



Quarterly report KPN

Fourth quarter of 2004

March 1, 2005



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Press Release

KPN boosts broadband and VoIP investments

2004 dividend increased to EUR 0.35

Headlines FY2004

Q4 2004	Q4 2003	In millions of euro, unless indicated otherwise	2004	2003
3,050	3,114	Operating revenues	12,102	12,907
2,953	2,998	Net sales	11,731	11,870
532	681	Operating result	2,457	3,108
388	458	Profit before tax	1,837	2,246
479	1,639	Profit after tax	1,511	2,731
0.20	0.67	Earnings per share	0.63	1.11
1,068	1,141	Cash flow from operating activities	3,969	4,087
521	607	Capex	1,698	1,421
547	534	Free cash flow	2,271	2,666
388	432	Profit before tax excluding book gains(*)	1,781	1,548

The 2003 profit after tax includes a gain of EUR 1,080 million, resulting from the agreement with Dutch fiscal authorities. Hence, Profit after tax in the table is not comparable.

(*) Reported Profit before tax, excluding book gains of EUR 56 million in 2004 and EUR 698 million in 2003.

Financial highlights

- Profit before tax, excluding book gains, increased by 15% from EUR 1,548 million (2003) to EUR 1,781 million (2004);
- Free cash flow amounted to EUR 2,271 million (2003: EUR 2,666 million);
- Shareholder returns: repurchases EUR 1,015 million and dividends paid EUR 796 million;
- Proposed dividend 2004 per share raised to EUR 0.35 from earlier announced EUR 0.20.

Fixed

- Ongoing success of ADSL program has driven the ADSL customer base close to 1.4 million connections (2003: 0.7 million);
- Operating result up 1.1% to EUR 1,771 million for FY 2004 (2003: EUR 1,752 million);
- Fixed division's FY 2004 net sales decreased by 6.5% to EUR 7,216 million (2003: EUR 7,717 million), mainly explained by the combined effect of the accelerated migration from traditional to new services, MTA tariff reductions (EUR 293 million) and lower project revenues (impact: EUR 69 million).



Mobile

- Net sales of the Mobile division grew 6.2% from EUR 4,903 million in 2003 to EUR 5,206 million in 2004 driven by strong growth in Germany (13.6%) and Belgium (32.5%), which more than compensated the 4.3% decline in the Netherlands. The decline in the Netherlands was mainly caused by the EUR 108 million adverse effects of MTA (Mobile terminating access) tariff reductions.
- Overall 2004 was a positive year with customer numbers up 17.5%. E-Plus and BASE significantly increased their customer numbers and their market shares. E-Plus crossed the 9.5 million customers mark late 2004 with a 13.3% market share and with customer numbers up 15.9%; BASE achieved market share of more than 17% with customer numbers up an impressive 31.4%. In 2004, KPN Mobile The Netherlands increased its customer base with 16.7%. In Q4, it succeeded in regaining lost market share. In total, we now serve more than 17.2 million customers.

CEO Ad Scheepbouwer

"In exceeding our guidance, we have fully met the market's expectations for 2004. This has been achieved with a near doubling in the number of DSL connections, as well as successfully defending our market share in our traditional telephony business and strongly expanding our international operations.

Starting in 2005, we intend to have a big push in broadband and VoIP. This will have consequences for short-term profitability, but will position us strongly for today's market and deliver greater benefits in the future. In the all-IP world things will become simpler and cheaper, offering the opportunity to achieve significantly lower structural costs. It also means that our services can be delivered with considerably fewer people. We anticipate that annual reductions in headcount of between 1,500 and 1,750 employees will unfortunately be inevitable until 2010. All in all, we expect to realize annual cost savings of EUR 850 million from 2010 onwards. However we feel confident that our strategy of attacking the market for new services to secure market leadership in the Netherlands, whilst continuing to defend vigorously our Dutch fixed and mobile positions to retain cost leadership, will sustain the Group's strong cash flow. This cash flow will allow us to reward, and grow the rewards to our shareholders, on a consistent basis."

Dividend policy

In February 2004 we stated that the regular dividend would be at least EUR 0.20 per share per annum. In view of the solid cash flow development in 2004 and the outlook for 2005, KPN will propose to increase its dividend to EUR 0.35 per share for 2004. Following the interim dividend of EUR 0.08 which was paid in August 2004, the proposed final dividend for 2004 is EUR 0.27 per share. The proposed dividend will be submitted for approval at the Annual Shareholder Meeting to be held on April 12, 2005 and upon approval, paid out shortly thereafter. Furthermore, KPN announces a mid-term dividend policy according to which KPN intends to pay out a dividend between 35 and 50 per cent of annual Free Cash Flow, defined as net cash flow provided by operating activities minus capex. In this way, the dividend will be directly linked to operating performance and free cash flow generation, which we expect to remain at a level of at least EUR 2 billion¹. As in 2004, excess cash will be returned to shareholders either via additional special dividends or via share repurchases. Share repurchases will only be undertaken at a price which



enhances value for the remaining shareholders. Similar to last year, KPN will review its excess cash position in August 2005.

¹ Excluding any tax payments. Currently, we do not expect to pay tax earlier than 2007.

Share repurchase program

In 2004, we announced share repurchase programs totaling EUR 1.5 billion. So far, approximately 164 million shares were repurchased for an amount of EUR 1,015 million (of which we settled EUR 1,009 million in 2004 and EUR 6 million in January 2005). After suspending the share repurchases, we resumed our buy-back programs upon conclusion of the independent investigation into the appropriateness, under OPTA rules, of discounts provided. These shares were acquired via on-market transactions for an average price of EUR 6.20 a share. On October 28, 2004 and December 16, 2004, a total of approximately 162 million repurchased shares was cancelled.

KPN will commence its repurchase program for the remaining EUR 485 million of 2004 as of March 2, 2005 to be executed via second trading line. KPN announces today to repurchase an additional EUR 500 million. As this repurchase concerns more than 1% of the outstanding share capital, the consent of the Dutch State as holder of the special share has been obtained. KPN will review its excess cash position in August 2005.

Outlook¹

In 2005, we will accelerate investment for future growth in both our Fixed and Mobile division. Added to that we will absorb further MTA reduction in the Netherlands and, for the first time, in Germany. With our non-core divestments nearing completion we anticipate profit contributions from our "other" activities to decline. In all, for the Group as a whole, we anticipate a high single-digit decrease in Group operating EBITDA for 2005. Longer term, we remain confident of a return to producing growth on a consistent basis. KPN will enjoy strong and sustainable cash generation, despite this investment, as reflected within the guidance set out below:

2005	<ul style="list-style-type: none"> • Group revenue flat, including MTA reduction • Group EBITDA^{1, 2, 3} before restructuring expected to decline by high single digit figure, with greatest impact in Q1 • Capex ≈ EUR 1.7 billion • Free cash flow⁴ > EUR 2 billion
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¹Excluding restructuring charges, impairments and book gains/losses over EUR 20 million, see disclaimer.

²Defined as Operating result plus depreciation, amortization & impairments

³ Assuming EUR 50 million additional charge to fund pension shortfall

⁴Free cash flow is defined as cash flow from operating activities minus Capex (2004: EUR 2,271 million)



New Strategy for Fixed

The Netherlands continues to be one of the most competitive markets in Europe. In today's dynamically changing market, various competitors are now trying to create new positions for themselves in areas such as VoIP and triple play (voice, Internet, and television). We believe that 2005 is going to be a key year, where VoIP is finally maturing as a technology.

KPN intends to rise to the challenge and believes it is well equipped to do so. KPN is the undisputed market leader in the broadband market as well as in the fixed and mobile voice markets. Its access to the DVB-T network has brought KPN an entry into the TV market, giving cable operators a new flank of competition to worry about. KPN has strong brands with nationwide presence and thanks to relentless efforts in recent years we enjoy high customer satisfaction and loyalty. KPN has an established track record as a wholesale partner of choice. It is also more efficient than ever before, setting the bar on most dimensions in Europe.

Going forward, KPN's strategy in the Dutch fixed-line market is threefold:

- Attacking the market for new communications services to establish leading positions that will deliver attractive long-term financial returns;
- Defending the traditional services to maintain our leading share of declining markets;
- Exploiting our leadership of both the traditional and new services markets in order to achieve a cost structure that is unrivalled by our competitors and which will represent a source of significant sustainable competitive advantage.

New Services

KPN will further strengthen its position in the voice, internet and TV market through the following activities:

- In the second quarter of 2005, KPN will start upgrading its ADSL network to ADSL2+. The upgrade will be completed before year-end. Based on ADSL2+ access technology, KPN will introduce high speed Internet Access Services.
- New services that will be introduced this spring are VoIP and ADSL only.
- Later in the year KPN will introduce Delay TV and Video on demand over ADSL and will start piloting Mobile TV and broadband-based VDSL services. A further rollout of the DVB-T network to national coverage is expected in 2005 and 2006

Restructuring

KPN has embarked on a comprehensive program to achieve a structurally lower costbase. Key components are:

- Reducing the complexity of the network through the implementation of an all IP network, rationalization of IT and simplification of the Group structure.
- The roll out of an all IP network has been started with the implementation of an all IP backbone, a process that will gather speed in 2005 and 2006. In a subsequent phase KPN is aiming for an all IP access network.

KPN believes that these changes will give the opportunity to introduce new value added services, reduce time to market, improve operational standards, whilst at the same time significantly reducing KPN's cost base and workforce. In the next five years KPN expects the following savings on operational expenses and staff.

	Phase 1 All IP back bone				Phase 2 All IP access network ¹			
	Opex savings ¹ EUR million		Staff savings in FTEs		Opex savings ¹ EUR million		Staff savings in FTEs	
	P.A.	Cum	P.A.	Cum.	P.A.	Cum	P.A.	Cum
2005	150	150	1,500-1,750					
2006	150	300	1,500-1,750					
2007	150	450	1,500-1,750	Approx. 5,000 ^{1,2}				
2008					200	650	1,500-1,750	
2009					200	850	1,500-1,750	Approx. 8,000

Additional Capex requirement of Phase 2 All IP access network EUR 1 billionn-EUR 2 billion, depending on evaluation of pilots.

1. Predominantly in Fixed but also in Mobile and Head Office

2. Including earlier announced restructuring of EnterCom and IT operations

Operating Review FY2004

Fixed division

Due to intensive subscriber acquisition programs and the introduction of 'ADSL Tijdsurfen' by Het Net, our 'ADSL by KPN' customer base continued to increase by more than 160,000 in the fourth quarter 2004, and almost doubled to 1.4 million customers by the end of 2004 (2003: 0.7 million). It should be noted that the broadband penetration in the Netherlands is among the highest in Europe.

Our share of the total broadband market (including broadband offered by cable operators) increased from 39% in 2003 to 44% by the end of 2004. For the first time, KPN's ADSL market share exceeds that of cable Internet.

On January 10, 2005, we completed the deal with CistroN to acquire approximately 5,000 ADSL customers out of CistroN's customer base. On February 18, 2005, we completed the acquisition of Freeler BV. Freeler has approximately 145,000 active Internet customers.

As part of our 'Triple Play' strategy to become an all-round service provider of voice, broadband Internet and broadcasting services, we successfully introduced wireless digital TV and radio on October 18, 2004. At the moment, 'Digital TV by KPN' can be received throughout the main metropolitan areas where 2.7 million or 45% of the Dutch households reside.

Expectations are that coverage will extend to most of the Netherlands by the end of 2006. Since the introduction, over 25,000 customers already subscribed to 'Digital TV by KPN' as of December 31, 2004.

On December 17, 2004, we entered into a contract with Siemens as the strategic IP-partner for our fixed network and mobile activities in the Netherlands, Belgium and Germany. This partnership



will support us to strengthen our position as a customer-focused, IP-based operator in providing advanced services in response to the developing customer needs.

With respect to our traditional voice services, we focus on customer retention through win-back programs, new customer-loyalty programs and innovative bundling. We conduct intensified win-back actions through many different channels, including our own technicians. In total, already 1.4 million customers (26% of our total residential customer base) opted for *BelPlus* packages, of which 100,000 in the fourth quarter of 2004. Our package *BelZakelijk* also appealed to our customers: a total of 140,000 customers subscribed by the end of 2004 (based on order-intake), covering about 17% of the total number of business sites and providing 29% market penetration in the primary target group of small and mid-sized companies. Through these activities, we were able to maintain our market shares at between 70%-75% (local), approximately 60% (national), approximately 60% (fixed-to-mobile) and approximately 45% (international) ¹.

In the business data services market, traditional leased lines continue to migrate to new broadband services, such as IP-VPN and 'Voice over DSL' (VoDSL). We focus on enriched communication bundled with services designed to increase productivity and efficiency. Migration of corporate clients to an all-IP environment and managed and hosted IP voice services are examples of future offerings. In 2004, competition in IP-based connectivity for the business market further intensified. At the end of 2004, in total 1,409 business customers (2003: 807) were migrated to IP-VPN networks, whereas the number of IP-VPN connections increased from 15,956 at the end of 2003 to 30,164 a year later.

In the first quarter of 2005, KPN introduced the Wholesale ADSL service. This service is 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 an own ADSL network. We have signed our first wholesale ADSL agreement. Several other operators are interested in this service.

Mobile division

The Mobile division focuses on revenue market share and a profitable growth of the customer base. During 2004, we were successful in our objectives of enlarging our shares of the German and Belgian market, while regaining lost market share in the Netherlands. In the third quarter of 2004, we launched UMTS services in Germany, the Netherlands following shortly afterwards.

E-Plus

E-Plus continued to deliver on its balanced growth strategy. A particularly strong fourth quarter, with 446,000 new customers added, resulted in E-Plus achieving the net addition of 1.3 million customers in 2004.

This took the total customer base to 9.5 million, thereby exceeding the 9 million year-end target. This 16% customer growth enabled us to increase our market share in Germany to 13.3% (2003: 12.7%).

E-Plus was also able to further improve the quality of its customer base. The postpaid share of net additions during 2004 amounted to 65%, thereby raising the postpaid share of the total customer

¹ Excluding international traffic from telephone cards.



base by approximately 3 percentage points to almost 50% by the end of the year. The growth in the number of business customers was particularly significant; at the end of 2004, E-Plus had 1.45 million business customers, an increase of some 21% over 2003. At EUR 24, blended ARPU remained stable during the year and compared to 2003.

KPN Mobile The Netherlands

Competition in the Dutch mobile market remains severe and we revitalized our commercial strategy in the Netherlands, aimed at strengthening our market leadership. Initiatives include stronger and clearer differentiation between our KPN and Hi brands and the introduction of innovative and value-adding propositions at competitive prices. In addition, we successfully raised our presence in the external distribution channels.

These measures were fruitful, resulting in an increased influx of new customers. In December 2004, we scored an all-time high on postpaid net additions. During 2004, our customer base exceeded 6 million subscribers, equivalent to a 40.0% share of the Dutch mobile market (2003: 40.2%). This means, we almost completely recovered our market share lost in the first half of 2004. Compared to last year, 2004 saw a lower blended ARPU (EUR 33 vs. EUR 38).

BASE

Despite increasing competition, BASE continues to grow its customer base and revenues thanks to its policy of combining distinctive and simple offerings with tailor-made propositions for specific segments. By adding 394,000 customers during 2004, we took the customer base to over 1.6 million (2003: 1.25 million); this represents a 31.4% increase compared to 2003. BASE's market share rose to over 17% (2003: 15%). At EUR 24, blended ARPU exceeded last year's EUR 22 (+9.1%).

Financial Review

Q4 2004	Q4 2003	In millions of euro	2004	2003
3,050	3,114	Operating revenues	12,102	12,907
		of which net sales:		
1,792	1,956	- Fixed Division	7,216	7,717
1,337	1,272	- Mobile division	5,206	4,903
-176	-230	- Other KPN entities (incl. intercompany sales)	-691	-750
2,953	2,998	Total net sales	11,731	11,870
532	681	Operating result	2,457	3,108
-144	-223	Financial income and expenses	-620	-862
388	458	Profit before taxes	1,837	2,246
126	972	Tax on profit	-268	257
-35	209	Income from participating and minority interests	-58	228
479	1,639	Profit after taxes	1,511	2,731

Mobile division

Q4 2004	Q4 2003	In millions of euro	2004	2003
691	603	- E-Plus	2,594	2,283
546	587	- KPN Mobile The Netherlands	2,227	2,326
113	92	- BASE	424	320
-13	-10	Other (including intra-company) sales	-39	-26
1,337	1,272	Total net sales	5,206	4,903

FY2004

We recorded an operating result of EUR 2,457 million over 2004 (2003: EUR 3,108 million). This decrease of EUR 651 million can be explained by the book gains, which caused a difference of EUR 642 million. The **net result** was EUR 1,220 million below last year's; besides EUR 642 million lower book gains, the negative difference in tax amounted to EUR 525 million mainly related to the aforementioned tax gain. The positive impact from financial income and expenses of EUR 242 million was offset by a EUR 172 million lower income from participating interests.

The 2003 and 2004 figures contain items, such as book gains and a EUR 1,080 million tax gain in 2003. Book gains in 2003 (resulting mainly from the sale of the Directory Services activities and the MobilCom termination agreement) amounted to EUR 698 million, whereas the 2004 figures include book gains totaling EUR 56 million. These book gains – affecting both operating revenues and operating result – can be summarized as follows:

Q4 2004	Q4 2003	In millions of euro	2004	2003
-	-	Book gain on the sale of Directory Services	-	435
-	-	Termination agreement MobilCom	-	222
-	26	Book gains on the sale of other subsidiaries	56	41
-	26		56	698

The 2004 **operating revenues** amounted to EUR 12,102 million (2003: EUR 12,907 million) and, hence, saw a EUR 805 million decrease compared to last year, of which EUR 642 million can be explained from lower book gains in 2004.

Net sales (EUR 11,731 million) – affected by a EUR 241 million adverse impact of MTA tariffs on both the Mobile and Fixed operations – were EUR 139 million (1.2%) lower compared to last year. In the *Fixed* division, net sales decreased by EUR 501 million (6.5%) mainly due the combined effect of the accelerated migration from traditional to new, IP-based services, MTA tariff reductions (EUR 293 million) and lower project revenues (EUR 69 million). *Mobile* division's net sales increased by EUR 303 million (6.2%) driven by the continued strong performance of E-Plus (13.6%) and BASE (32.5%), which more than offset a EUR 108 million adverse MTA effect in the Netherlands. Net sales of *Other activities* were EUR 64 million lower due to the deconsolidation of the Logistics & Repair activities (as from the end of 2003 upon the sale thereof) and the termination of certain activities by Xantic. *Inter-division* revenues decreased by EUR 123 million to EUR 1,047 million, primarily affected by MTA tariff reductions (EUR 160 million).



Operating expenses decreased by EUR 154 million (1.6%) to EUR 9,645 million, reflecting the combined effect of MTA tariff reductions (EUR 183 million) and cost savings, which were partly offset by increased retention and acquisition costs within the Mobile division – related to the strong growth in the customer base of all three operators – and a EUR 36 million addition to the early retirement provision.

For comparing our results with our guidance the following items should be excluded:

Q4 2004	Q4 2003	In millions of euro	2004	2003
14	6	(Release of) Restructuring charges	25	-3
-	-	Loss on sale of SNT France	-	5
-	-	Write-down of short-term receivables	-	6
-6	-	(Release of) Impairment charges	-8	80
8	6	Total – Fixed division	17	88
-	-33	Capital tax refund on conversion shareholders loans	-	-33
2	-1	(Release of) Restructuring charges	10	-1
-16	-103	Release of impairment charges	-16	-103
-14	-137	Total – Mobile division	-6	-137
22	36	Restructuring charges	7	39
-	46	Impairment charges	7	61
22	82	Total – Other activities	14	100

Net financial expense decreased by EUR 242 million to EUR 620 million mainly due to reduced interest charges following early and regular debt redemptions in 2003 and 2004. In 2004 EUR 7 million reversal of an impairment on the loan to PTC was considered as noteworthy.

Total **tax charges** in 2004 amounted to EUR 268 million, resulting in an effective tax rate of 14.6%. Due to Dutch corporate tax rate reductions as from 2005, we recognized tax benefits on our deferred tax positions amounting to EUR 179 million. In conformity with the 2003 agreement with the Dutch tax authorities, an interest amount of EUR 1,245 million on shareholder loans to E-Plus is ignored for Dutch tax purposes. This positive effect is to a large extent mitigated by the non-deductibility of interest expense pursuant to the German thin-capitalization rules. For BASE, we recognized a deferred tax asset of EUR 138 million (2003: EUR 0 million).

Cash flow

Our cash flow from operational activities reached EUR 4.0 billion in 2004, broadly on level with the 2003 figure (EUR 4.1 billion). The net cash flow used in investing activities rose by more than EUR 1.5 billion mainly because last year's cash flow was positively affected by the proceeds from disposals of group companies and subsidiaries. Although we returned EUR 1.8 billion to our shareholders in dividends and share repurchases, the net cash flow used in financing activities was EUR 2.2 billion lower than last year's due to lower net redemptions of long-term loans in 2004 (2004: EUR 0.8 billion; 2003: EUR 4.8 billion).



Net debt

As of December 31, 2004, net debt (interest-bearing debt minus cash and cash equivalents) decreased to EUR 7.9 billion compared to EUR 8.3 billion as of year-end 2003. During the year, significant amounts of cash were allocated to the share repurchase program and the payment of (interim) dividends.

Investigation into the appropriateness of discounts provided

In December 2004, the independent investigation into the appropriateness of discounts provided to certain customers of our Fixed division, which was initiated October last, was concluded. The investigation confirmed our initial assessment of the scope of services, market segments and amounts involved. We instituted a tightening up of our compliance procedures including the introduction of a program to improve employees' awareness of the increasingly complex legal restrictions governing commercial activities and new guidelines designed to avoid the risk of future regulatory breaches. Furthermore, a special committee has investigated whether additional measures were necessary. The committee's findings have been implemented.

The independent investigation confirmed that the value of the discounts in question was only marginal in the three preceding years. We concluded there is no need to restate our consolidated financial statements for the period in question. We have not accounted for any possible fines that might be imposed on us by OPTA, the Dutch telecommunications regulator and await the outcome of the investigation conducted by OPTA.

Q4 2004

Over the fourth quarter of 2004, we posted an **after-tax profit** of EUR 479 million (Q4 2003: EUR 1,639 million). Earnings per share were lower at EUR 0.20 (Q4 2003: EUR 0.67) due to recognizing EUR 1,080 million in tax gains last year. The **operating result** decreased by 21.9% to EUR 532 million (Q4 2003: EUR 681 million).

Operating revenues saw a 2.1% decrease to EUR 3,050 million. Reported **net sales** were 1.5% lower at EUR 2,953 million including a EUR 71 million adverse MTA effect, explaining a 2.4%-points reduction in net sales.

- Net sales of the Fixed division decreased by EUR 164 million (8.4%) which can be mainly explained by the combined effect of the accelerated migration from traditional to new, IP-based services, MTA tariff reductions (EUR 87 million or 4.4%), and lower project revenues (EUR 31 million or 1.6%).
- The Mobile division realized a 5.1% increase (EUR 65 million) in net sales to EUR 1,337 million, driven by continued strong performance of its international operations (net sales rose 14.6% in Germany and 22.8% in Belgium), which more than offset a EUR 33 million adverse MTA effect in the Netherlands. An adjustment for 2004 content sales (EUR 22 million), which were presented gross instead of net, was fully recognized in the fourth quarter; EUR 16 million of this adjustment relates to prior quarters.
- Net sales of Other activities decreased by EUR 5 million, while inter-division revenues fell EUR 59 million below the same period last year.



Operating expenses rose by 3.5% (EUR 85 million) to EUR 2,518 million. Lower costs in the Fixed division (EUR 148 million) and Other activities (EUR 57 million) were more than offset by Mobile division's increased operating expenses (EUR 231 million). The increase in Mobile division's operating expenses was the result of amortization of UMTS licenses in 2004, a EUR 103 million reversal of BASE's GSM license impairment in 2003 as well as increased marketing efforts in 2004 aimed at restoring market share in the Netherlands and enhancing growth in Germany and Belgium.

The **net financial expense** amounted to EUR 144 million, a decrease from last year's EUR 223 million. This decrease reflects the effects of regular and early debt redemptions in 2003 and 2004.

Taxation totaled to a EUR 126 million tax income, resulting in an effective tax rate of -32.5%, primarily due to recognizing EUR 179 million tax benefits on our deferred tax positions upon the announced Dutch corporate tax rate reductions. In line with the agreement with the Dutch tax authorities, an interest amount of EUR 314 million on shareholder loans to E-Plus is ignored for Dutch tax purposes. This positive effect is to a large extent mitigated by the non-deductibility of interest expense pursuant to the German thin-capitalization rules.



General

Reporting

We define EBITDA as operating result before depreciation and impairments of PP&E and amortization and impairments of goodwill and licenses. 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 on isolation or as a substitute for analyses of our results as reported under Dutch GAAP or US GAAP.

In the past EBITDA was used as a measurement of certain aspects of operational performance and liquidity. For the purpose of comparing 2004 financial performance with the guidance given in December 2003, we exclude 'Exceptional items' as then defined (1).

Going forward we have used EBITDA as a component of our guidance. In view of the upcoming implementation of IFRS, and the resulting volatility of amortisation, 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 result) 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', both of which are common GAAP measures.

(1) We define exceptional items as those gains or losses that, in the view of management, are not directly related to our continuing business operations or distort the analysis of our underlying financial performance, measured in terms of operating revenues, EBITDA, operating result and net results, either due to the materiality of the amounts involved or the likelihood that such an event will recur in the near future. It should be noted that operating revenues, EBITDA, operating result and net results excluding exceptional items cannot be considered to be financial measures under Dutch GAAP or US GAAP. In the past, we have defined the following events as an exceptional item:

- Impairment charges and other substantial write-downs on the value of our assets, including goodwill and other intangible fixed assets.
- Restructuring charges.
- Gains or losses on disposal of group companies, associates and other assets and/or activities.



IFRS

In April 2005 KPN will present its 2004 figures under IFRS.

Our current estimate is that IFRS will have the following impact:

- Net income for the year 2004 will increase by EUR 150 million to EUR 250 million.
- Shareholders' equity at December 31, 2004 will be lower by EUR 300 million to EUR 400 million.
- At January 1, 2005 shareholders' equity will further decrease by EUR 100 million to EUR 200 million.

Main differences with current accounting policies arise from:

- Employee benefits
- Fair value Property, Plant and Equipment
- Goodwill amortization
- Revenue recognition
- Borrowing costs
- Joint venture accounting
- Presentation (eg. Own work capitalized)

Tax effects on the above mentioned differences

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 KPN's operations, the investigation into the discounts, KPN's and its joint ventures' share of new and existing markets, general industry and macro-economic trends and KPN's 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 KPN's control, that could cause actual results to differ materially from such statements. A number of these factors are described (not exhaustively) in KPN's Annual Report and Form 20-F.

All figures in this quarterly report are unaudited and based on Dutch GAAP. 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 KPN's GAAP figures. KPN's 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.

Profile

KPN offers telecommunication services to both consumers and businesses. The company's core activities are telephony and data services through KPN's fixed network in the Netherlands, mobile telecom services in Germany, the Netherlands and Belgium and data services in Western Europe. KPN is the market leader in the major segments of the Dutch telecom market. Through E-Plus in Germany and BASE in Belgium, KPN has number-three positions in the mobile markets of these countries.

As at December 31, 2004, we served 7.4 million fixed-line subscribers and 1.6 million Internet users in the Netherlands as well as 17.2 million mobile customers in Germany, the Netherlands and Belgium. KPN employed 31,116 individuals as of the same date.



KPN was incorporated in 1989. Its shares are listed on the stock exchanges of Amsterdam, New York, London and Frankfurt. The credit ratings remained unchanged during the fourth 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

Q4 2004	Q4 2003	In millions of euro, unless otherwise stated	2004	2003
2,953	2,998	Net sales	11,731	11,870
48	47	Own work capitalized	180	165
49	69	Other operating revenues	191	872
3,050	3,114	Total operating revenues	12,102	12,907
257	267	Cost of materials	1,014	983
993	1,061	Cost of work contracted out and other external expenses	3,953	3,999
468	433	Salaries and social security contributions	1,722	1,703
609	566	Depreciation, amortization and impairments	2,397	2,535
191	106	Other operating expenses	559	579
2,518	2,433	Total operating expenses	9,645	9,799
532	681	Operating result	2,457	3,108
-144	-223	Financial income and expenses	-620	-862
388	458	Profit before taxes	1,837	2,246
126	972	Tax on profit	-268	257
-	165	Income from participating interests	-11	161
514	1,595	Group profit after taxes	1,558	2,664
-35	44	Minority interests	-47	67
479	1,639	Profit after taxes	1,511	2,731
0.20	0.67	Earnings per ordinary share/ADS (in EUR)	0.63	1.11
0.20	0.65	Earnings per ordinary share/ADS on a fully diluted basis (in EUR) ²	0.63	1.09

² The earnings per share for the fourth quarter have been calculated by deducting the year-to-date earnings per share of the last quarter from the year-to-date earnings per share of the current quarter. If the earnings per share for the fourth quarter of 2004 were calculated on a stand-alone basis (diluted and non-diluted), they would have been EUR 0.21 per share (Q4 2003: EUR 0.66 and EUR 0.67 respectively).



Consolidated Balance Sheet

(Before appropriation of net result)

ASSETS

In millions of euro	Dec. 31, 2004	Dec. 31, 2003
FIXED ASSETS		
<i>Intangible fixed assets</i>		
Licenses	4,348	4,457
Goodwill	3,879	4,126
	8,227	8,583
<i>Property, plant and equipment</i>		
Land and buildings	827	881
Plant and equipment	7,002	7,082
Other tangible fixed assets	400	431
Assets under construction	577	725
	8,806	9,119
<i>Financial fixed assets</i>		
Participating interests	151	194
Loans to participating interests	11	19
Other loans	74	119
Prepayments and accrued income	1,365	1,986
	1,601	2,318
Total fixed assets	18,634	20,020
CURRENT ASSETS		
Inventory	248	164
Receivables	1,672	1,452
Prepayments and accrued income	609	641
Marketable securities and other financial interests	-	9
Cash and cash equivalents	1,573	1,839
Total current assets	4,102	4,105
TOTAL	22,736	24,125



LIABILITIES

In millions of euro	Dec. 31, 2004	Dec. 31, 2003
GROUP EQUITY		
Shareholders' equity	6,821	7,163
Minority interests	144	196
	6,965	7,359
PROVISIONS		
Pension provisions	804	814
Deferred tax liabilities	2,083	2,111
Other provisions	383	414
	3,270	3,339
LONG-TERM LIABILITIES		
Loans	7,792	9,207
Accruals and deferred income	14	23
	7,806	9,230
CURRENT LIABILITIES		
Other liabilities ³	2,713	2,107
Accruals and deferred income	1,982	2,090
	4,695	4,197
TOTAL	22,736	24,125

³ Of which interest-bearing debts: EUR 1,650 million (December 31, 2003: EUR 952 million).

Consolidated Cash Flow Statement

Q4 2004	Q4 2003	In millions of euro	2004	2003
479	1,639	Profit or loss after taxes	1,511	2,731
35	-44	Minority interests	47	-67
609	566	Depreciation, amortization and impairments	2,397	2,535
-265	1,263	Changes in provisions	-80	1,598
328	-1,764	Changes in deferred tax assets	630	-1,797
-	-165	Result from participating interests	11	-161
-17	42	Results from sale of assets, operations and participating interests	-73	-419
1,169	1,537	Net cash flow provided by operating activities before changes in working capital	4,443	4,420
		Changes in working capital:		
18	47	Inventory	-83	65
7	92	Trade receivables	29	114
-92	12	Other current assets	-186	-48
-34	-547	Current liabilities (excluding short-term financing)	-234	-464
-101	-396	Net cash flow used in changes in working capital	-474	-333
1,068	1,141	Net cash flow provided by operating activities	3,969	4,087
-75	-	Group companies/joint ventures sold (acquired)	-75	499
-8	-	Investments in intangible fixed assets	-16	-6
-521	-607	Investments in property, plant and equipment	-1,698	-1,421
70	22	Disposals of property, plant and equipment	73	64
45	501	Changes in other financial fixed assets	122	816
-489	-84	Net cash flow used in investing activities	-1,594	-48
-35	-	Share repurchase	-1,009	-
-	-	Shares purchased for option plans	-33	-8
-	-	Dividends paid	-796	-
-	9	Long-term loans contracted	1,120	45
-21	-900	Redemption of long-term loans	-1,950	-4,821
32	-69	Changes in interest-bearing current liabilities	32	-69
-24	-960	Net cash flow used in financing activities	-2,636	-4,853
555	97	Changes in cash and cash equivalents	-261	-814
1,014	1,740	Cash and cash equivalents at beginning of period	1,839	2,657
4	3	Cash and cash equivalents in group companies and joint ventures acquired and sold	-5	-2
-	-1	Exchange rate differences	-	-2
555	97	Changes in cash and cash equivalents	-261	-814
1,573	1,839	Cash and cash equivalents at end of period	1,573	1,839



Statement of changes in shareholders' equity

In millions of euro (except for number of shares)	2004	2003
Balance as of January 1	7,163	4,508
Change in accounting principles	-	-6
Shares repurchased	-1,009	-
Shares repurchased for option plans	-33	-25
Dividends paid	-796	-
Net income for the year	1,511	2,731
Translation differences and other changes ⁴	-15	-45
Balance as of December 31	6,821	7,163
Number of issued shares as of December 31 ⁵	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 year	2,385,418,773	2,468,678,426

Additions to fixed assets

Q4 2004	Q4 2003	In millions of euro	2004	2003
12	-	Additions to intangible fixed assets	20	6
536	613	Additions to tangible fixed assets	1,708	1,499
-12	43	Additions to financial fixed assets	8	107

Accounting principles

The interim financial information has been prepared applying the accounting principles as disclosed in the Annual Report and Form 20-F.

Contingencies

SOBI

On July 8, 2004, the Enterprise Chamber of the Amsterdam Court ruled in the SOBI case ordering us to make certain reclassifications and give additional disclosures in the 2000 statutory financial statements. Although the ruling had no impact on the net result of 2000, we appealed against the ruling with the Supreme Court on October 8, 2004. We wish to emphasize that the decision does not affect the KPN 2000 US GAAP accounts.

Investigation into the appropriateness of discounts provided

In December 2004, the independent investigation into the appropriateness of discounts provided to certain customers of our Fixed division, which was initiated October last, was concluded. The

⁴ This includes an estimated EUR 52 million dividend tax charge due to share repurchases in 2004.

⁵ The difference between 2004 and 2003 is primarily the result of the cancellation of in total 161,596,876 shares repurchased on October 28 and December 16, 2004.



independent investigation confirmed that the value of the discounts in question was only marginal in the three preceding years. We concluded there is no need to restate our consolidated financial statements for the period in question. We have not accounted for any possible fines that might be imposed on us by OPTA, the Dutch telecommunications regulator and await the outcome of the investigation conducted by OPTA.

Workforce

As of December 31, 2004, we employed a total of 28,056 (full-time equivalent) employees (December 31, 2003: 29,668), of which 17,758 FTEs (December 31, 2003: 18,649) were subject to our collective labor agreement in the Netherlands. Social plans and natural attrition accounted for the 891 FTEs reduction to 17,758 FTEs as of December 31, 2004.

Pension funds

The funding agreement with our pension funds obliges us to make additional payments in case of a shortfall. The actual coverage level as of December 31, 2004, based on preliminary calculations, exceeds the minimum reserve level for the funds. The actual coverage level is however below the reserve deficit limit. The total reserve deficit amounts to EUR 250 million as of December 31, 2004 (September 30, 2004: EUR 312 million). In 2005, we have to pay 20% of the shortfall as of December 31, 2004, being EUR 50 million, on top of our regular pension contributions; this amount has been accrued at year-end.

Annex Business performance by division

Fixed division

General

The results for the fourth quarter and full year 2004 were as follows:

Q4 2004	Q4 2003	In millions of euro	YTD 2004	YTD 2003
1,805	1,964	Operating revenues	7,254	7,752
		Of which:		
1,792	1,956	Net sales	7,216	7,717
7	4	Own work capitalized	24	18
6	4	Other operating revenues	14	17
1,373	1,521	Operating expenses	5,483	6,000
		Of which:		
283	321	Depreciation, amortization and impairments	1,223	1,386
432	443	Operating result	1,771	1,752
		Of which:		
326	307	Fixed Networks	1,347	1,288
106	136	Business Solutions	424	464

Operating revenues

Operating revenues decreased by 8.1% in the fourth quarter and 6.4% in 2004 affected by the continued migration from traditional services (such as voice telephony and data services via leased lines) to new services rendered at lower tariffs (e.g., ADSL, VoIP, IP-VPN), MTA tariff reductions (Q4 2004 impact: EUR 87 million; 2004 impact: EUR 293 million) as well as ongoing fixed-to-mobile substitution and fierce competition. MTA tariffs were reduced on January 1, 2004 and December 1, 2004; a third and last reduction will follow on December 1, 2005. Operating revenues decreased also due to lower revenues from the Mobirail and Tetraned projects (Q4 2004: EUR -31 million, 2004: EUR -69 million) mainly completed in the second half of 2003 as well as the deconsolidation of SNT France, SNT Scandinavia and KPN Belgium (no impact in Q4 2004; total impact in 2004: EUR 67 million). Without the combined effect of MTA tariff reductions and lower project revenues, operating revenues decreased by 2.1% in the last quarter of 2004 and by 1.8% during the year 2004.

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

Q4 2004	Q4 2003	In millions of euro	YTD 2004	YTD 2003
1,543	1,644	Fixed Networks	6,206	6,515
809	894	Fixed Telephony	3,274	3,629
684	743	Carrier Services	2,746	2,870
521	519	Other FN	2,058	2,009
-471	-512	Intercompany revenues FN	-1,872	-1,993
516	575	Business Solutions	2,077	2,235
327	352	Connectivity	1,333	1,388
125	154	Integrated & Managed Solutions	479	510
115	120	EnterCom	439	474
-	9	Other BS	-	41
-51	-60	Intercompany revenues BS	-174	-178
-254	-255	Intra-division sales	-1,029	-998
1,805	1,964	Operating revenues	7,254	7,752

Fixed Networks

Fixed Telephony

Our fixed telephony business is in continuous decline. During 2004, the overall market decline more and more influenced the revenue developments. Both broadband and mobile services are negatively affecting fixed-line revenues for both traffic and subscriptions. Broadband penetration increased from 27% in the last quarter of 2003 to 44% at year-end 2004, whereas mobile-only usage increased to about 12% of the Dutch households by the end of 2004 (2003: 8%).

The number of fixed line connections can be shown as follows:

Number of connections (in thousands)	Q4 2004	Q4 2003
PSTN	5,922	6,120
ISDN	1,512	1,557
Total	7,434	7,677

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

Q4 2004	Q4 2003	Traffic volumes (in billions of minutes)	2004	2003
2.90	3.30	Domestic local	11.74	13.67
1.73	1.99	Domestic long-distance	7.10	8.27
4.63	5.29	Total domestic traffic volumes	18.84	21.94
1.56	3.14	Internet-related	8.20	13.84
0.61	0.62	Fixed-to-mobile	2.43	2.51
0.24	0.27	International	1.01	1.13
7.04	9.32	Total traffic volumes Fixed Telephony	30.48	39.42

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

Q4 2004	Q4 2003	In euro per minute	2004	2003
0.0308	0.0306	Domestic local	0.0308	0.0302
0.0442	0.0432	Domestic long-distance	0.0440	0.0424
0.0252	0.0218	Internet-related	0.0238	0.0208
0.2044	0.2580	Fixed-to-mobile	0.2102	0.2563
0.1924	0.1995	International	0.1894	0.1974

Q4 2004 versus Q4 2003

In the fourth quarter of 2004, operating revenues decreased by EUR 85 million (–9.5%) due to MTA tariff reductions (EUR –31 million), continued migration to new services like ADSL, accelerated fixed-to-mobile substitution as well as ongoing competition and overall market decline. These trends are visible from the developments in the number of connections and traffic volumes.

Total traffic revenues fell by 18.8% to EUR 394 million, driven both by price erosion (MTA effect) as well as lower volumes. Due to ongoing competition in the business market and increasing mobile-only usage, domestic traffic decreased by 0.66 billion minutes (–12.5%) to 4.63 billion minutes in the fourth quarter of 2004. In the same quarter, Internet traffic volumes decreased by 50% to 1.56 billion minutes due to accelerated ADSL growth. Total volumes of Fixed Telephony decreased by 2.28 billion (–24.5%) to 7.04 billion minutes. One-off connection fees and subscription fees decreased by 1.4% to EUR 412 million, due to a lower access lines base.

2004 versus 2003

Total operating revenues decreased by 9.8% to EUR 3,274 million due to MTA tariff reductions (EUR 109 million), continued migration to new services as well as fixed-to-mobile substitution, ongoing competition and overall market decline. Total volumes of Fixed Telephony decreased by 22.7% to 30.48 billion minutes. As a result of these developments, traffic revenues decreased by 17.6% to EUR 1,628 million, whereas one-off connection fees and subscription fees decreased by 0.7% to EUR 1,652 million.

Carrier Services

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

Q4 2004	Q4 2003	Traffic volumes (in billions of minutes)	2004	2003
3.50	3.48	Terminating	13.57	12.95
3.00	3.08	Originating voice	11.95	11.39
0.77	1.43	Originating internet	3.94	6.47
1.57	1.52	Transit	6.11	5.99
1.78	1.80	International	6.89	6.72
10.62	11.31	Total traffic volumes Carrier Services	42.46	43.52
0.24	0.27	Of which intercompany to Fixed Telephony ⁶	1.00	1.14

⁶ 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.



Q4 2004 versus Q4 2003

Total operating revenues decreased 2004 by 7.9% to EUR 684 million mainly caused by the impact of MTA reductions (impact: EUR 56 million) on January 1, 2004 and December 1, 2004, resulting in an average tariff reduction of 20% and 13.5% respectively. Higher traffic volumes of Terminating, Transit and International offset decreased Internet (due to the aforementioned accelerated ADSL growth) and Originating Voice traffic volumes.

2004 versus 2003

Total operating revenues decreased by 4.3% to EUR 2,746 million, which is explained mainly by the EUR 184 million impact of MTA tariff reductions.

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 units Fixed Network Operator and Broadband.

Operational data	Q4 2004	Q4 2003
Number of KPN ADSL connections (in thousands)	1,381	746
ADSL coverage	99%	97%
Market share consumer broadband (incl. cable operators) ⁷	44%	39%

Q4 2004 versus Q4 2003

In the fourth quarter of 2004, operating revenues of Fixed Networks' other units increased by 0.4% to EUR 521 million mainly as a result of increased sales of ADSL connections partly offset by decreased intercompany revenues from our Fixed Network Operator due to successful efficiency-improvement programs. Our ISP revenues remained stable. Intercompany revenues decreased to EUR 471 million in the last quarter of 2004 (2003: EUR 512 million).

2004 versus 2003

In 2004, total operating revenues of Fixed Network's other units increased by 2.4% to EUR 2,058 million, mainly as a result of increased sales of ADSL connections, while intercompany revenues were lower at EUR 1,872 million (2003: EUR 1,993 million) mainly due to lower intercompany revenues from our Fixed Network Operator.

Business Solutions

Operational data	Q4 2004	Q4 2003
Number of leased lines, of which:	59,487	71,163
• Analog	72%	66%
• Digital	28%	34%
IP-VPN connections	30,164	15,956
VPN (customers)	1,409	807
Customer programs	106	76

⁷ Market shares ADSL are based on externally available information.

Q4 2004 versus Q4 2003

Operating revenues of Business Solutions' units decreased by 10.3% to EUR 516 million primarily due to EUR 31 million lower revenues from the Mobirail and Tetraned projects, which were mainly completed in the second half of 2003. Operating revenues of Connectivity decreased by 7.1% to EUR 327 million, as increased revenues from the new services (IP-VPN networks and new xDSL products) could not yet compensate lower revenues from traditional services (leased lines and Frame relay). Integrated & Managed Services' (IMS) operating revenues decreased by 18.8% to EUR 125 million, as increased revenues from customer programs and other services could not offset lower revenues from the Mobirail and Tetraned projects. Operating revenues of EnterCom decreased by 4.2% to EUR 115 million resulting from a decrease in market volume in voice equipment and lower service revenues.

2004 versus 2003

Total operating revenues of Business Solutions' units decreased by 7.1% to EUR 2,077 million, mainly due to EUR 69 million lower revenues from the Mobirail and Tetraned projects as well as lower revenues within the business units.

Operating expenses

Q4 2004 versus Q4 2003

Operating expenses decreased by 9.7% to EUR 1,373 million due to the effects of cost-saving programs within the Fixed division, MTA tariff reductions and lower costs from the Tetraned and Mobirail projects. Furthermore, this quarter included EUR 14 million restructuring charges mainly related to EnterCom (2003: EUR 6 million) as well as an additional pension charge of EUR 35 million due to the shortfall of the pension funds (2003: EUR 9 million). Depreciation, amortization and impairment charges decreased as a consequence of investment optimization programs. Next to this, an impairment reversal of certain fixed assets totaling EUR 6 million was recorded in the fourth quarter of 2004.

2004 versus 2003

Total operating expenses decreased by 8.6% to EUR 5,483 million due to the effects of cost-savings programs within the Fixed division, MTA tariff reductions and reduced project costs (Tetraned and Mobirail). They also included a net restructuring charge of EUR 25 million (2003: release of EUR 3 million) as well as addition to the early retirement provisions of EUR 32 million (2003: EUR 23 million) and a pension charge of EUR 35 million (2003: EUR 9 million) recognized as a payable for the shortfall in the pension fund. Depreciation, amortization and impairment charges fell due to investment optimization programs. Moreover, impairment reversals of certain fixed assets totaling EUR 8 million were taken. In 2003, operating expenses included impairment charges for goodwill within SNT (EUR 38 million) and certain fixed assets (EUR 42 million).

Mobile division

Q4 2004	Q4 2003	In millions of euro	YTD 2004	YTD 2003
1,403	1,340	Operating revenues	5,437	5,379
		Of which:		
1,337	1,272	Net sales	5,206	4,903
41	42	Own work capitalized	155	146
25	26	Other operating revenues	76	330
1,270	1,039	Operating expenses	4,817	4,332
		Of which:		
308	163	Depreciation, amortization and impairments	1,094	948
133	301	Operating result	620	1,047

Operating revenues

Q4 2004 versus Q4 2003

Operating revenues increased by 4.7% driven by net sales increases in Germany and Belgium due to strong subscriber growth. In the Netherlands, the EUR 33 million adverse impact of MTA tariff reductions more than offset the positive effect on revenues of an enlarged customer base. Also, an adjustment for 2004 content sales (EUR 22 million), which were presented gross instead of net, was fully recognized in the last quarter; EUR 16 million of this adjustment relates to prior quarters.

2004 versus 2003

MobilCom termination agreement income (EUR 222 million) had a positive effect on the 2003 revenue figures. Excluding this income, operating revenues went up 5.4%. Net sales climbed 6.2% driven by subscriber growth in Germany and Belgium. In the Netherlands, the positive impact of customer base growth on revenues was almost completely offset by the effect of MTA tariff reductions (EUR -108 million). The total customer base rose to 17.2 million (2003: 14.7 million). Our prepaid base was up 16.9%, while our postpaid base showed an even stronger growth (+18.4%).

Customers (in thousands)	Dec. 31, 2004	Sep. 30, 2004	June 30, 2004	Mar. 31, 2004	Dec. 31, 2003
Prepaid	10,001	9,536	9,107	8,844	8,555
<i>of which i-mode</i>	849	730	596	443	246
Postpaid	7,233	6,819	6,452	6,242	6,109
<i>of which i-mode</i>	933	913	856	747	622
Total	17,234	16,355	15,559	15,086	14,664
<i>of which i-mode</i>	1,782	1,643	1,452	1,190	868

Operating expenses

Q4 2004 versus Q4 2003

Operating expenses increased by 22.2% due to higher sales-related expenses – primarily higher distribution fees – as a result of stronger growth of the customer base. Furthermore, amortization charges were up compared to the same period last year as we commenced amortizing UMTS licenses in the course of 2004, while BASE's GSM license impairment reversal (EUR 103 million) reduced last year's operating expenses.

2004 versus 2003

Operating expenses rose by 11.2% mainly due to intensive customer acquisition and retention programs in all markets causing higher sales-related expenses. Amortization charges increased due to the launch of UMTS services in 2004 and the effect of BASE's GSM license impairment reversal in 2003, which resulted in higher amortization charges in 2004.

Germany

Q4 2004	Q4 2003	In millions of euro	YTD 2004	YTD 2003
743	644	Operating revenues	2,751	2,675
		Of which:		
691	603	Net sales	2,594	2,283
31	30	Own work capitalized	112	111
21	11	Other operating revenues	45	281
786	657	Operating expenses	2,843	2,562
		Of which:		
235	177	Depreciation, amortization and impairments	802	729
-43	-13	Operating result	-92	113

Operating revenues

Q4 2004 versus Q4 2003

Total operating revenues climbed 15.4% on higher net sales: net sales were up 14.6% compared to the same period last year driven by an enlarged customer base combined with a stable ARPU plus more handsets sold. Book gains (EUR 9 million) recognized on assets sold in an IT outsourcing deal also contributed to higher 2004 other operating revenues.

2004 versus 2003

Despite 13.6% higher net sales resulting from a larger customer base and more handsets sold, operating revenues rose by 2.8% due to the MobilCom termination agreement income (EUR 222 million) recognized in Q1 2003. Compared to 2003, ARPU remained largely stable during 2004.

Customers (in thousands)	Dec. 31, 2004	Sep. 30, 2004	June 30, 2004	Mar. 31, 2004	Dec. 31, 2003
Prepaid	4,787	4,639	4,531	4,453	4,329
of which i-mode	423	349	273	181	82
Postpaid	4,724	4,426	4,185	3,995	3,877
of which i-mode	670	653	582	470	358
Total	9,511	9,065	8,716	8,448	8,206
of which i-mode	1,093	1,002	855	651	440

Q4 2004	Q4 2003	Traffic volume, MoU and ARPU in Germany	2004	2003
2,110	1,876	Total traffic volume (in millions of minutes)	7,943	7,139
76	78	Weighted monthly MoU (average Minutes of Use):	76	77
21	25	- Prepaid	22	26
133	137	- Postpaid	134	137
24	24	Total monthly ARPU (average revenues per user; in EUR):	24	24
8	9	- Prepaid	8	9
40	42	- Postpaid	41	42

Operating expenses

Q4 2004 versus Q4 2003

Operating expenses rose by 19.6% mainly because of increased costs of work contracted out (+28.4%) due to higher distribution fees as a result of more gross additions and increased commission payments. In addition, amortization and depreciation charges were higher following the introduction of UMTS services.

2004 versus 2003

Higher cost of materials (+12.6%, as more handsets were sold) caused operating expenses to rise by 11.0%, as did increased costs of work contracted out due to higher distribution fees. Furthermore, amortization and depreciation charges went up upon the launch of UMTS services.

The Netherlands

Q4 2004	Q4 2003	In millions of euro	YTD 2004	YTD 2003
558	609	Operating revenues	2,292	2,375
		Of which:		
546	587	Net sales	2,227	2,326
9	10	Own work capitalized	39	23
3	12	Other operating revenues	26	26
403	394	Operating expenses	1,555	1,500
		Of which:		
57	50	Depreciation, amortization and impairments	177	190
155	215	Operating result	737	875

Operating revenues

Q4 2004 versus Q4 2003

Operating revenues decreased by 8.4% as positive contributions from a higher postpaid customer base and a fast-growing prepaid base were more than offset by the negative MTA effect (EUR 33 million), a declined prepaid ARPU and a EUR 22 million adjustment of content sales for the full year (EUR 6 million relates to this quarter), which were presented gross instead of net. Prepaid ARPU declined due to an increase of inactive users resulting from a less stringent disconnection policy as well as the transfer from high-ARPU prepaid customers to postpaid propositions.

2004 versus 2003

Operating revenues decreased by 3.5%: the positive impact of a larger customer base was more than compensated by the EUR 108 million adverse MTA effect and a declined prepaid MoU. Without the adverse MTA effect, net sales would have risen by 0.1%. Own work capitalized and other operating revenues showed an increase mainly due to the UMTS rollout and a royalty income (EUR 15 million) in Q1 2004.

Customers (in thousands)	Dec. 31, 2004	Sep. 30, 2004	June 30, 2004	Mar. 31, 2004	Dec. 31, 2003
Prepaid	3,890	3,679	3,429	3,310	3,252
of which i-mode	424	378	320	260	163
Postpaid	2,186	2,094	1,977	1,959	1,953
of which i-mode	237	234	247	249	240
Total	6,076	5,773	5,406	5,269	5,205
of which i-mode	661	612	567	509	403

Q4 2004	Q4 2003	Traffic volume, MoU and ARPU in the Netherlands	2004	2003
2,125	1,984	Total traffic volume (in millions of minutes)	8,081	7,806
120	130	Weighted monthly MoU (average Minutes of Use):	122	131
29	41	- Prepaid	35	46
280	272	- Postpaid	273	265
30	36	Total monthly ARPU (average revenues per user; in EUR):	33	38
8	13	- Prepaid	10	15
67	72	- Postpaid	71	74

Operating expenses

Q4 2004 versus Q4 2003

Operating expenses increased by 2.3%, being mainly the result of higher dealer commissions and bonuses driven by the enlarged customer base. Furthermore, amortization of the UMTS license started in this quarter.

YTD 2004 versus YTD 2003

Operating expenses rose by 3.7% primarily due to increased commission costs, dealer bonuses and cost of materials, which are all volume driven. These increases were partly offset by reduced interconnection costs – caused by lower MTA tariffs – and roaming costs due to lower roaming volumes at reduced prices.

Belgium

Q4 2004	Q4 2003	In millions of euro	YTD 2004	YTD 2003
114	97	Operating revenues	432	337
		Of which:		
113	92	Net sales	424	320
-	3	Own work capitalized	4	12
1	2	Other operating revenues	4	5
87	26	Operating expenses	429	318
		Of which:		
16	-63	Depreciation, amortization and impairments	116	29
27	71	Operating result	3	19

Operating revenues

Q4 2004 versus Q4 2003

Operating revenues were up 17.5% compared to the same quarter last year. This increase is driven by the 31.4% customer base growth and a slightly lower blended ARPU.

YTD 2004 versus YTD 2003

Operating revenues increased by 28.2%, as they were positively affected by 32.5% higher net sales due to the grown customer base and a higher blended ARPU.

Customers (in thousands)	Dec. 31, 2004	Sep. 30, 2004	June 30, 2004	Mar. 31, 2004	Dec. 31, 2003
Prepaid	1,324	1,218	1,147	1,081	974
<i>of which i-mode</i>	2	3	3	2	1
Postpaid	323	299	290	288	279
<i>of which i-mode</i>	26	26	27	28	24
Total	1,647	1,517	1,437	1,369	1,253
<i>of which i-mode</i>	28	29	30	30	25

Q4 2004	Q4 2003	Traffic volume, MoU and ARPU in Belgium	2004	2003
533	323	Total traffic volume (in millions of minutes)	1,850	1,190
112	90	Weighted monthly MoU (average Minutes of Use):	107	86
86	57	- Prepaid	80	48
221	204	- Postpaid	213	213
24	25	Total monthly ARPU (average revenues per user; in EUR):	24	22
14	14	- Prepaid	14	11
62	62	- Postpaid	65	59

Operating expenses

Q4 2004 versus Q4 2003

Operating expenses rose by EUR 61 million mainly due to the reversed impairment charges of EUR 16 million in 2004 (UMTS license) compared to EUR 103 million in 2003 (GSM license). Higher traffic-related expenses – in line with the larger customer base - had an upward impact on operating expenses.

YTD 2004 versus YTD 2003

Operating expenses were 34.9% up compared to 2003 due to more traffic-related expenses and higher advertising costs. Reversal of the GSM license impairment in December 2003 positively affected the amortization charge in 2003, which effect was to a small extent offset by a UMTS license impairment reversal in December 2004.

Other activities

Q4 2004	Q4 2003	In millions of euro	YTD 2004	YTD 2003
106	133	Operating revenues	458	946
		Of which:		
88	93	Net sales	356	420
-	1	Own work capitalized	1	1
18	39	Other operating revenues	101	525
139	196	Operating expenses	392	637
		Of which:		
18	82	Depreciation, amortization and impairments	80	201
-33	-63	Operating result	66	309

Operating revenues

Q4 2004 versus Q4 2003

Operating revenues decreased by EUR 27 million mainly because the same quarter last year included a EUR 26 million book gain on the sale of Inmarsat by Xantic and the effect of deconsolidating Logistics & Repair as of the end of 2003 following the sale thereof.

2004 versus 2003

Operating revenues decreased by 51.6%; the book gain on Directory Services recorded in 2003 (EUR 435 million) was partly offset by book gains worth EUR 56 million on the sale of Eutelsat and PTC in 2004. Furthermore, the trends described in the quarter-to-quarter analysis contributed to the operating revenues being lower.

Operating expenses

Q4 2004 versus Q4 2003

Operating expenses decreased by EUR 57 million resulting from the deconsolidation of Logistics & Repair and from lower operating expenses within Xantic due to termination of certain activities. As a result of office space reductions in 2002 and 2003, the smaller fixed assets base resulted in lower depreciation charges.

2004 versus 2003

Operating expenses decreased by 38.6% due to lower additions to the restructuring provision and the effect of cost reduction programs. Moreover, the trends as set out in the quarter-to-quarter analysis contributed to the reduced operating expenses.



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 and, for E-Plus, gross service provider revenues less related discounts during a one-month period, divided by the average number of customers during that month. Gross service provider revenues represent revenues generated by third-party providers using the E-Plus network. E-Plus accounts for the net part as revenues.

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, but exclude 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.

IP-VPN

Internet Protocol – Virtual Private Network

A secured and private network based on an IP infrastructure.

i-mode

A mobile data services platform that has originally been developed and launched by NTT DoCoMo.

**ISDN***Integrated Services Digital Network*

ISDN is a worldwide digital network evolved from existing telephone services. A standard ISDN connection consists of three channels, 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

Our operators' share in the total customer base in a country.

MoU*Minutes of Use*

Weighted monthly minutes of use are calculated by taking the weighted average of the monthly minutes of use during the year. The monthly minutes of use 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 not owning a spectrum or network structure but having arrangements with traditional mobile network operators to buy minutes of use to sell to its customers.

PSTN*Public Switched Telephone Network*

PSTN is a traditional telephone system using twisted-pair copper lines (voice traffic up to 64 kB/s and data traffic 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.

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.

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:

April 12, 2005

Annual General Meeting of Shareholders

May 10, 2005

Publication of results for the first quarter of 2005

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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