Quarterly report KPN

First quarter of 2005

May 10, 2005

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Press Release

KPN increases market shares in broadband and mobile; Solid cash flow

First-time reporting under IFRS, unaudited.

Headlines Q1 2005

IFRS, in millions of euro, unless indicated otherwise	Q1 2005	Q1 2004
Operating revenues	**2,890**	2,944
Net sales	**2,838**	2,868
Operating profit	**516**	675
Profit for the period	**273**	414
Earnings per share (in euro)	**0.12**	0.17
Cash flow from operating activities	**822**	953
Less: capital expenditures (in PP&E and software)	**232**	307
Free cash flow	**590**	646
Operating profit	**516**	675
Add: depreciation, amortization and impairments	**578**	554
EBITDA	**1,094**	1,229

Highlights Q1 2005

- Market share gains in both broadband and mobile;
- Free cash flow of EUR 590 million;
- 2005 year-to-date share repurchases: 82.5 million shares, or EUR 565 million, with EUR 420 million remaining to be returned to shareholders;
- Net sales declined marginally (EUR 30 million, or 1%) following MTA tariff reductions of EUR 44 million;
- Operating profit declined by EUR 159 million, mainly due to additional investments in customer bases Mobile The Netherlands and E-Plus (approximately EUR 120 million) and UMTS amortization costs (EUR 64 million);
- Reported EBITDA down by 11%;
- For comparison with guidance we exclude book gains, restructuring charges and impairments exceeding EUR 20 million per event. On this basis, operating revenues were near flat (-/- 0.6%), while EBITDA decreased by 6.3%. See table on page 11 for a reconciliation.

Commenting, Ad Scheepbouwer, CEO of KPN, said:

"We have gained market share in both broadband and mobile, our key objectives. This required major investment, but Cash Flow remained solid. We have met market expectations, and we have returned nearly EUR 1.2 billion of cash to our shareholders year-to-date.
All our strategic initiatives are on track. We will launch our VOIP offering this month. I am pleased with a very resilient performance of KPN Mobile The Netherlands in the face of further MTA tariff reductions. We expect that its revenue and margin will rise during the remainder of the year.
We are strengthening our international Mobile businesses, and in a separate announcement the Board has appointed Stan Miller, currently CEO of BASE, to take control of both our Belgian and German Mobile

businesses. We believe that Stan can help us capitalize on the opportunities in Germany and drive more of the top-line growth through to the bottom line, as he has done so successfully at BASE".

Fixed

- EBITDA margin improved from 41.3% in Q1 2004 to 41.6%;
- Broadband market share rose to 44.3%;
- Net sales decreased by 6.8% to EUR 1,702 million (2004: EUR 1,827 million), net expenses decreased by 7.5%;
- VoIP offering to be launched in May

Mobile

- Net sales increased by 6.8%;
- Particularly strong performance by KPN Mobile The Netherlands, achieving a net sales increase despite MTA tariff reductions, and an increase in subscriber market share;
- E-Plus: Continuing strong growth of post-paid drove net sales up 9.0%. First-time MTA tariff cuts in Germany more than offset by net sales increase. Declining EBITDA margin primarily due to sharply increased sales-related costs and MTA effect;
- BASE: continued growth in customer numbers, revenues and operating profit;
- New management structure for international businesses as from May 10; single CEO appointed.

Operating Review

Fixed division

The number of broadband customers continued to increase, albeit at a lower rate than in previous quarters because of the lower growth rate of the total market. The 'ADSL by KPN' customer base increased by 119,000 in the first quarter of 2005 to 1.5 million customers with over 1 million KPN ISP-customers by the end of March 2005.

KPN's share of the total broadband market (including broadband offered by cable operators) increased to 44.3% by end of March 2005 (43.8 % by the end of December 2004) and KPN widened its lead over the total market share of the cable operators. In the first quarter, the acquisitions of CistroN and Freeler were completed. As a result of both these acquisitions and successful marketing campaigns the growth rate of the KPN ISP customer base continued to be higher than the overall broadband market, and KPN ISPs' broadband market share[1] increased to 31.8% by the end of March 2005, compared to 29.7% by the end of December 2004. KPN introduced 'ADSL Only' in February, targeted at 'Mobile Only' customers. Following this, KPN launched a pilot project with 'Voice over IP' services (VoIP) for a selected group of consumer customers in April 2005. This proposition enables customers to use both Internet and calling services. KPN will be launching its VoIP offering in May.

As of March 31, 2005, 'Digital TV by KPN' had over 46,000 customers. A further rollout of the DVB-T network will take place during 2005/6 with national coverage to be achieved during the course of 2006.

Already 1.4 million customers (27% of KPN's total residential customer base) have opted for *BelPlus* packages. KPN's "*Altijd Dichtbij*" loyalty program is very successful and has now close to two million customers. This program gives customers personal and optimized advice on using a range of *BelPlus* packages and use of the Friends & Family program ("*Voordeelnummers*").

Since the introduction of ISDN1 in February almost 8,000 customers have been migrating from ISDN2 to ISDN1, often in combination with ADSL.

On January 1, 2005, KPN phased out its "*FlexiBel*" package in the business market. By the end of March 2005, a total of 203,000 customers were successfully migrated to *BelZakelijk* (a prepaid package with an extensive range of call allowances), now covering about 28% of the total number of business sites, and representing 31% market penetration in the primary target group of small and mid-sized enterprises (SMEs).

As a result of these initiatives KPN was able to maintain fixed telephony market shares at between 70 - 75% (local traffic), between 55 - 60% (national traffic), approximately 60% (fixed-to-mobile) and approximately 45% (international traffic)[2].

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[1] Defined as the market share consumer broadband of KPN ISP's and Direct ADSL (including Freeler and CistroN).

[2] Excluding international traffic from telephone cards.

In the business data services market, traditional leased lines continue to be migrated to new broadband services, such as IP-VPN and DSL products. At the end of March, in total 1,504 business customers (end 2004: 1,409) were migrated to IP-VPN networks, while the number of IP-VPN connections increased to 33,982 (end 2004: 30,164).

Marketing campaigns for KPN's DSL offering for SMEs (Office DSL) were intensified in March. KPN also introduced TelecomManagement Totaal™, a solution for fixed and mobile telephony for companies with over 500 mobile and desk phones. The service includes: one point of contact via a personal service level manager, a helpdesk for end users, a clear invoice and Management Information.

Furthermore, several 'Managed IT Services' contracts were entered into (including SAP Hosting Services for Accenture and SigmaKalon) and other substantial contracts (e.g. Renault Nissan the Netherlands).

In the first quarter of 2005, KPN introduced Wholesale ADSL service, an added-value service on top of local loop unbundling, which enables ISPs and telecommunication companies to add ISP-specific value without the need to invest in their own ADSL network. Several major wholesale ADSL agreements were signed and other parties have expressed their interest in this service.

KPN will further strengthen its position in the Voice, Internet and TV market through the following initiatives.

- In the second quarter of 2005, the upgrade of the ADSL network to ADSL2+ has started. ADSL2+ access technology will enable the introduction of high-speed Internet Access Services and IPTV later in the year, as well as Delay TV and Video on Demand over DSL.
- KPN will launch pilot projects for Mobile TV and broadband-based VDSL services.

Mobile division

During the first quarter of 2005, KPN maintained its record of growing the customer bases of all three operators.

E-Plus

E-Plus continued to grow its customer base by adding 140,000 new customers in a traditionally quiet first quarter, increasing its customer base to over 9.6 million. This increase was wholly attributable to postpaid customers. E-Plus' market share rose from 12.8% in Q1 2004 to 13.3% in the first quarter of 2005. In the pre-paid market E-Plus focuses on driving growth at the higher end of the market while subsidies to the lower end of the market have been reduced.

In this quarter, the total number of postpaid customers for the first time exceeded the number of prepaid customers. Simultaneously, E-Plus increased its presence in the business market growing its business customer base by more than 20%.

Operating profit and margin were negatively impacted by investments in the customer base (up EUR 65 million compared to Q1 2004) and MTA (EUR 18 million).

KPN Mobile the Netherlands
KPN now has a 40.7% market share (Q1 2004: 39.4%). In order to underpin our clear market leadership, KPN's strategy is to focus on post-paid, the more valuable segment of the market. This focus resulted in an increase of the postpaid customer base of 141,000 subscribers (66% of the net Q1 additions) to 2.3 million.

The postpaid share of KPN's customer base increased from 36.0% at the end of 2004 to 37.0% at the end of Q1. Operating revenues increased by EUR 2 million as positive contributions from a fast-growing postpaid and a higher prepaid customer base (EUR 32 million) were offset by the negative impact of additional MTA reductions (EUR 19 million) and lower Intellectual Property Rights (IPR) revenues (EUR 11 million).

BASE
BASE further exploited the opportunities in the Belgian mobile market, although competition is becoming fiercer. BASE continues to grow its customer base and revenues thanks to its strategy of combining distinctive and simple offerings with tailor-made propositions for specific market segments.

By adding 114,000 customers during the first quarter of 2005, its customer base reached 1.8 million customers (Q1 2004: 1.4 million) representing a 28.6% increase compared to the same quarter last year. Based on estimates by KPN management, BASE's market share rose to about 18% (Q1 2004: 16%).

Other activities
In Other activities, operating revenues declined from EUR 134 million in Q1 2004 to EUR 105 million in Q1 2005. This decrease was partly caused by book gains of EUR 36 million in Q1 2004 (disposal of Eutelsat) versus EUR 21 million in Q1 2005 (disposal of KPN equity participations in both Intelsat and Infonet). The remaining decrease of EUR 14 million was the effect of lower revenues from Xantic and deconsolidation of PanTel, which was sold on February 28, 2005. In the first quarter of 2005, the operating profit amounted to EUR 1 million (Q1 2004: EUR 27 million).

Restructuring
In the first quarter, KPN started to simplify its group structure by dismantling its Mobile headquarters and KPN Services. On April 1, 2005, the new structure of the Fixed division became effective. This new structure is based on the separation of network operations – focusing on operational assets, costs and operational excellence – from retail service providers (Consumer and Business), which will focus on customers, customer acquisition, revenues and margin.

In the first quarter of 2005, restructuring expenses totaled to EUR 24 million (Fixed division: EUR 16 million, Mobile division: EUR 1 million, Other activities: EUR 7 million).

Financial Review

Amounts in millions of euro	Q1 2005	Q1 2004
Total operating revenues	**2,890**	**2,944**
Of which:		
Net sales	2,838	2,868
Other operating revenues	52	76
Total operating expenses	**2,374**	**2,269**
Of which:		
Depreciation, amortization and impairments	578	554
Operating profit	**516**	**675**
Financial costs - net	−145	−129
Share in profit of associates and joint ventures	3	3
Profit on continuing operations before taxes	**374**	**549**
Income tax	−101	−135
Profit for the period	**273**	**414**
Attributable to minority interests	−1	4
Attributable to equity holders of the parent	274	410

KPN achieved an **operating profit** of EUR 516 million over the first quarter of 2005 (Q1 2004: EUR 675 million). The decrease of EUR 159 million is mainly the result of increased acquisition and retention expenses in the *Mobile* division and increased UMTS amortization charges.

First quarter **operating revenues** amounted to EUR 2,890 million (2004: EUR 2,944 million), a EUR 54 million decrease compared to the same quarter last year.

Net sales (EUR 2,838 million) – affected by a EUR 44 million adverse impact of MTA tariffs on both the Mobile and Fixed operations – were EUR 30 million (1.0%) lower compared to Q1 2004.

In the *Fixed* division, net sales decreased by EUR 125 million (6.8%) mainly due the combined effect of the accelerated migration from traditional to new, IP-based services, ongoing fixed-to-mobile substitution and MTA tariff reductions (EUR 46 million). *Mobile* division's net sales rose by EUR 82 million (6.8%) benefiting from increases by all three operators (E-Plus: 9.0%; KPN Mobile The Netherlands: 2.6%; BASE 20.0%) including an adverse MTA effect in Germany and the Netherlands of EUR 42 million in total. Net sales of *Other activities* were EUR 14 million lower as a result of lower revenues at PanTel, which was sold on February 28, 2005, and Xantic. *Inter-division* revenues decreased by EUR 27 million to EUR 226 million, primarily affected by MTA tariff reductions.

Overview of MTA impact

In January 2004 and again in December 2004, the Dutch MTA tariffs were reduced. In Germany, the MTA tariffs were reduced on December 15, 2004. The following table summarizes the total impact of MTA on net sales and operating profit.

In millions of euro	**Difference between Q1 2005 and Q1 2004**	
	Net sales	Operating profit
KPN Mobile The Netherlands	–19	–11
E-Plus	–23	–18
Total Mobile division	**–42**	**–29**
Fixed Telephony	–13	0
Carrier Services	–33	0
Total Fixed division	**–46**	**0**
Intercompany	44	0
KPN Consolidated	**–44**	**–29**

Operating expenses increased by EUR 105 million (4.6%) to EUR 2,374 million; the positive effects of MTA tariff reductions (EUR 15 million) were more than offset by the Mobile division's increased amortization charges on UMTS licenses and increased acquisition and retention activities.

Net **finance costs** increased from EUR 129 million in the first quarter of 2004 to EUR 145 million in the same quarter this year. This increase is mainly the result of an impairment of loans to the French SNT subsidiary Vitalicom (EUR 11 million) in Q1 2005 and a reversal of impaired loans (EUR 7 million) in Q1 2004.

Total **income tax charges** in Q1 2005 amounted to EUR 101 million (Q1 2004: EUR 135 million) resulting in an effective tax rate of 27.0% (Q1 2004: 24.6%). For tax losses carried forward from previous periods, EUR 8 million deferred tax assets were recognized (Q1 2004: EUR 36 million) in the first quarter of 2005. Book gains of EUR 18 million (Q1 2004: EUR 36 million) were tax exempted.

Cash flow

Cash flow from operating activities decreased from EUR 953 million in the first quarter of 2004 to EUR 822 million in the first quarter of 2005, mainly because of lower operating profits. Adjusted for the cash flow provided by the sale of assets (Q1 2005: EUR 167 million; Q1 2004: EUR 70 million), the net cash flow used in investing activities decreased by EUR 63 million from EUR 312 million in Q1 2004 to EUR 249 million in Q1 2005, mainly as a result of lower investments in property, plant and equipment and software.

During the first quarter of 2005, we repurchased shares for a total amount of EUR 234 million, of which EUR 172 million was settled, compared to EUR 249 million in the first quarter of 2004.

Cash and cash equivalents

On March 31, 2005, cash and cash equivalents amounted to EUR 2.7 billion. Under IFRS, KPN's cash pool structures agreed with banks do not fulfill the criteria for offsetting the debit and credit balances. On March 31, 2005, the effect on cash and cash equivalents and on short-term financial liabilities amounts to EUR 0.6 billion.

Net debt

As of March 31, 2005, net debt[3] amounted to EUR 7.4 billion compared to EUR 7.9 billion as of January 1, 2005.

Share repurchase program

On March 3, 2005, KPN started to repurchase shares via a second trading line. By effectuating the repurchase program over the second trading line, KPN will not incur the grossed up Dutch dividend withholding tax. Instead, KPN will withhold Dutch dividend withholding tax on the dividend element of the repurchase price. In addition to this second trading line, KPN recommenced open market share repurchases on March 23, 2005, to increase the flexibility to reach the EUR 985 million share repurchase objective.

During the first quarter of 2005, KPN repurchased 32.5 million shares at an average price of EUR 7.02 per share; 8.9 million shares were settled in April 2005.

On March 30, 2005, KPN entered into forward purchase transactions and a discretionary purchase agreement to buy back up to 50 million shares during the closed period, which commenced April 1, 2005 and ended May 9, 2005. In this closed period, 50 million shares (of which 37.5 million via the second trading line) were repurchased for a total amount of EUR 337 million. Consequently, as of May 10, 2005, EUR 420 million remain to be returned to shareholders through share buy backs under the existing commitment.

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[3] The book value of interest-bearing financial liabilities plus the fair value of financial instruments related to these financial liabilities minus cash and cash equivalents

Performance versus Outlook

To compare actual performance with the Outlook we exclude a number of items (restructuring charges over EUR 20 million per event, impairments over EUR 20 million per event and book gains or losses over EUR 20 million per event), as we expect these to exceed EUR 20 million on an annual basis. On this basis, operating revenues were near flat (-/- 0.6%) while EBITDA was down by 6.3%.

Reconciliation for purpose of comparison with Outlook

IFRS, in millions of euro, unless indicated otherwise	**Q1 2005**	**Q1 2004**
Operating revenues - reported	**2,890**	**2,944**
Disposal Eutelsat		-36
Operating revenues – adj. for comp. with guidance	**2,890**	**2,908**
y-o-y difference	-0.6%	
EBITDA – reported	**1,094**	**1,229**
Disposal Eutelsat		-36
Restructuring charges	+24	
EBITDA – adjusted for comparison with guidance	**1,118**	**1,193**
y-o-y difference	-6.3%	

General

Reporting

This press release contains a number of non-GAAP figures, such as EBITDA and free cash flow. These non-GAAP figures should not be viewed as a substitute for our GAAP figures. Our non-GAAP measures may not be comparable to non-GAAP measures used by other companies.

We define EBITDA as operating profit before depreciation and impairments of PP&E and amortization and impairments of goodwill, licenses and other intangibles. The measure is used by financial institutions and credit-rating agencies as one of the key indicators of borrowing potential. Many analysts use EBITDA as a component for their (cash flow) projections. Note that our definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization. Either definition of EBITDA has limitations as an analytical tool and you should not consider it in isolation or as a substitute for analyses of our results as reported under IFRS or US GAAP.

In the past, EBITDA was used as a measurement of certain aspects of operational performance and liquidity. We have used EBITDA as a component of our guidance. In view of the implementation of IFRS, and the resulting volatility of amortization, we believe that this is the most appropriate way of informing the financial markets on certain aspects of future company financial development. We do not view EBITDA as a measure of performance. In all cases, a reconciliation of EBITDA and the nearest GAAP measure (operating profit) will be provided.

Going forward, we will continue to make comparison between guidance and actuals. For the purpose of this comparison, a number of items will be excluded:

- restructuring charges over EUR 20 million per event
- impairments over EUR 20 million per event
- book gains or losses over EUR 20 million per event

We define free cash flow as 'Cash flow from operating activities' minus 'Capital expenditures' defined as expenditures on Property, Plant and Equipment and software.

Safe harbor

Certain statements contained in this quarterly report constitute forward-looking statements. These statements may include, without limitation, statements concerning future results of operations, the impact of regulatory initiatives on our operations, the OPTA investigation into discounts given in breach of OPTA regulation, our and our joint ventures' share of new and existing markets, general industry and macro-economic trends and our performance relative thereto, and statements preceded by, followed by or including the words “believes”, “expects”, “anticipates” or similar expressions. These forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties and other factors, many of which are outside our control that could cause actual results to differ materially from such statements. A number of these factors are described (not exhaustively) in our 2004 Annual Report and Form 20-F.

All figures in this quarterly report are unaudited and based on IFRS. This quarterly report contains a number of non-GAAP figures, such as EBITDA and free cash flow. These non-GAAP figures should not be viewed as a substitute for our GAAP figures. Our non-GAAP measures may not be comparable to non-GAAP measures used by other companies. Certain figures may be subject to rounding differences. All market share information in this quarterly report is based on management estimates based on externally available information, unless indicated otherwise.

For IFRS, we refer to the disclaimer in our press release dated April 18, 2005. Please note that IFRS accounting policies are not yet final and may change as a result of (amongst others) changes in IFRS standards and interpretations, changes in regulatory requirements, additional review and analyses (including market trends) and audit procedures.

Profile

We offer telecommunication services to both consumers and businesses. Our core activities are telephony and data services through our fixed network in the Netherlands, mobile telecom services in Germany, the Netherlands and Belgium and data services in Western Europe. We are market leader in the major segments of the Dutch telecom market and are actively growing our market share in the new IP and DSL markets. Through E-Plus in Germany and BASE in Belgium, we have number-three positions in the mobile markets of these countries.

As of March 31, 2005, we served 7.4 million fixed-line subscribers and 1.7 million Internet customers in the Netherlands as well as 17.7 million mobile customers in Germany, the Netherlands and Belgium. We employed 30,453 individuals as of the same date.

We were incorporated in 1989. Our shares are listed on the stock exchanges of Amsterdam, New York, London and Frankfurt. The credit ratings remained unchanged during the first quarter at A– with stable outlook (Standard & Poor's) and Baa1 with stable outlook (Moody's).

Annex Financial Statements

Interim financial information

Consolidated Statement of Income

In millions of euro, unless otherwise stated	Q1 2005	Q1 2004
Net sales	2,838	2,868
Other operating revenues	52	76
Total operating revenues	**2,890**	**2,944**
Own work capitalized	−28	−33
Cost of materials	263	210
Work contracted out and other expenses	996	970
Salaries and social security contributions	403	424
Depreciation, amortization and impairments	578	554
Other operating expenses	162	144
Total operating expenses	**2,374**	**2,269**
Operating profit	**516**	**675**
Finance costs - net	−145	−129
Share of the profit of associates and joint ventures	3	3
Profit on continuing operations before taxes	**374**	**549**
Income tax	−101	−135
Profit for the period	**273**	**414**
Profit attributable to minority shareholders	−1	4
Profit attributable to equity holders of the parent	274	410
Earnings per ordinary share/ADS (in EUR)	0.12	0.17
Earnings per ordinary share/ADS on a fully diluted basis (in EUR)	0.12	0.16

Consolidated Balance Sheet
(before appropriation of net result)

ASSETS

In millions of euro	March 31, 2005	January 1, 2005 [4]	December 31, 2004
NON-CURRENT ASSETS			
Intangible assets			
Licenses	4,244	4,320	4,348
Goodwill	4,139	4,139	4,139
Other intangibles	62	35	35
Software	152	173	173
Total	**8,597**	**8,667**	**8,695**
Property, plant & equipment			
Land and buildings	767	788	814
Plant and equipment	7,142	7,360	7,391
Other tangible fixed assets	195	214	214
Assets under construction	570	555	560
Total	**8,674**	**8,917**	**8,979**
Investments in joint ventures and associates	19	17	17
Derivative financial instruments	28	28	-
Investments	-	-	146
Deferred tax assets	1,424	1,680	1,609
Trade and other receivables	72	115	232
Total non-current assets	**18,814**	**19,424**	**19,678**
CURRENT ASSETS			
Inventory	158	188	190
Trade and other receivables	2,415	2,161	2,242
Available-for-sale financial assets	-	169	-
Derivative financial instruments	1	9	-
Cash and cash equivalents	2,722	2,158	1,551
Total	**5,296**	**4,685**	**3,983**
Non-current assets held for sale	**3**	**121**	**-**
TOTAL	**24,113**	**24,230**	**23,661**

[4] The opening balance sheet for the fiscal year 2005 has been restated for the application of IAS 32/39 and IFRS 5 as from January 1, 2005. For further details, we refer to our press release on the application of IFRS dated April 18, 2005.

LIABILITIES

In millions of euro	March 31, 2005	January 1, 2005	December 31, 2004
GROUP EQUITY			
Shareholders' equity	6,266	6,266	6,411
Minority interests	135	145	145
Total	**6,401**	**6,411**	**6,556**
NON-CURRENT LIABILITIES			
Borrowings	6,895	6,787	7,821
Derivative financial instruments	1,008	1,074	-
Retirement benefit obligations	1,535	1,577	1,577
Deferred tax liabilities	2,062	2,184	2,184
Provisions for other liabilities and charges	401	315	315
Other payables	351	360	360
Total	**12,252**	**12,297**	**12,257**
CURRENT LIABILITIES			
Trade and other payables	2,957	2,851	2,881
Borrowings	2,125	2,126	1,659
Derivative financial instruments	117	146	-
Current tax liabilities	214	197	197
Provisions for other liabilities and charges	47	111	111
Total	**5,460**	**5,431**	**4,848**
Liabilities directly associated with non-current assets classified as held for sale	**-**	**91**	**-**
TOTAL	**24,113**	**24,230**	**23,661**

Consolidated Cash Flow Statement

In millions of euro	Q1 2005	Q1 2004
Operating profit	**516**	**675**
Depreciation, amortization and impairments	578	554
Book gains	–21	–36
Total changes in provisions (excluding deferred taxes)	–22	17
Inventory	30	–17
Trade receivables	–93	–4
Prepayments and accrued income	–43	–99
Other current assets	–39	37
Accounts payables	–32	–256
Accruals and deferred income	–40	–31
Current liabilities (excluding short-term financing)	1	32
Taxes received (paid)	–4	83
Interest paid	–9	–2
Net cash flow provided by operating activities	**822**	**953**
Received dividend	4	-
Acquisition of subsidiaries, associated and joint ventures	–10	-
Disposal of subsidiaries, associated and joint ventures	9	-
Investments in intangible assets (excluding software)	–15	–6
Investments in property, plant and equipment and software	–232	–307
Disposals of property, plant and equipment	2	1
Disposals of intangible assets	2	-
Disposal available for sale financial assets	158	70
Net cash flow used in investing activities	**–82**	**–242**
Share repurchase	–164	–249
Redemption of long-term loans	–32	–39
Changes in interest-bearing current liabilities	11	-
Net cash flow used in financing activities	**–185**	**–288**
Changes in cash and cash equivalents	**555**	**423**
Cash and cash equivalents at beginning of period [5]	**2,166**	**1,807**
Exchange rate differences	1	1
Changes in cash and cash equivalents	555	423
Cash and cash equivalents at end of period	**2,722**	**2,231**

[5] Of which EUR 8 million relates to PanTel in Q1 2005; this amount is in the opening balance sheet included in non-current assets held for sale.

Statement of changes in shareholders' equity

In millions of euro (except for number of shares)	2005	2004
Balance as of December 31 prior year	**6,411**	NA
Effect of IAS 32/39 Financial Instruments	–239	NA
Fair value adjustments available-for-sale financial assets	23	NA
Tax effect on abovementioned adjustments	71	NA
Balance as of January 1	**6,266**	**6,535**
Shares repurchased	–234	–249
Profit attributable to equity holders of the parent	274	410
Other changes	–40	15
Balance as of March 31	**6,266**	**6,711**
Number of issued shares as of March 31 [6]	**2,329,399,969**	**2,490,996,877**
Weighted average number of outstanding shares (excluding the average number of repurchased shares and shares for option plans) during the period	**2,307,111,102**	**2,464,843,796**

Workforce

As of March 31, 2005, we employed a total of 27,428 FTEs (December 31, 2004: 28,056 FTEs), of which 17,677 FTEs (December 31, 2004: 17,758 FTEs) were subject to our collective labor agreement in the Netherlands. The decrease of 81 FTEs in this specific group was caused by social plans and natural attrition.

[6] The difference between March 31, 2005 and 2004 is primarily the result of the cancellation of 161,596,876 shares repurchased on October 28 and December 16, 2004.

Annex Business performance by division

Fixed division

General

Amounts in millions of euro	Q1 2005	Q1 2004
Total operating revenues	**1,707**	**1,829**
Of which:		
Net sales	1,702	1,827
Other operating revenues	5	2
Total operating expenses	**1,299**	**1,404**
Of which:		
Amortization, depreciation, impairments	302	330
Operating profit	**408**	**425**
Of which:		
Fixed Networks	335	318
Business Solutions	73	107

Operating revenues

Operating revenues of the Fixed division can be analyzed as follows:

Amounts in millions of euro	Q1 2005	Q1 2004
Fixed Networks	**1,489**	**1,580**
Fixed Telephony	783	862
Carrier Services	636	696
Other units Fixed Networks	507	474
Intercompany sales Fixed Networks	–437	–452
Business Solutions	**453**	**505**
Connectivity	297	335
Integrated & Managed Solutions	99	98
EnterCom	103	111
Other units Business Solutions	-	-
Intercompany sales Business Solutions	–46	–39
Intercompany revenues	–235	–256
Total operating revenues	**1,707**	**1,829**

In the first quarter 2005, operating revenues decreased by 6.7% to EUR 1,707 million as a result of the continued migration of traditional services to new IP-based services (generally rendered at lower tariffs), ongoing fixed-to-mobile substitution and fierce competition. Next to these effects, the operating revenues were negatively affected by the mobile terminating tariff reductions (impact Q1 2005: EUR 46 million).

We are successful in increasing our market leader position in the new IP-services; in our consumer segment our total ADSL-revenues increased with 51.4% from EUR 72 million in Q1 2004 to EUR 109 million in Q1 2005, whereas in our business segment our total IP VPN revenues increased with 47.1% from EUR 17 million in Q1 2004 to EUR 25 million in Q1 2005.

Fixed Networks

Fixed Telephony
As mentioned in earlier quarterly reports, our fixed telephony business remains in continuous decline, resulting from further migration to broadband services, fixed-to-mobile substitution and fierce competition. Broadband penetration increased from 32% in the first quarter of 2004 to 48% in the first quarter of 2005, whereas mobile-only usage further increased to approximately 12% of the Dutch households by the end of March 2005 (Q1 2004: 9%).

Due to these developments, our total number of fixed line connections decreased with 3.3% compared with Q1 2004:

Number of connections (in thousands)	**Q1 2005**	**Q1 2004**
PSTN	5,871	6,080
ISDN	1,502	1,548
Total	**7,373**	**7,628**

Whereas total traffic volumes in the retail market declined with 25.8%:

Traffic volumes (in billions of minutes)	**Q1 2005**	**Q1 2004**
Domestic local	2.83	3.26
Domestic long-distance	1.66	1.97
Total domestic traffic volumes	**4.49**	**5.23**
Internet-related	1.34	2.86
Fixed-to-mobile	0.59	0.61
International	0.24	0.27
Total traffic volumes Fixed Telephony	**6.66**	**8.97**

The following table provides an overview of the development in average tariffs:

In euro per minute	**Q1 2005**	**Q1 2004**
Domestic local	0.0306	0.0304
Domestic long-distance	0.0441	0.0435
Internet-related	0.0253	0.0229
Fixed-to-mobile	0.1874	0.2108
International	0.1877	0.1845

As a result of the above mentioned market trends, total operating revenues decreased by EUR 79 million (9.2%), of which the impact of MTA tariff reductions amounted to EUR 13 million.

Compared to the first quarter of 2004, total traffic revenues fell by 18.1% to EUR 362 million, driven both by price erosion (MTA effect) as well as lower volumes. Total traffic volumes declined by 25.8% to 6.66 billion minutes, of which domestic traffic decreased by 14.1% to 4.49 billion minutes (due to ongoing competition and increasing broadband and mobile-only usage) and Internet traffic volumes decreased by 53.1 % to 1.34 billion minutes (due to continued growth of broadband connections).

Carrier Services
Total operating revenues decreased the first quarter of 2005 by 8.6% to EUR 636 million, which includes the impact of MTA reductions (impact: EUR 33 million). Traffic revenues fell by 14.1%, whereas the revenues from local loop services remained stable. Domestic traffic revenues fell by 19.3% due to an overall decline in domestic volumes of 9.7% to 8.76 billion minutes, as well as the impact of MTA tariff reductions. International traffic revenues fell by 2.3%, caused by a decrease in prices, due to high competition, partly offset by an increase in volumes of 7.5%.

Traffic volumes in the wholesale market can be specified as follows:

Traffic volumes (in billions of minutes)	**Q1 2005**	**Q1 2004**
Terminating	3.53	3.59
Originating voice	3.00	3.22
Originating internet	0.67	1.37
Transit	1.56	1.52
International	1.72	1.60
Total traffic volumes Carrier Services	**10.48**	**11.30**
Of which intercompany to Fixed Telephony[7]	–0.24	–0.27

Other units within Fixed Networks
Other units within Fixed Networks include the ISPs Planet Internet, Het Net and XS4ALL, SNT's call center business and the unit Fixed Network Operator.

Operational data	**Q1 2005**	**Q1 2004**
Number of KPN ADSL connections (in thousands)[8]	1,500	913
ADSL coverage	99%	99%
Market share consumer broadband[9]	44.3%	41.0%

In the first quarter of 2005, operating revenues of Fixed Networks' other units increased by 7.0% to EUR 507 million. This increase included revenues from ADSL services, which increased with 51.4% to EUR 109 million. Intercompany revenues decreased to EUR 437 million in the first quarter of 2005 (Q1 2004: EUR 452 million).

[7] Intercompany traffic to Fixed Telephony relates to international retail minutes from Fixed Telephony, which are handled by Carrier Services and charged to Fixed Telephony as international wholesale minutes.
[8] Excluding CistroN customer base.
[9] Market shares consumer broadband (incl. Cable Internet) are based on externally available information.

Business Solutions

Operational data	Q1 2005	Q1 2004
Number of leased lines, of which:	53,769	63,654
• Analog	77%	70%
• Digital	23%	30%
IP-VPN connections (Epacity)	33,982	20,041
VPN (customers)	1,504	975
Customer programs	109	78

Operating revenues of Business Solutions' units decreased by 10.3% to EUR 453 million primarily due to increasing price competition, as well as the migration from traditional voice equipment and leased lines to new IP-based services.

Operating revenues of Connectivity decreased by 11.3% to EUR 297 million, as increased revenues from the new services (IP-VPN networks, Office DSL and other xDSL products) could not yet compensate lower revenues from traditional services (leased lines and Frame relay). Moreover average prices are decreasing due to fierce competition in the market. Our Epacity (IP-VPN) services are still successfully growing: at the end of March, in total 1,504 business customers (end 2004: 1,409) were migrated to IP-VPN networks, whereas the number of IP-VPN connections increased to 33,982 (end 2004: 30,164). The total number of leased lines decreased from 63,654 (March 31, 2004) to 53,769.

Integrated & Managed Services (IMS) operating revenues increased slightly by 1.0% to EUR 99 million. Total customer programs increased from 78 (March 31, 2004) to 109 (March 31, 2005).

Operating revenues of EnterCom decreased by 7.2% to EUR 103 million resulting from a decrease in market volume in traditional voice equipment in all market segments as well as lower service and outsourcing revenues, only partly offset by increasing traffic revenues.

Operating expenses

Operating expenses decreased by 7.5% to EUR 1,299 million, which can be explained by lower purchasing costs due to the effects of lower operating revenues, the impact of MTA tariff reductions (EUR 46 million), lower depreciation and amortization expenses, as well as other cost reductions. Depreciation and amortization expenses decreased with 8.5% as a consequence of investment optimization programs. The operating expenses included restructuring charges of in total EUR 13 million with respect to IMS and our Fixed Network Operator (Q1 2004 included restructuring charges of in total EUR 15 million).

Mobile division

General

Amounts in millions of euro	Q1 2005	Q1 2004
Total operating revenues	**1,304**	**1,234**
Of which:		
Net sales	1,287	1,205
Other operating revenues	17	29
Total operating expenses	**1,197**	**1,011**
Of which:		
Amortization, depreciation, impairments	258	204
Operating profit	**107**	**223**

Operating revenues
Operating revenues increased by 5.7% driven by net sales increases for all operators due to ongoing subscriber growth. The positive effects of the growing customer bases were only partially offset by the adverse impact of MTA tariff reductions in Germany and the Netherlands. The total number of customers rose to 17.7 million (Q1 2004: 15.1 million): our prepaid base was up 14.5%, whilst our postpaid base grew by 21.4%.

Customers (in thousands)	**Mar. 31, 2005**	**Dec. 31, 2004**	**Sep. 30, 2004**	**June 30, 2004**	**Mar. 31, 2004**
Prepaid	10,127	10,001	9,536	9,107	8,844
of which i-mode	*925*	*849*	*730*	*596*	*443*
Postpaid	7,575	7,233	6,819	6,452	6,242
of which i-mode	*951*	*933*	*913*	*856*	*747*
Total	**17,702**	**17,234**	**16,355**	**15,559**	**15,086**
of which i-mode	*1,876*	*1,782*	*1,643*	*1,452*	*1,190*

Operating expenses
Operating expenses rose 18.4%. This increase was primarily due to investments in the customer bases of Germany and the Netherlands; these activities proved to be fruitful in the postpaid market. Moreover, amortization charges were up compared to the same quarter last year, as we started amortizing the German and Dutch UMTS licenses in the course of 2004.

Germany

Amounts in millions of euro	Q1 2005	Q1 2004
Total operating revenues	**640**	**588**
Of which:		
Net sales	632	580
Other operating revenues	8	8
Total operating expenses	**678**	**556**
Of which:		
Amortization, depreciation, impairments	173	127
Operating profit	**–38**	**32**

Operating revenues

Total operating revenues climbed 8.8%. Despite a EUR 23 million adverse MTA effect, net sales were up 9.0% compared to the same quarter last year as the customer base surged by 14.2%. Postpaid ARPU fell 8%; this ARPU reduction was driven by a 6.1% lower MoU combined with MTA tariff reductions. Acquisition and retention activities led in Q1 2005 to an increase of the postpaid base by 163,000 customers (Q1 2004: 118,000); the prepaid base declined in the same quarter.

Customers (in thousands)	**Mar. 31, 2005**	**Dec. 31, 2004**	**Sep. 30, 2004**	**June 30, 2004**	**Mar. 31, 2004**
Prepaid	4,764	4,787	4,639	4,531	4,453
of which i-mode	*449*	*423*	*349*	*273*	*181*
Postpaid	4,887	4,724	4,426	4,185	3,995
of which i-mode	*684*	*670*	*653*	*582*	*470*
Total	**9,651**	**9,511**	**9,065**	**8,716**	**8,448**
of which i-mode	*1,133*	*1,093*	*1,002*	*855*	*651*

Traffic volumes, MoU and ARPU – Germany	**Q1 2005**	**Q1 2004**
Total traffic volumes (in millions of minutes)	2,048	1,840
Weighted monthly MoU (average Minutes of Use):	71	74
- Prepaid	*20*	*23*
- Postpaid	*123*	*131*
Total monthly ARPU (average revenues per user; in EUR):	20	21
- Prepaid	*6*	*7*
- Postpaid	*34*	*37*

Operating expenses

Operating expenses rose by 21.9% mainly due to acquisition and retention actions reflecting the more competitive mobile market. Work contracted out went up 23.0% on higher commission fees to dealers. Cost of materials was up 27.8% in line with increased handset sales. Amortization (EUR 65 million) more than tripled as the UMTS license is amortized as from September 2004.

The Netherlands

Amounts in millions of euro	Q1 2005	Q1 2004
Total operating revenues	**554**	**552**
Of which:		
Net sales	547	533
Other operating revenues	7	19
Total operating expenses	**416**	**352**
Of which:		
Amortization, depreciation, impairments	55	43
Operating profit	**138**	**200**

Operating revenues

Operating revenues increased by 0.4%. Although positive contributions from a higher customer base were largely offset by adverse effects of further MTA reductions (EUR 19 million) and lower IPR revenues (EUR 11 million), this overall increase reversed the trend of decreasing operating revenues in 2004. Apart from the MTA effects, ARPU declined on increasing number of inactive prepaid users and high-usage prepaid customers migrating to postpaid propositions.

Customers (in thousands)	**Mar 31, 2005**	**Dec. 31, 2004**	**Sep. 30, 2004**	**June 30, 2004**	**Mar. 31, 2004**
Prepaid	3,962	3,890	3,679	3,429	3,310
of which i-mode	*473*	*424*	*378*	*320*	*260*
Postpaid	2,327	2,186	2,094	1,977	1,959
of which i-mode	*243*	*237*	*234*	*247*	*249*
Total	**6,289**	**6,076**	**5,773**	**5,406**	**5,269**
of which i-mode	*716*	*661*	*612*	*567*	*509*

Traffic volumes, MoU and ARPU – The Netherlands	**Q1 2005**	**Q1 2004**
Total traffic volumes (in millions of minutes)	2,101	1,961
Weighted monthly MoU (average Minutes of Use):	112	125
- Prepaid	*26*	*37*
- Postpaid	*264*	*272*
Total monthly ARPU (average revenues per user; in EUR):	28	33
- Prepaid	*7*	*11*
- Postpaid	*64*	*70*

Operating expenses

Operating expenses rose by 18.2% primarily due to ongoing acquisition and retention activities (increased commission costs, dealer bonuses and cost of materials). As a result of these actions, the customer base increased by 213,000 in Q1 2005. Furthermore, the UMTS license amortization commenced in Q4 2004, contributing EUR 15 million to the operating expense increase.

Belgium

Amounts in millions of euro	Q1 2005	Q1 2004
Total operating revenues	**122**	**102**
Of which:		
Net sales	120	100
Other operating revenues	2	2
Total operating expenses	**106**	**105**
Of which:		
Amortization, depreciation, impairments	29	34
Operating profit	**16**	**–3**

Operating revenues

Operating revenues were up 19.6% compared to the same quarter last year. This increase is driven by net sales benefiting from the 28.6% customer base growth as well as higher blended MoU.

Customers (in thousands)	Mar. 31, 2005	Dec. 31, 2004	Sep. 30, 2004	June 30, 2004	Mar. 31, 2004
Prepaid	1,400	1,324	1,218	1,147	1,081
of which i-mode	*3*	*2*	*3*	*3*	*2*
Postpaid	361	323	299	290	288
of which i-mode	*24*	*26*	*26*	*27*	*28*
Total	**1,761**	**1,647**	**1,517**	**1,437**	**1,369**
of which i-mode	*27*	*28*	*29*	*30*	*30*

Traffic volumes, MoU and ARPU – Belgium	Q1 2005	Q1 2004
Total traffic volumes (in millions of minutes)	589	399
Weighted monthly MoU (average Minutes of Use):	115	101
- Prepaid	*83*	*71*
- Postpaid	*239*	*209*
Total monthly ARPU (average revenues per user; in EUR):	24	25
- Prepaid	*15*	*15*
- Postpaid	*59*	*61*

Operating expenses

Operating expenses showed a very modest increase (EUR 1 million). Higher sales-related expenses were to a large extent offset by lower depreciation charges.

Other activities

Amounts in millions of euro	**Q1 2005**	**Q1 2004**
Total operating revenues	**105**	**134**
Of which:		
Net sales	75	89
Other operating revenues	30	45
Total operating expenses	**104**	**107**
Of which:		
Amortization, depreciation, impairments	18	20
Operating profit	**1**	**27**

Operating revenues
Operating revenues decreased by EUR 29 million mainly because the same quarter last year included a EUR 36 million book gain on the sale of Eutelsat, while in the first quarter of 2005 total operating revenues included book gains of the sale of Intelsat and Infonet amounting to EUR 21 million in total. The remaining decrease in revenues is mainly caused by EUR 5 million lower revenues at Xantic and the deconsolidation of PanTel, which was sold on February 28, 2005.

Operating expenses
Operating expenses remained rather stable compared to the first quarter of 2004.

IFRS Accounting Policies

KPN has applied IFRS 1 *First time adoption of IFRS* in the preparation of this financial information and has taken the exception under IFRS 1 to apply IFRS 5 *Non-current Assets Held for Sale*, and the exemption under IFRS 1 to apply IAS 32 *Financial Instruments: Disclosure and Presentation*, and IAS 39 *Financial Instruments: Recognition and Measurement*, from January 1, 2005. For the details of first time adoption and the possible changes to these accounting policies, please refer to our press release dated April 18, 2005.

Basis of preparation

KPN's consolidated pro-forma financial information has been prepared under the historical cost convention and as per January 1, 2005 modified for the revaluation of available-for-sale financial assets, and the accounting of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Consolidated financial information, including subsidiaries, associates and joint ventures, has been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Consolidation

Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which KPN has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether KPN controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to KPN and are de-consolidated from the date on which control ceases.

KPN uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intercompany transactions, balances and unrealized results on transactions with subsidiaries are eliminated.

Associates
Investments in entities in which KPN exerts significant influence but does not control, generally accompanying a shareholding of between 20 percent and 50 percent of the voting rights, are accounted for by the equity method of accounting and are originally recognized at cost.

Joint ventures
KPN's interests in jointly controlled entities are accounted for by the equity method similar to associates.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, which are subject to risks and returns that are different from those of segments operating in other economic environments.

KPN's risks and rates at this moment are affected predominantly by differences in the products and services. Consequently, its primary format for reporting segment information is business segments, whereas the secondary segment information is reported geographically.

Foreign currency translation

Functional and presentation currency
Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial information are presented in Euros, which is KPN's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets (IAS 39), are included in the fair value reserve in equity.

Subsidiaries, associates and joint ventures
The results and financial position of all the subsidiaries, associates and joint ventures (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
b) income and expenses for each income statement are translated at average exchange rates; and
c) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

BALANCE SHEET

Intangible assets

Goodwill
The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures is included in Investments in associates & joint ventures.

The value of goodwill is reassessed regularly (at least once a year) based on impairment indicators and written down when necessary. Goodwill is impaired if the recoverable amount of the cash-generating unit to which it is allocated is lower than the book value of the asset concerned. The recoverable amount is defined as the higher of cash generating unit's net selling price and its value in use.

Licenses
Licenses are valued at historical cost less amortization and impairment. Amortization is calculated according to the straight-line method and is incorporated as from the date that services are actually being offered under the license. The terms of these licenses are used as amortization periods. Licenses are impaired if the recoverable amount falls below the book value of the asset concerned. The recoverable amount is defined as the higher of an asset's net selling price and its value in use. Impairments are reversed if and to the extent that the impairment no longer exists.

Licenses not yet available for use are reassessed regularly (at least once a year) based on impairment indicators.

Research and development
Costs incurred on development projects are recognized as intangible assets when it is probable that KPN will achieve economic benefits in the future, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are

recognized as an expense as incurred. Development costs that have a finite useful life and that have been capitalized are amortized from the commencement of the commercial production of the product on a straight-line basis over the period of its expected useful life.
Capitalized development expenditures are impaired if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's net selling price and its value in use.

Software
Self developed and acquired software, not being an integral part of property, plant and equipment is capitalized on the basis of the costs, which include direct costs and directly attributable overhead costs incurred. Software is amortized over the estimated useful lives. Software has a permanently lower value if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's net selling price and its value in use.

Property, plant and equipment

Property, plant and equipment are valued at historical cost or manufacturing price less depreciation and impairment. The manufacturing price includes direct costs (materials, direct labor and work contracted out) and directly attributable overhead costs.
Asset retirement obligations are capitalized as part of the historical cost of tangible fixed assets and expensed as either depreciation over the asset's estimated useful life or as impairment charges.

KPN elected the exemption to revalue two specific fixed asset classes, the copper and fibre cables, which are part of its fixed line network at the transition date (January 1, 2004), to its fair value and use this fair value as its deemed cost. KPN used the depreciated replacement cost method to determine this fair value.

Property, plant and equipment are depreciated using the straight-line method, based on the estimated useful life, taking into account residual value. Land is not depreciated. Property, plant and equipment is impaired if the recoverable amount falls below the book value of the asset concerned. Impairments are reversed if and to the extent that the impairment no longer exists. The recoverable amount is defined as the higher of an asset's net selling price and its value in use.

An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized.

Leases of property, plant and equipment where KPN has substantially all the risks and rewards of ownership are classified as finance leases. As a lessee, KPN capitalizes finance leases at the lease’s inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Investments

Financial fixed assets include investments in companies other than subsidiaries and associates, financial receivables held for investment purposes, treasury shares and other securities. KPN accounts for ordinary purchase and sales of these financial assets at settlement date.

Accounting principles January 1, 2004 to December 31, 2004
Investments other than subsidiaries, associates and joint ventures in which KPN does not have significant influence are carried at cost less any provisions deemed necessary. Financial instruments are carried at cost.

Accounting principles as from January 1, 2005
KPN classifies its investments in the following four categories:

1. financial assets at fair value through profit or loss;
2. loans and receivables;
3. held-to-maturity investments; and
4. available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

1. *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

2. *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are created by KPN by providing money, goods, or services directly to a debtor, other than:

- those that KPN intends to sell immediately or in the short term, which are classified as held for trading;
- those for which KPN may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for sale.

Loans and receivables are carried at amortized cost or cost, if no maturity, with changes in carrying value (amortization of discount/premium and transaction costs) recognized in the income statement. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are included in trade and other receivables in the balance sheet.

As such, all regular way purchases and sales of investments are recognized on the settlement date. This is the date at which the asset is delivered to or by KPN. Thus a loan is recognized at the moment the cash is transferred to the borrower, redemptions of the loan are recognized at the date of receipt.

3. *Held-to-maturity investments*

Financial assets (normally securities) are classified as held-to-maturity if KPN has the positive intent and ability, from inception, to hold the securities to maturity date. These financial assets have fixed or determinable payments and a fixed maturity.

Held-to-maturity financial assets are reported at amortized cost, with changes in carrying value (amortization of discount/premium and transaction costs) recognized in the income statement.

4. *Available-for-sale financial assets*

Financial assets are classified as available-for-sale that are either designated in this category or not classified in any of the other categories. Available-for-sale assets are carried at fair value, with unrealized gains and losses (except for impairment losses) recognized in equity, through the statement of changes in equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is taken to the income statement for the period.

Derivatives (IAS 39)

All hedging instruments are recognized at fair value. For hedging instruments used for the purpose of hedging underlying exposures to the currency exchange risk and interest rate risk of borrowings hedge accounting is applied. Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item (borrowings). For fair value hedges this means that in profit or loss the following will be recognized: the gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk. For cash flow hedges the effective part of the gain or loss on a hedging instrument is recognized directly in equity and the ineffective part is recognized in the income statement.

All other derivatives are measured at fair value with the resulting gains and losses being accounted for in the income statement.

Deferred taxes

Deferred tax assets and liabilities arising from taxable or deductible temporary differences between the value of assets and liabilities for financial reporting purposes and for tax purposes are stated at nominal value and are calculated on the basis of corporate income tax rates substantially enacted by the balance sheet date. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets and liabilities with the same terms and relating to the same fiscal entities are netted.

Inventories

Inventories of resources, parts, tools and measuring instruments, and finished goods are valued at lower of cost or net realizable value. The cost of inventories is determined using the weighted average price.

Trade receivables and other receivables

Receivables are initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

Non-current assets (or disposal groups) held for sale (IFRS 5)

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of business combinations are included in the cost of acquisition as part of the purchase consideration.

When any KPN company purchases the Company's equity share capital (treasury shares), the consideration paid is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, is included in equity attributable to the Company's equity holders.

Borrowings

Accounting principles January 1, 2004 to December 31, 2004
All EURO denominated loans are stated at nominal value. Foreign currencies denominated loans are stated at the fixed foreign exchange conversion rate as agreed in the related swap contracts. Transaction costs are capitalized and amortized over the remaining period of the loans.

Accounting principles as from January 1, 2005
Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds (net of transaction costs)

and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless KPN has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Long – term employment obligations

KPN elected the exemption not to retrospectively recalculate the pension liabilities and therefore KPN has recognized all cumulative actuarial gains and losses in relation to employee benefit schemes in retained earnings at January 1, 2004.

Pension obligations
The obligation for all pension and early retirement plans that qualify as defined benefit obligation is determined by calculating the present value of the defined benefit obligation and deducting the fair value of the plan assets. We use the actuarial calculations (projected unit credit method) to measure the obligations and the costs. For the calculation actuarial assumptions are made about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries). The discount rate is determined by reference to market rates.

Actuarial gains and losses are recognized for the portion that these exceed the higher of 10% of the obligation and 10% of the fair value of plan assets ('corridor approach'). The excess is recognized over the employees' expected average remaining working lives.

Past service costs are recognized on a straight-line basis over the average vesting period of the amended pension or early retirement benefits. Gains or losses on the curtailment or settlement of a defined benefit plan are recognized the date of the curtailment or settlement.

For pension plans that qualify as a defined contribution plan we recognize contributions to such plans when an employee has rendered service in exchange for those contributions.

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. KPN recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Other long-term employee obligations
These employee benefits include long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising

from experience adjustments, and changes in actuarial assumptions, are charged or credited to income over the expected average remaining working lives of the related employees.

Other Provisions

Provisions such as environmental restoration, restructuring costs and legal claims are recognized when KPN has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability.

INCOME STATEMENT

Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

1. Sales of goods are recognized when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured;
2. Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Contract costs are recognized when incurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

The Group's net sales are derived from the following telecommunication services and products:

- traffic fees;
- subscription fees;
- one-off connection fees and other initial fees;
- sales of peripheral and other equipment; and
- other.

Traffic fees are charged at an agreed tariff for a fixed duration of time or capacity and are recognized as revenue based upon usage of our network and facilities. Subscription fees generally consist of periodic charges and are recognized as revenue over the associated subscription period. One-off connection fees and other initial fees are not a separate unit of accounting, and their accounting treatment is therefore dependent on the other deliverables in the sale arrangement (see revenue arrangements with multiple deliverables). Sales of peripheral and other equipment are recognized when all significant risks and rewards of ownership of the goods are transferred to the buyer, which is normally at the date the equipment is delivered to and accepted by the customer. Other sales, including consulting and other fees, are recognized as revenue when services are rendered. KPN recognizes net sales gross of costs when the Group acts as the principal in the arrangement and net of costs when the Group acts as agent.

Revenue arrangements with multiple deliverables
Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. The arrangement consideration must then be allocated among the separate units of accounting based on their relative fair values.

For multiple element arrangements that comprise only one unit of accounting and include a non-refundable, up-front connection fee, and amounts representing connection fees are deferred. Deferred connection fees are amortized over the estimated customer relationship period. Costs associated with these arrangements are expensed as incurred.

For multiple element arrangements that comprise multiple units of accounting, the consideration received is allocated to each unit of accounting based on their relative fair values. Any connection fee proceeds not allocated to the delivered equipment are deferred upon connection and recognized as service revenue over the estimated customer relationship period.

Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Share-based compensation

KPN operates a number of equity-settled, share-based compensation plans. Options are granted to employees and the costs are recognized over the vesting period of the options. The costs are determined by the fair value of the options and the number of options that is expected to forfeit before the vesting date. The fair value of the options is estimated by using an option-pricing model.

Glossary

ADSL
Asymmetric Digital Subscriber Line
With ADSL, transmission from provider to user takes place at a higher speed than vice versa. ADSL allows high-speed digital communication, including video signals, over an ordinary twisted-pair copper phone line leaving part of the frequency available for smallband services, like ISDN. An ADSL modem is required.

ARPU
Average Revenue Per User
ARPU is the sum of connection fees, monthly fixed subscription revenues, traffic revenues during a one-month period, divided by the average number of customers during that month.

Customer base
Customer base figures of our mobile operators consist of the number of end users as of the end of a period. The figures include data-only and PC connections, and connections suitable for machine-based traffic. The customer base also comprises inactive prepaid users, who have had neither incoming nor outgoing traffic for three months, but have not met disconnection criteria.

DSL
Digital Subscriber Line
DSL is a technology bringing high-bandwidth information to homes and small businesses over ordinary copper phone lines. The widely used term xDSL refers to variations on DSL, such as ADSL, HDSL, VDSL and SDSL.

DVB-T
Digital Video Broadcasting – Terrestrial
DVB-T constitutes a transparent transmission channel, via which all types of digital signals can be broadcast. In addition to digitalized video and audio data, multimedia and computer data can be broadcast as well.

GSM
Global System for Mobile communications
GSM is a second generation, digital mobile telephone system that is widely used in Europe and other parts of the world to send and receive voice and data.

IP-VPN
Internet Protocol – Virtual Private Network
A secured and private network based on an IP infrastructure.

i-mode
A mobile data services platform originally developed and launched by NTT DoCoMo.

ISDN
Integrated Services Digital Network
A worldwide digital communications network evolving from existing telephone services. A standard ISDN connection consists of three channels, i.e. two B channels to carry data and voice at a speed of 64 Kb/s and one D channel to carry control information at a speed of 16 Kb/s.

Market share
The operators' share in the total customer base in a country.

MoU
Minutes of Use
Weighted monthly MoU are calculated by taking the weighted average of the monthly MoU during the year. The monthly MoU is calculated by dividing total traffic volumes during a month by the average number of customers in that month. Each month is weighed according to the average number of customers in that month.

MTA tariff
Mobile Terminating Access tariff
The tariff, charged by mobile operators for the termination of incoming telephone traffic (originating from either a fixed or a mobile network) on their network.

MVNO
Mobile Virtual Network Operator
A mobile operator that does not have its own spectrum or its own network infrastructure. Instead, MVNOs have business arrangements with traditional mobile network operators to buy minutes of use to sell to their customers.

PSTN
Public Switched Telephone Network
Traditional telephone system that runs through copper cables (voice up to 64 Kb/s, data up to 56 Kb/s).

SMS
Short Message Service
Via this service, text messages of up to 160 characters can be sent to mobile phones using GSM technology.

Triple Play
Triple Play offers our customers in the consumer market a combination of broadcasting services (television), broadband Internet and telephony (voice) services.

UMTS
Universal Mobile Telecommunications System
As one of the major third generation mobile communications systems, UMTS is suited to deliver voice, text, music and video. Data can be sent via UMTS at six times the speed of ISDN.

VoDSL
Voice over DSL
Voice telephony and broadband Internet together.

VoIP
Voice over IP
Voice traffic is transported over an IP based data network. It enables new ways of communicating, such as combinations of telephony, messaging and videoconferencing.

Wi-Fi
Wireless Fidelity
Wi-Fi is a wireless connection providing Internet access at the same speed as broadband.

Financial calendar

Please note that dates may be subject to change:

August 9, 2005
Publication of results for the second quarter of 2005

November 7, 2005
Publication of results for the third quarter of 2005

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