) THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN “INSTITUTIONAL ACCREDITED INVESTOR”); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS TWO YEARS AFTER THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO,

THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).”;

- (vii) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

“THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.”; and

- (viii) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in private transactions that are exempt from registration under the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see “Form of the Notes”.

The IAI Investment Letter will state, among other things, the following:

- (i) that the Institutional Accredited Investor has received a copy of the Prospectus and such other information as it deems necessary in order to make its investment decision;
- (ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Prospectus and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;
- (iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;
- (iv) that the Institutional Accredited Investor is an “Accredited Investor” within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and

experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

- (v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and
- (vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.\$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.\$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.\$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.\$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

According to Chapter VI, Article 3, point A/11/2 of the Rules and Regulations of the Luxembourg Stock Exchange the Notes shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("Regulation S Notes"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of

Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.\$100,000 (or the approximate equivalent thereof in any other currency). The Issuer has agreed that, for so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, to the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, it will furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Each issue of Index Linked Notes and Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree, as indicated in the applicable Pricing Supplement.

United Kingdom

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (i) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000, as amended (the “FSMA”) with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer;
- (iii) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of the period of six months from the Issue Date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended); and
- (iv) in relation to any Notes having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Accordingly each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

The Netherlands

Notes will and may only be offered by the Issuer anywhere in the world, and such offer will and may only be announced:

- a. if those Notes have been, or will likely shortly be, admitted to listing on the Official Segment of the stock market of Euronext Amsterdam N.V.; or
- b. if:
 - (i) the Prospectus and the applicable Pricing Supplement (the “**Offer Documents**”) (a) comply with Section 2 of the 1995 Decree on the Supervision of the Securities Trade (“*Besluit toezicht effectenverkeer 1995*”, the “**Securities Decree**”), (b) are submitted to the Netherlands Authority for the Financial Markets (“*Stichting Autoriteit Financiële Markten*”, the “**AFM**”) before the offer is made, and (c) are generally available as of the time when the offer is made; or
the Offer Documents (a) have been approved by the competent authority as referred to in Article 20 or Article 21 of EC Directive 89/298/EEC, (b) are recognised by the AFM and (c) are generally available as of the time when the offer is made; and
 - (ii) each announcement of the offer states where and when the Offer Documents will be or have been made generally available, and each such announcement made before the offer is made, is submitted to the AFM before the applicable Pricing Supplement is published; and
 - (iii) if after the date of the Prospectus new relevant facts occur or are discovered, Section 6 of the Securities Decree is complied with;all provided that the offer is made within one year after the date of the Prospectus; or
- c. to persons who trade or invest in securities in the conduct of their profession or trade (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities), provided that the offer, the applicable Pricing Supplement and each announcement of the offer states that the offer is exclusively made to those persons; or
- d. if those Notes have a denomination of at least EUR 50,000 (or its foreign currency equivalent); or
- e. otherwise in accordance with the Dutch 1995 Act on the Supervision of the Securities Trade (*Wet toezicht effectenverkeer 1995*).

In addition, bearer Zero Coupon Notes and other Notes which qualify as savings certificates as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) may only be transferred or accepted through the mediation of either the Issuer or a Member of Euronext Amsterdam N.V. with due observance of the Savings Certificates Act and its implementing regulations (including registration requirements), provided that no mediation is required in respect of (i) the initial issue of those Notes to the first holders thereof, (ii) any transfer and delivery by individuals who do not act in the conduct of a profession or trade, and (iii) the issue and trading of those Notes, if they are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with any other additional restrictions set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes under the Programme have been duly authorised by a resolution of the Board of Management of the Issuer dated 24th August, 1998. This resolution was lawfully approved by the Supervisory Board on 1st September, 1998. An increase of the maximum aggregate nominal amount of the Programme from U.S.\$5,000,000,000 to U.S.\$10,000,000,000 was duly authorised by a resolution of the Board of Management of the Issuer dated 19th June, 2000. The resolution was lawfully approved by the Supervisory Board on 26th June, 2000. The renewal of the Programme and the issue of the Notes have been duly authorised by a resolution of the Board of Management of the Issuer dated 15th April, 2004. The resolution was lawfully approved by the Supervisory Board on 15th April, 2004. All consents, approvals, authorisations or other orders of all regulatory authorities required by the Issuer under the laws of The Netherlands have been given for the issue of Notes and for the Issuer to undertake and perform its obligations under the Programme Agreement, the Agency Agreement and the Notes.

Listing

Application has been made for the Notes issued under the Programme to be listed on Euronext Amsterdam and the Luxembourg Stock Exchange.

A legal notice relating to the Programme and the constitutional documents of the Issuer are being lodged with the Registrar of Commerce and Companies in Luxembourg (*Registre de Commerce et des Sociétés à Luxembourg*) where such documents may be examined and copies obtained. The Luxembourg Stock Exchange has allocated the number 12482 to the Programme for listing purposes.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available free of charge in English from the registered office of the Issuer and from the specified offices of the Principal Paying Agent and the Paying Agent in Luxembourg:

- (i) an English translation of the most recent Articles of Association of the Issuer;
- (ii) the annual reports of the Issuer for the years ended 2001, 2002 and 2003 (containing the audited financial statements of the Issuer, which include the consolidated financial statements) and the unaudited consolidated semi-annual interim financial statements of the Issuer (in each case in English). The Issuer does not publish non-consolidated financial statements;
- (iii) the most recently available published audited financial statements which include the consolidated financial statements, the most recently available published unaudited consolidated semi-annual and quarterly interim financial statements of the Issuer (in each case in English);
- (iv) the most recently available Annual report on Form 20-F of the Issuer filed with the U.S. Securities and Exchange Commission and any supplements and amendments thereto;
- (v) the Programme Agreement and the Agency Agreement (which contains the forms of the global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons);
- (vi) a copy of this Prospectus; and
- (vii) any future prospectuses, offering circulars, information memoranda and supplements (including the Pricing Supplements in respect of listed Notes) to this Prospectus and any other documents incorporated herein or therein by reference.

Clearing and Settlement Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and the Securities Clearing Corporation of Euronext Amsterdam. The appropriate Common Code, ISIN and Fondscode for each Tranche of Notes allocated by Euroclear, Clearstream, Luxembourg and the Securities Clearing Corporation of Euronext Amsterdam, and any other relevant security code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Significant Change

Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries, taken as a whole, and there has been no material adverse change in the financial position or prospects of the Issuer, or the Issuer and its subsidiaries taken as a whole, since 31st December, 2003.

Litigation

Save as disclosed in this Prospectus including the documents incorporated by reference (see page 5), there are no, nor has there been any, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had during the twelve months prior to the date hereof a significant effect on the financial position of the Issuer or the Issuer and its subsidiaries taken as a whole.

Auditors

PricewaterhouseCoopers Accountants N.V., as auditors of the Issuer, have audited the financial statements of the Issuer in accordance with generally accepted auditing standards in The Netherlands for each of the financial years ended 31st December, 2001, 2002 and 2003 and issued a report for each of these years without qualification.

Commercial Register

The Issuer is registered in the Commercial Register of Haaglanden under No. 02045200.

Issuer's Website

The Issuer's website address is www.kpn.com. Information on the Issuer's website does not form part of this Prospectus and may not be relied upon in connection with any decision to invest in any Notes.

REGISTERED OFFICE OF THE ISSUER

Koninklijke KPN N.V.

Maanplein 55
2516 CK The Hague
The Netherlands

PRINCIPAL PAYING AGENT

*For all Notes (other than Notes
deposited with Euroclear Netherlands):*

Citibank, N.A.
5 Carmelite Street
London EC4Y 0PA
United Kingdom

For Notes deposited with Euroclear Netherlands:

ABN AMRO Bank N.V.
Kemelstede 2
4817 ST Breda
The Netherlands

REGISTRAR

Citibank, N.A.
5 Carmelite Street
London EC4Y 0PA
United Kingdom

PAYING AND TRANSFER AGENTS

ABN AMRO Bank N.V.
Kemelstede 2
4817 ST Breda
The Netherlands

ING Belgium S.A./N.V.
avenue Marnixlaan 24
B-1000 Brussels
Belgium

**Dexia Banque Internationale à
Luxembourg**
69 route d'Esch
L-2953 Luxembourg
Luxembourg

LEGAL ADVISERS

To the Issuer in respect of the Programme and as to English, U.S. and Dutch law

Allen & Overy

One New Change
London EC4M 9QQ
United Kingdom

Apollolaan 15
1077 AB Amsterdam
The Netherlands

To the Arranger and Dealers as to English law

Linklaters

3rd Floor, Atrium Building
Strawinskylaan 3051
1077 ZX Amsterdam
The Netherlands

INDEPENDENT AUDITORS

PricewaterhouseCoopers Accountants N.V.

Oostduinlaan 2
2596 JM The Hague
The Netherlands

AMSTERDAM LISTING AGENT

ABN AMRO Bank N.V.

Gustav Mahlerlaan 10
1082 PP Amsterdam
The Netherlands

LUXEMBOURG LISTING AGENT

Dexia Banque Internationale à Luxembourg

69, route d'Esch
L-2953 Luxembourg
Luxembourg

DEALERS

ABN AMRO Bank N.V.

250 Bishopsgate
London EC2M 4AA
United Kingdom

Banc of America Securities Limited

5 Canada Square
London E14 5AQ
United Kingdom

Bayerische Hypo- und Vereinsbank AG

Arabelstr. 12
81925m Munich
Germany

Citigroup Global Markets Limited

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London E14 5LB
United Kingdom

Coöperatieve Centrale Raiffeisen

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3521 CB Utrecht
The Netherlands

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One Cabot Square
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United Kingdom

Deutsche Bank AG London

Winchester House
1 Great Winchester Street
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United Kingdom

ING Bank N.V.

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The Netherlands

J.P. Morgan Securities Ltd.

125 London Wall
London EC2Y 5AJ
United Kingdom

Scotia Capital Inc

Scotia House
33 Finsbury Square
London EC2A 1BB
United Kingdom