Quarterly report KPN

Second quarter of 2004

August 9, 2004

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Press Release

KPN doubles after tax profit to EUR 369 million

In millions of euro	Q2 2004	Q2 2003
Net sales	2,927	2,960
Operating result	678	589
Profit after tax	369	183
Earnings per share	0.16	0.08

Solid second quarter performance

- Net result doubled to EUR 369 million as a result of lower operating expenses, lower interest expense and lower tax charge
- Operating result 15% higher
- Operating revenues down 0.9%, mainly due to adverse impact of lower mobile terminating access ("MTA") tariffs as required by the regulator
- Net sales growth in Mobile of 6.3%, driven by particularly strong growth of 12.7% in Germany and 30% in Belgium where margins also increased
- Although Fixed experienced a revenue decline, margins improved
- Operating expenses down 4.7%, primarily as a result of rigorous cost control in Fixed
- Year-on-year, the ADSL customer base doubled to over 1 million connections
- During the quarter, the Mobile customer base grew by almost half a million (3.1%) to 15.6 million customers

Interim Dividend

KPN declares an interim dividend of EUR 0.08 per share.

Ad Scheepbouwer, CEO of KPN, commented:

"We have maintained our solid progress during the second quarter.

Our international mobile operations in particular continue to achieve strong growth, while at the same time showing improved margins. In our home market, Mobile The Netherlands has recently taken a number of commercial initiatives to strengthen its position as market leader. These will result in some pressure on margin in the short term, but will enable us to improve both Mobile The Netherlands' market share and margin in the medium term. Although our fixed business experienced a revenue decline, margins improved as we have achieved further operating cost reductions. Cash flow from operations has remained robust.

We are expecting to achieve profit before tax at the higher end of our guidance, despite the fact that there will be some additional costs of EUR 200 to 300 million in the second half of the year, relating to a.o. stepped up marketing efforts, the start of UMTS license amortisation, and the possible funding of a pension deficit. With our profit growth and industry-leading returns of cash, we have demonstrated our commitment to translate operational and balance sheet progress into the delivery of real shareholder value and we view the remainder of 2004 with confidence".

Operating Review Q2

Fixed division

The migration of traditional services (such as voice telephony and data transmission via leased lines) to new services on new technologies (such as ADSL, voice over IP, IP-VPN) accelerated in the second quarter of 2004. The resulting decline of revenues from traditional services is partly offset by the increase of revenues from new services. Other factors impacting operating revenues are the MTA tariff reductions and the substitution from fixed to mobile-only usage.

KPN increasingly focuses on providing more value to its voice customers through the voice bundle discount packages, available to the consumer market (*BelPlus* 60, 100, 200, 300) as well as the business market (*BelZakelijk* packages). In addition, it has stepped up its direct marketing efforts to win back and retain voice customers. Since the introduction during the second quarter of 2003, 1,046,000 consumers (19% of our residential customers) have chosen *BelPlus* packages, of which 248,000 in the second quarter of 2004.

As a result of its activities in the traditional voice market, KPN was able to slow down, for the first time, the quarter-on-quarter gradual decrease of market shares. Market shares at the end of the second quarter of 2004 remained within the ranges of approximately 75% (local), >60% (national), >60% (fixed-to-mobile) and 45% (international).

In the second quarter of 2004, the 'ADSL by KPN' customer base exceeded the 1-million milestone, and reached a level of 1,057,000 customers by the end of June 2004, more than double the level reached at the end of the same quarter last year. As a result, KPN's share of the total consumer broadband market (including broadband offered by cable operators), increased to 42%.

Over time, KPN expects the demand for broadband, multimedia and broadcasting services to converge. KPN sees this as an opportunity to build on its strong position in voice and its fast growing broadband Internet services by including digital broadcasting services as part of a triple play strategy. As a shareholder in Digitenne, KPN already has a presence in the digital delivery of radio and TV programming. In addition, KPN has now requested tenders from several cable TV networks, representing approximately 90% of the cable market in the Netherlands, for providing KPN with digital broadcasting access. KPN intends to use this capacity to provide consumers with digital programming produced by both public and commercial radio and TV producers.

Recently, KPN successfully closed major contracts with parties including Stork (outsourcing of voice and data communication), NUON (outsourcing of telecom management), ING Bank (voice), Panalpina (IP-VPN international data communication), Stern (total fixed and mobile voice solutions and IP-VPN data communication), Infineon / Siemens (network services). On July 1, 2004, KPN introduced Online Remote Backup (ORB), which enables customers to automatically back up critical data on personal computers or laptops to a KPN cyber center over a secure Internet connection.

At the end of June, 1,141 business customers had been migrated from traditional data to IP-VPN networks, whereas the number of IP-VPN connections increased from 9,122 at the end of June 2003 to 23,746 at the end of June 2004.

Mobile division

The Mobile division continued to show strong growth, adding almost half a million new customers during the quarter. By the end of the quarter, KPN had 15.6 million mobile customers, a year-on year increase of 13%. In the second quarter of 2004, the number of i-mode™ customers across the three territories increased by 262,000 to 1.45 million. During the coming months, the Mobile division will intensify its commercial efforts in order to achieve maximum organic growth. As of the end of the second quarter, KPN announced the start of mobile broadband service provision over its new UMTS networks in Germany and the Netherlands, beginning with a high-speed modem card for laptop users. UMTS-enabled handsets will follow during the third quarter.

E-Plus

E-Plus has continued to meet the challenges of the German market with competitive and differentiating offers such as its 3-cent tariff for calls to the fixed network. As a result, E-Plus was able to continue to deliver on its balanced growth strategy, welcoming 268,000 new customers in the quarter, which gives E-Plus a total customer base of more than 8.7 million and a market share of 12.9%. The postpaid share in net additions during the quarter amounted to 71%, raising the share of postpaid in the customer base to 48% by the end of the quarter. At EUR 24 per month, blended ARPU showed a slight increase quarter-on-quarter, up from EUR 23, and remained stable year-on-year.

KPN Mobile the Netherlands

The Dutch mobile market continues to be highly competitive. KPN has recently revitalized its commercial strategy in the Netherlands in order to strengthen its position of market leader. Initiatives include stronger and clearer differentiation between the two brands KPN and Hi as well as the introduction of innovative and relevant propositions at competitive prices. Hi has made SMS a cornerstone of its offering for its largely youthful target audience, leading the market in introducing advantageous prepaid and postpaid SMS tariffs. In addition, KPN has successfully raised its presence in external distribution channels. These measures, combined with a strong media presence, are currently leading to an increased influx of new customers. KPN successfully attracted 137,000 new customers in the second quarter, bringing the total customer base to over 5.4 million, with a market share of 39.3%. Blended ARPU rose from EUR 33 in the first quarter to EUR 35 in the second quarter of 2004.

BASE

In Belgium, BASE's policy of combining distinctive and simple offers to the market with tailored propositions for specific segments continues to bear fruit. BASE successfully maintained the momentum gained in the previous two quarters, adding another 68,000 customers to take the total customer base well over 1.4 million. This represents an increase of 27% compared with the end of the same period of 2003. BASE's market share rose over 16%. At EUR 24 per month, ARPU was up from EUR 22 a year ago, whilst declining slightly from EUR 25 in the first quarter of 2004.

Financial Review Q2

For the second quarter of 2004, KPN reports a significant year-on-year increase of a **profit after tax** to EUR 369 million (Q2 2003: EUR 183 million). Earnings per share doubled to EUR 0.16 (Q2 2003: EUR 0.08). The **operating result** increased by 15% to EUR 678 million (Q2 2003: EUR 589 million).

This quarter's net result includes a book gain relating to the sale of KPN's interest in PTC of EUR 20 million.

Operating revenues (EUR 3,016 million) saw a decrease of 0.9%. Reported **net sales** decreased by 1.1% and amounted to EUR 2,927 million (Q2 2003: EUR 2,960 million), however, this included a EUR 59 million adverse MTA effect, which accounted for 2.0%.

- Net sales of the *Fixed division* (EUR 1,803 million) decreased by EUR 121 million (or 6.3%), due in part to a negative MTA impact of EUR 71 million (-3.7%) and increasing mobile-only usage.
- The *Mobile division* realized a 6.3% increase (EUR 77 million) in net sales to EUR 1,298 million, driven by continued strong performance of its international operations (net sales rose 12.7% in Germany and 30% in Belgium) which more than offset a EUR 26 million adverse MTA impact incurred in the Netherlands.
- Revenues of *Other activities* showed a minor decrease of EUR 3 million, while *inter-division* revenues were EUR 26 million lower than last year.

Operating expenses decreased by 4.7% (EUR –116 million) to EUR 2,338 million as a result of the successful implementation of cost reduction programs (reduced workforce, lower other operating expenses and depreciation charges), the effect of MTA tariff reductions and a EUR 38 million impairment charge with respect to SNT-related goodwill incurred in the second quarter of 2003. The reductions of operating expenses in the Fixed division and Other activities were partially offset by increased operating expenses in the Mobile division.

The **net financial expense** amounted to EUR 146 million, a substantial decrease from last year's EUR 202 million, reflecting reduced interest charges following EUR 4.9 billion regular and early debt redemptions in 2003.

Total **tax charges** amounted to EUR 163 million resulting in an effective tax rate of 30.6%. In line with the agreement with the Dutch tax authorities, an interest amount of EUR 306 million on shareholder loans to E-Plus is ignored for Dutch tax purposes.

Cash flow

Cash flow from operating activities decreased by EUR 108 million to EUR 870 million. This decrease is attributable to higher working capital (mainly due to tax refunds amounting to EUR 194 million received in the second quarter of 2003), which is only partially compensated by improved operating results and reduced net interest expenses this year. Year-to-date, the cash flow from operating activities increased by EUR 72 million to EUR 1,830 million.

Net debt
At the end of the second quarter of 2004, net debt (interest-bearing debt minus cash and cash equivalents) decreased by 19.6% to EUR 8.2 billion from EUR 10.2 billion at the end of the second quarter of 2003. The slight increase compared to the EUR 7.9 billion as of March 31, 2004 was mainly the result of a reduction in cash following payment of the 2003 dividend (EUR 606 million) and execution of the initial share repurchase program announced in March of this year.

Share repurchase program
By June 30, 2004, KPN had repurchased 86.1 million shares for a total amount of EUR 533 million, of which EUR 247 million was settled in the second quarter. The shares were purchased via on-market transactions for an average price of EUR 6.19 per share. The shares acquired under the initial share repurchase program will be cancelled this year, with the exception of a limited number of shares acquired to cover share option plans (EUR 33 million). On June 28, 2004, KPN announced a further EUR 1 billion share repurchase program.

Refinancing
On July 21, KPN successfully completed its offers to exchange its 7.25% Eurobond 2001-2006 for Euro denominated Fixed Rate Notes due 2011 and to purchase for cash its outstanding 6.50% Eurobond 1996-2006 and 3.50% Convertible Subordinated Bond 2000-2005. The offers represent a continuation of KPN's strategy of optimizing its capital structure by lengthening the debt maturity profile. The total size of the transactions amounted to EUR 1,961 million, and was followed by the issuance of new notes under KPN's Global Medium Term Note Program (EUR 700 million Floating Rate Notes due in 2009, with a coupon of Euribor + 0.40%, swapped into a fixed coupon of 4.0% and EUR 1,425 million Fixed Rate Notes due in 2011 with a coupon of 4.5%).

Financial Review YTD 2004 - Highlights

For the first half of 2004, KPN reported an operating result of EUR 1,339 million, compared to EUR 1,824 million last year. Excluding the book gains mentioned below, the **operating result** for the first half increased by 11.4% to EUR 1,283 million (YTD 2003: EUR 1,152 million). The **net result**, also excluding book gains, increased by EUR 407 million (+144.8%) to EUR 688 million.

The first half of 2003 included book gains (mainly the sale of Directory Services activities and the MobilCom termination agreement) amounting to EUR 672 million, while the same period in 2004 included EUR 56 million book gains on the sale of KPN's interests in Eutelsat and PTC.

Book gains both impacting operating revenues as well as operating result can be summarized as follows:

Amounts in millions of euro	YTD 2004	YTD 2003
Book gain on sale of Directory Services		435
Termination agreement MobilCom		222
Book gain on sale of UMC		15
Book gain on sale of Eutelsat	36	
Book gain on sale of PTC	20	
	56	**672**

Excluding book gains, **operating revenues** recorded in the first half of 2004 were EUR 5,979 million (YTD 2003: EUR 6,039 million). Including book gains, operating revenues saw a decrease of 10.1% to EUR 6,035 million compared to the same period last year.

Net sales (EUR 5,830 million), affected by the EUR 115 million adverse impact of MTA tariffs on both mobile and fixed operations, fell 0.6% below last year. In the *Fixed* division, net sales decreased by EUR 188 million (-4.9%) mainly due to a EUR 139 million negative MTA impact, while net sales of the *Mobile* division (EUR 2,514 million) increased by EUR 156 million. Net sales of *Other activities* were EUR 42 million lower. *Inter-division* revenues decreased by EUR 41 million to EUR 518 million.

Operating expenses decreased by EUR 191 million (–3.9%) to EUR 4,696 million. The decrease was the effect of cost reduction programs, MTA tariff reductions and a EUR 38 million impairment charge with respect to SNT-related goodwill, partially offset by increased cost of work contracted out within the Mobile division.

Net financial expense decreased by EUR 151 million to EUR 283 million, reflecting reduced interest charges following early and regular debt redemptions totaling EUR 4.9 billion in 2003.

Total **tax charges** in the first half of 2004 amounted to EUR 308 million, resulting in an effective tax rate of 29.2%.

General

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, 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 for the year ended December 31, 2003.

All figures shown throughout this quarterly report are unaudited. Certain figures may be subject to rounding differences. All market share information in this quarterly report is based on management estimates.

Reporting

KPN has decided to eliminate as much as possible non-GAAP measures and to limit itself to general accounting practices, which align with international requirements on financial reporting, which were tightened during 2003. As a consequence, the quarterly reports as from 2004 differ from those of previous years. The most important changes are (i) analysis based on operating result (formerly: EBIT) and result after taxes instead of EBITDA and (ii) analysis based on figures including exceptional items rather than on those excluding such items. In order to facilitate the analysis of trends, we disclose items with significant impact that in our opinion are important to interpret these trends.

In our 2003 quarterly reports, our analyses were based on EBITDA. EBITDA can be calculated as operating result plus depreciation, amortization and impairments.

Profile

KPN offers telecommunication services to both consumers and businesses. The core activities of KPN are telephony and data services through KPN's fixed network in the Netherlands, mobile telecommunications 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 holds the number three position in the mobile markets in these countries.

As of June 30, 2004, KPN had 7.6 million fixed-line subscribers and 1.5 million Internet customers in the Netherlands and had a total of 15.6 million mobile customers in the Netherlands, Germany and Belgium. KPN employed 31,820 individuals.

KPN was incorporated in 1989 and its shares are listed on the stock exchanges of Amsterdam, New York, London and Frankfurt. The credit ratings remained unchanged during the second quarter at A- with stable outlook (Standard & Poor's) and Baa1 with stable outlook (Moody's). The latter rating was reconfirmed on June 28, 2004.

Annex Financial Statements

Interim financial information

Consolidated Statement of Income

Q2 2004	Q2 2003	Amounts in millions of euro, unless otherwise stated	YTD 2004	YTD 2003
2,927	**2,960**	**Net sales**	**5,830**	**5,863**
46	40	Own work capitalized	86	78
43	43	Other operating revenues	119	770
3,016	**3,043**	**Total operating revenues**	**6,035**	**6,711**
266	237	Cost of materials	484	484
967	958	Cost of work contracted out and other external expenses	1,950	1,876
407	437	Salaries and social security contributions	814	866
590	664	Depreciation, amortization and impairments	1,192	1,309
108	158	Other operating expenses	256	352
2,338	**2,454**	**Total operating expenses**	**4,696**	**4,887**
678	**589**	**Operating result**	**1,339**	**1,824**
21	20	Interest and similar income	43	43
−167	−222	Interest and similar expenses	−326	−477
−146	**−202**	**Financial income and expenses**	**−283**	**−434**
532	**387**	**Profit before taxes**	**1,056**	**1,390**
−163	−221	Tax on profit	−308	−459
3	1	Income from participating interests	4	0
372	**167**	**Group profit after taxes**	**752**	**931**
−3	16	Minority interests	−8	22
369	**183**	**Profit after taxes**	**744**	**953**
0.16	0.08	Earnings per ordinary share/ADS (in EUR)	0.31	0.39
0.15	0.07	Earnings per ordinary share/ADS on a fully diluted basis (in EUR)	0.30	0.38

Consolidated Balance Sheet
(Before appropriation of net result)

ASSETS

Amounts in millions of euro	June 30, 2004	Dec. 31, 2003
FIXED ASSETS		
Intangible fixed assets		
Licenses	4,433	4,457
Goodwill	4,007	4,126
	8,440	**8,583**
Property, plant and equipment		
Land and buildings	838	881
Plant and equipment	6,616	7,082
Other tangible fixed assets	389	431
Assets under construction	946	725
	8,789	**9,119**
Financial fixed assets		
Participating interests	170	194
Loans to participating interests	31	19
Other loans	75	119
Prepayments and accrued income	1,746	1,986
	2,022	**2,318**
Total fixed assets	**19,251**	**20,020**
CURRENT ASSETS		
Inventory	211	164
Receivables	1,437	1,452
Prepayments and accrued income	686	641
Marketable securities and other financial interests	-	9
Cash and cash equivalents	994	1,839
Total current assets	**3,328**	**4,105**
TOTAL	**22,579**	**24,125**

LIABILITIES

Amounts in millions of euro	June 30, 2004	Dec. 31, 2003
GROUP EQUITY		
Shareholders' equity	6,813	7,163
Minority interests	200	196
Total group equity	**7,013**	**7,359**
PROVISIONS		
Pension provisions	790	814
Deferred tax liabilities	2,174	2,111
Other provisions	408	414
Total provisions	**3,372**	**3,339**
LONG-TERM LIABILITIES		
Loans	8,916	9,207
Accruals and deferred income	17	23
Total long-term liabilities	**8,933**	**9,230**
CURRENT LIABILITIES		
Other debts *)	1,241	2,107
Accruals and deferred income	2,020	2,090
Total current liabilities	**3,261**	**4,197**
TOTAL	**22,579**	**24,125**

*) Of which interest-bearing debts: EUR 303 million (December 31, 2003: EUR 952 million).

Consolidated Cash Flow Statement

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
369	**183**	**Profit or loss after taxes**	**744**	**953**
3	−16	Minority interests	8	−22
590	664	Depreciation, amortization and impairments	1,192	1,309
16	92	Changes in provisions	26	216
122	−22	Changes in deferred tax assets	239	−40
−3	−1	Income from participating interests	−4	-
−20	−11	Results from sale of assets, operations and participating interests	−56	−461
1,077	**889**	**Net cash flow provided by operating activities before changes in working capital**	**2,149**	**1,955**
		Changes in working capital:		
−20	−15	Inventory	−47	−47
12	−13	Trade receivables	12	7
22	78	Other current assets	9	−38
−221	39	Current liabilities (excluding short-term financing)	−293	−119
−207	**89**	**Net cash flow provided by/(used in) changes in working capital**	**−319**	**−197**
870	**978**	**Net cash flow provided by operating activities**	**1,830**	**1,758**
-	4	Group companies/joint ventures sold	-	499
−2	-	Investments in intangible fixed assets	−8	−6
−389	−267	Investments in property, plant and equipment	−703	−465
-	35	Disposals of property, plant and equipment	2	42
19	221	Changes in other financial fixed assets	85	333
−372	**−7**	**Net cash flow provided by/(used in) investing activities**	**−624**	**403**
−218	-	Share repurchase	−467	-
−29	-	Shares purchased for option plans	−29	−9
−606	-	Dividends paid	−606	-
-	4	Long-term loans contracted	-	25
−905	−3,113	Redemption of long-term loans	−943	−3,188
1	5	Changes in interest-bearing current liabilities	3	-
−1,757	**−3,104**	**Net cash flow used in financing activities**	**−2,042**	**−3,172**
−1,259	**−2,133**	**Changes in cash and cash equivalents**	**−836**	**−1,011**
2,263	**3,777**	**Cash and cash equivalents at beginning of period**	**1,839**	**2,657**
−10	2	Cash and cash equivalents in group companies and joint ventures acquired and sold	−9	-
−1,259	−2,133	Changes in cash and cash equivalents	−836	−1,011
994	**1,646**	**Cash and cash equivalents at end of period**	**994**	**1,646**

Statement of changes in shareholders' equity

Amounts 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	−467	-
Shares repurchased for option plans	−29	−9
Dividends paid	−606	-
Net income for the period	744	953
Translation differences and other changes	8	−17
Balance as of June 30	**6,813**	**5,429**
Number of outstanding shares at June 30	**2,490,996,845 *)**	**2,490,996,877**
Weighted average number of outstanding shares (excluding average number of repurchased shares and shares for option plans) during the first half	**2,436,698,073**	**2,468,975,670**

*) Including 80,115,000 shares repurchased before June 30, 2004 under the share repurchase program. After cancellation, the number of outstanding shares will decrease.

Additions to fixed assets

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
2	-	Additions to intangible fixed assets	8	6
389	339	Additions to tangible fixed assets	708	539
15	4	Additions to financial fixed assets	18	62

Accounting principles

The interim financial information has been prepared applying the accounting principles disclosed in the 2003 Annual Report and Form 20-F.
On July 8, 2004, the Enterprise Chamber of the Amsterdam Court reached a conclusion in the SOBI case and ordered KPN to make certain reclassifications and additional disclosures to the 2000 statutory financial statements. Although the conclusion has no impact on the net result of 2000, KPN has announced it will lodge an appeal against the decision with the Supreme Court. Pending the appeal, KPN is not required to make any adjustments to its financial statements.

Workforce

As of June 30, 2004, KPN employed a total of 28,730 (full time equivalent) employees, of which 18,410 FTEs were subject to KPN's collective labor agreement in the Netherlands. Social plans and natural attrition contributed to a reduction of 239 FTEs during the first half-year.

Pension funds

The funding agreement between KPN and its pension funds obliges KPN to make additional payments in case of a shortfall. Although the actual coverage level increased, the total reserve deficit increased to EUR 350 million as of June 30, 2004 (December 31, 2003: EUR 305 million) as a result of a change in the strategic asset mix to improve longer-term performance. In 2005, KPN has to pay 20% of any shortfall at December 31, 2004 on top of the regular pension contributions. The actual deficit on December 31, 2004 will therefore determine the payment due in 2005.

Annex Business performance by division

Fixed division

General

The results for the second quarter and first half of 2004 were as follows:

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
1,811	**1,937**	**Operating revenues**	**3,670**	**3,863**
		Of which:		
1,803	1,924	Net sales	3,654	3,842
6	6	Own work capitalized	12	10
2	7	Other operating revenues	4	11
1,343	**1,485**	**Operating expenses**	**2,745**	**2,947**
		Of which:		
318	367	Depreciation, amortization and impairments	631	696
468	**452**	**Operating result**	**925**	**916**
		Of which:		
359	305	Fixed Networks	709	656
109	147	Business Solutions	216	260

Operating revenues

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

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
1,543	**1,624**	**Fixed Networks**	**3,142**	**3,275**
816	912	Fixed Telephony	1,669	1,842
686	719	Carrier Services	1,385	1,418
41	−7	Other FN (including intercompany revenues)	88	15
527	**555**	**Business Solutions**	**1,044**	**1,079**
334	350	Connectivity	668	693
121	114	Integrated & Managed Solutions	232	204
109	121	EnterCom	220	234
−37	−30	Other BS (including intercompany revenues)	−76	−52
−259	**−242**	**Intra-division sales**	**−516**	**−491**
1,811	**1,937**	**Operating revenues**	**3,670**	**3,863**

The decrease in operating revenues resulted from both accelerated migration from traditional services (such as voice telephony and data transport via leased lines) to services based on new technologies (e.g., ADSL, Voice over IP, IP-VPN) and substitution from fixed to mobile-only usage as well as the MTA tariff reductions. New services are generally sold at lower tariffs. As a result of these effects, total operating revenues decreased in the second quarter of 2004 by 6.5% to EUR 1,811 million and during the first half of 2004 by 5.0% to EUR 3,670 million.

Fixed Networks

Fixed Telephony

Q2 2004 versus Q2 2003

In the second quarter of 2004, total operating revenues of Fixed Telephony decreased by 10.5% to EUR 816 million (2003: EUR 912 million) due to MTA tariff reductions (EUR 27 million), increased substitution from fixed to mobile-only (from 7% by the end of 2003 to approximately 10% by the end of June 2004), accelerated migration to new services (like ADSL) and overall market decline. The developments are visible from the total number of connections and traffic volumes.

Number of connections (in thousands)	**Q2 2004**	**Q2 2003**
PSTN	6,032	6,218
ISDN	1,538	1,556
Total	**7,570**	**7,774**

Due to ongoing competition in the business market and mobile-for-fixed substitution, domestic traffic volumes decreased by 0.82 billion minutes to 4.65 billion minutes in the second quarter of 2004. In the same quarter, Internet traffic volumes showed a decrease of 1.45 billion minutes to 2.09 billion minutes as a result of the fast ADSL growth.

Q2 2004	**Q2 2003**	Traffic volumes (in billions of minutes)	**YTD 2004**	**YTD 2003**
2.90	3.42	Domestic local	6.16	7.28
1.75	2.05	Domestic long-distance	3.72	4.34
4.65	**5.47**	**Total domestic traffic volumes**	**9.88**	**11.62**
2.09	3.54	Internet-related	4.95	7.59
0.62	0.65	Fixed-to-mobile	1.23	1.28
0.25	0.29	International	0.52	0.59
7.61	**9.95**	**Total traffic volumes Fixed Telephony**	**16.58**	**21.08**
3.32	3.20	Terminating	6.91	6.35
2.94	2.79	Originating voice	6.16	5.54
1.01	1.63	Originating internet	2.38	3.60
1.54	1.54	Transit	3.06	3.03
1.75	1.69	International	3.35	3.22
10.56	**10.85**	**Total traffic volumes Carrier Services**	**21.86**	**21.74**
−0.25	−0.30	Other/intra-division traffic (1)	−0.52	−0.61
17.92	**20.50**	**Total traffic volumes Fixed division**	**37.92**	**42.21**

(1) Other/Intra-division traffic is related to international retail minutes Fixed Telephony handled by Carrier Services and charged to Fixed Telephony as international wholesale minutes.

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

Q2 2004	Q2 2003	In euro per minute (=rate)	YTD 2004	YTD 2003
0.0311	0.0301	Domestic local	0.0307	0.0297
0.0443	0.0419	Domestic long-distance	0.0438	0.0415
0.0234	0.0204	Internet-related	0.0231	0.0200
0.2129	0.2566	Fixed-to-mobile	0.2119	0.2550
0.1881	0.1985	International	0.1863	0.1938

YTD 2004 versus YTD 2003

In the first half of 2004, the total operating revenues of Fixed Telephony decreased by 9.4% to EUR 1,669 million due to MTA tariff reductions (EUR 53 million), the increase in substitution from fixed to mobile-only and migration to new services (like ADSL) and overall market decline.

Carrier Services

Q2 2004 versus Q2 2003

In the second quarter of 2004, total operating revenues of Carrier Services decreased by 4.6% to EUR 686 million. Higher volumes for terminating, originating voice, transit and international traffic were offset by lower volumes of Internet traffic and the adverse impact on revenues from MTA tariff reductions (EUR 44 million).

YTD 2004 versus YTD 2003

In the first half of 2004, total operating revenues of Carrier Services decreased by 2.3% to EUR 1,385 million due to the effect of MTA tariff reductions by EUR 86 million which was largely offset by higher traffic volumes.

Other units within Fixed Networks

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

Q2 2004 versus Q2 2003

In the second quarter of 2004, total operating revenues of Fixed Networks' other units increased by 1.6% to EUR 509 million as a result of higher sales of ADSL connections partially offset by the deconsolidation of SNT's French and Scandinavian activities as from July 2003. Revenues of the ISPs remained stable. Moreover, intercompany sales in the second quarter of 2004 decreased to EUR 468 million (2003: EUR 508 million).

Operational data[1]	**June 30, 2004**	**June 30, 2003**
Number of ADSL connections (in thousands)	1,057	513
ADSL coverage	99%	87%
Market share consumer broadband (incl. cable operators)	42%	35%

[1] Market shares ADSL are based on externally available information.

YTD 2004 versus YTD 2003
In the first half of 2004, total operating revenues of Fixed Network's other units increased by 1.6% to EUR 1,028 million.

Business Solutions

Q2 2004 versus Q2 2003
In the second quarter of 2004, operating revenues of Business Solutions' units decreased by 5.0% to EUR 527 million. Operating revenues of Connectivity decreased by EUR 16 million, mainly as a result of the migration of the traditional leased lines and Frame relay to the new xDSL products. Operating revenues of Integrated & Managed Services (IMS) increased by EUR 7 million mainly as a result of a growing number of customer programs, additional growth in existing programs and an increase in the number of managed routers. In addition, operating revenues of EnterCom decreased by EUR 12 million resulting from a decline in market volume in voice equipment and lower service revenues.

Operational data	**June 30, 2004**	**June 30, 2003**
Number of leased lines (in thousands) of which:	62	82
• Analog	71%	63%
• Digital	29%	37%
IP-VPN connections (in thousands)	24	9
VPN (customers)	1,141	302
Customer programs	90	61

YTD 2004 versus YTD 2003
In the first half of 2004, operating revenues of Business Solutions' units decreased by 3.2% to EUR 1,044 million.

Operating expenses

Q2 2004 versus Q2 2003

In the second quarter of 2004, operating expenses of the Fixed division decreased by 9.6% to EUR 1,343 million. The decreasing trend in operating expenses reflects the ongoing cost-cutting programs in all units of division Fixed and a EUR 38 million impairment charge in 2003.

In line with lower revenues in the unit Fixed Telephony, purchasing costs decreased, contrary to the unit Broadband, where the adverse trend occurred resulting from the strong growth in broadband services. Operating expenses were also affected by the MTA tariff reductions as well as settlements with other operators. The deconsolidation of SNT's French and Scandinavian activities in 2003 further reduced operating expenses. Purchase costs at IMS increased in line with the growing number of customer programs.

Depreciation, amortization and impairment charges decreased as a consequence of investment optimization programs as well as the fact that operating expenses in the second quarter of 2003 included an impairment of goodwill SNT amounting to EUR 38 million.

YTD 2004 versus YTD 2003

In the first half of 2004, operating expenses of the Fixed division decreased by 6.9% to EUR 2,745 million. This decrease reflects the ongoing cost-cutting programs, the effect of MTA tariff reductions and the deconsolidation of SNT's French and Scandinavian activities as well as the settlement of the sale of KPN Belgium's activities in the first quarter of 2003. These effects were partly offset by an increase in operating expenses of the units Broadband and IMS in line with higher sales. Due to the restructuring, the workforce was reduced resulting in lower personnel costs. This was partially offset by a charge of EUR 15 million in relation to the new restructuring announced in the first quarter of 2004.

Depreciation, amortization and impairment charges reduced due to investment optimization programs and the fact that Q2 2003 operating expenses included an SNT-related goodwill impairment of EUR 38 million.

Mobile division

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
1,346	**1,270**	**Operating revenues**	**2,625**	**2,715**
		Of which:		
1,298	1,221	Net sales	2,514	2,358
40	34	Own work capitalized	74	68
8	15	Other operating revenues	37	289
1,184	**1,109**	**Operating expenses**	**2,300**	**2,166**
		Of which:		
255	260	Depreciation, amortization and impairments	523	525
162	**161**	**Operating result**	**325**	**549**

Operating revenues

Q2 2004 versus Q2 2003

In the second quarter of 2004, operating revenues increased by 6.0% to EUR 1,346 million. This increase is driven by net sales increases in Germany and Belgium due to the strong subscriber growth. In the Netherlands, the positive effect of a growing customer base was reduced by the adverse MTA effect (EUR 26 million). The number of customers rose from 13.8 million as of June 30, 2003 to 15.6 million at the end of June 2004. The increase consisted of 0.7 million postpaid customers and 1.1 million prepaid customers. The i-mode customer base increased from 353,000 at the end of June 2003 to 1,452,000 customers as of June 30, 2004.

YTD 2004 versus YTD 2003

The MobilCom termination agreement income (EUR 222 million) had a positive effect on the 2003 revenue figures. Excluding this income, operating revenues were up 5.3%. Net sales climbed 6.6% driven by subscriber growth. Germany and Belgium showed a strong performance through operating revenue growth figures of 9.9% and 31.4% respectively. MTA tariff reductions (EUR 52 million effect) adversely affected the Dutch operating revenues, which were slightly (0.9%) lower.

Customers (in thousands)	**June 30, 2004**	**March 31, 2004**	**Dec. 31, 2003**	**June 30, 2003**
Pre-paid	9,107	8,844	8,555	8,003
of which i-mode	*596*	*443*	*246*	*0*
Postpaid	6,452	6,242	6,109	5,763
of which i-mode	*856*	*747*	*622*	*353*
Total	**15,559**	**15,086**	**14,664**	**13,766**
of which i-mode	*1,452*	*1,190*	*868*	*353*

Operating expenses

Q2 2004 versus Q2 2003
Operating expenses increased to EUR 1,184 million (+6.8%) due to higher sales-related expenses, mainly interconnection and marketing & promotion expenses, reflecting the Mobile division's customer acquisition and retention efforts.

YTD 2004 versus YTD 2003
Operating expenses rose 6.2% to EUR 2,300 million mainly due to intensive customer acquisition and retention programs in all markets resulting in higher sales-related expenses. Depreciation and amortization charges remained stable.

Germany

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
676	**604**	**Operating revenues**	**1,296**	**1,401**
		Of which:		
641	569	Net sales	1,227	1,090
28	27	Own work capitalized	54	53
7	8	Other operating revenues	15	258
683	**645**	**Operating expenses**	**1,331**	**1,254**
		Of which:		
181	183	Depreciation, amortization and impairments	370	373
–7	**–41**	**Operating result**	**–35**	**147**

Operating revenues

Q2 2004 versus Q2 2003
Total operating revenues climbed 11.9% to EUR 676 million (2003: EUR 604 million) as a result of higher net sales; net sales were 12.7% above last year. Main driver for this trend was a grown customer base (+13.0%) and a stable ARPU. Furthermore, revenues from peripheral and other equipment were up, as 11% more handsets were sold.

YTD 2004 versus YTD 2003
Operating revenues decreased by 7.5% due to the MobilCom termination fee recognized in the first quarter of 2003. Without this income, operating revenues were 9.9% above the level of last year. Net sales increased due to a grown customer base as well as the higher amount of handsets sold. Compared to the same period last year, the ARPU remained stable during the first half of 2004.

Customers (in thousands)	June 30, 2004	March 31, 2004	Dec. 31, 2003	June 30, 2003
Pre-paid	4,531	4,453	4,329	4,138
of which i-mode	*273*	*181*	*82*	*0*
Postpaid	4,185	3,995	3,877	3,578
of which i-mode	*582*	*470*	*358*	*191*
Total	**8,716**	**8,448**	**8,206**	**7,716**
of which i-mode	*855*	*651*	*440*	*191*

Q2 2004	Q2 2003	Traffic volumes and weighted average revenues in Germany	YTD 2004	YTD 2003
1,951	1,787	Total traffic volume (in millions of minutes)	3,791	3,402
76	79	Weighted monthly MoU (average Minutes of Use):	75	76
23	27	- Prepaid	23	26
135	138	- Postpaid	133	134
24	24	Total monthly ARPU (average revenues per user; in EUR):	24	24
8	9	- Prepaid	8	8
41	42	- Postpaid	41	42

Operating expenses

Q2 2004 versus Q2 2003

Operating expenses rose 5.9% compared to the same quarter in 2003 primarily due to higher cost of materials (+17.0%) as more handsets were sold and work contracted out (+16.6%) due to higher distribution fees resulting from increased commission payments and more gross additions.

YTD 2004 versus YTD 2003

Higher cost of materials (+10.5%; more handsets sold) and increased work contracted out due to higher distribution fees (+14.0%; increased commission payments) and more gross additions caused operating expenses (EUR 1,331 million) to increase by 6.1% on a year-to-date basis compared to last year.

The Netherlands

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
574	**592**	**Operating revenues**	**1,138**	**1,148**
		Of which:		
563	585	Net sales	1,102	1,134
10	5	Own work capitalized	17	9
1	2	Other operating revenues	19	5
388	**375**	**Operating expenses**	**752**	**730**
		Of which:		
41	48	Depreciation, amortization and impairments	85	92
186	**217**	**Operating result**	**386**	**418**

Operating revenues

Q2 2004 versus Q2 2003

Operating revenues decreased by 3.0% to EUR 574 million in the second quarter 2004. The positive contribution of the higher postpaid customer base (+2.4%) as well as the fast-growing prepaid base (+14.7%) was more than compensated by the negative MTA effect and a declined average use by prepaid clients. Without the EUR 26 million MTA effect, net sales were slightly above the same quarter last year. Due to the UMTS rollout, own work capitalized increased in the second quarter of 2004.

YTD 2004 versus YTD 2003

Operating revenues showed a slight decline in the first half of 2004. Like in the second quarter of 2004, the increasing customer base more than compensated the MTA effect and a decline in average prepaid use. However, excluding the EUR 52 million MTA effect, net sales rose 1.8% during the first half of 2004. Own work capitalized and other operating revenues increased due to the UMTS rollout and a non-recurring EUR 15 million royalty fee in the first quarter of 2004.

The development of the customer base in the Netherlands is as follows:

Customers (in thousands)	**June 30, 2004**	**March 31, 2004**	**Dec. 31, 2003**	**June 30, 2003**
Pre-paid	3,429	3,310	3,252	2,989
of which i-mode	*320*	*260*	*163*	*0*
Postpaid	1,977	1,959	1,953	1,930
of which i-mode	*247*	*249*	*240*	*148*
Total	**5,406**	**5,269**	**5,205**	**4,919**
of which i-mode	*567*	*509*	*403*	*148*

Q2 2004	Q2 2003	Traffic volumes and weighted average revenues in the Netherlands	YTD 2004	YTD 2003
2,022	1,997	Total traffic volume (in millions of minutes)	3,980	3,874
127	136	Weighted monthly MoU (average Minutes of Use):	126	131
39	50	- Prepaid	38	48
277	269	- Postpaid	275	263
35	39	Total monthly ARPU (average revenues per user; in EUR):	34	37
12	16	- Prepaid	11	15
73	73	- Postpaid	72	72

Operating expenses

Q2 2004 versus Q2 2003
Operating expenses increased by 3.5% in the second quarter of 2004 compared to the same period last year. This effect is mainly the result of higher cost of materials caused by increased sales of handsets and higher dealer commissions and bonuses as well as more other operating expenses due to higher promotion costs due to the introduction of *MobielPlus* bundles.

YTD 2004 versus YTD 2003
Operating expenses rose 3.0% in the first half of 2004 compared to the same period last year mainly due to increased cost of materials (more handset sold), higher dealer commissions and bonuses as well as more other operating expenses due to higher promotion costs.

Belgium

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
105	**82**	**Operating revenues**	**209**	**159**
		Of which:		
104	80	Net sales	204	152
1	2	Own work capitalized	3	6
-	-	Other operating revenues	2	1
113	**96**	**Operating expenses**	**221**	**190**
		Of which:		
33	29	Depreciation, amortization and impairments	68	60
–8	**–14**	**Operating result**	**–12**	**–31**

Operating revenues

Q2 2004 versus Q2 2003
Operating revenues climbed 28.0% (EUR 23 million) compared to the same quarter last year. The increase in net sales (EUR 24 million) is entirely driven by the 27.1% customer base growth and increased ARPU.

YTD 2004 versus YTD 2003

Operating revenues increased by 31.4% (EUR 50 million) compared to the first half of 2003. This is the effect of 34.2% higher net sales (EUR 52 million) due to the grown customer base and increased ARPU.

The development of the customer base in Belgium is as follows:

Customers (in thousands):	**June 30, 2004**	**March 31, 2004**	**Dec. 31, 2003**	**June 30, 2003**
Pre-paid	1,147	1,081	974	876
of which i-mode	*3*	*2*	*1*	*0*
Postpaid	290	288	279	255
of which i-mode	*27*	*28*	*24*	*14*
Total	**1,437**	**1,369**	**1,253**	**1,131**
of which i-mode	*30*	*30*	*25*	*14*

Q2 2004	**Q2 2003**	Traffic volumes and weighted average revenues in Belgium	**YTD 2004**	**YTD 2003**
456	290	Total traffic volume (in millions of minutes)	855	548
108	86	Weighted monthly MoU (average Minutes of Use):	105	81
81	42	- Prepaid	76	39
213	234	- Postpaid	211	221
24	22	Total monthly ARPU (average revenues per user; in EUR):	24	22
13	11	- Prepaid	14	11
66	61	- Postpaid	65	58

Operating expenses

Q2 2004 versus Q2 2003

Operating expenses in the second quarter of 2004 were up 17.7% compared to the same quarter last year due to more traffic-related expenses in line with the grown customer base as well as higher personnel and advertising expenses. The amortization charge was higher due to the reversal of the GSM license impairment at the end of 2003.

YTD 2004 versus YTD 2003

Operating expenses are 16.3% higher than in the first half of 2003 due to more traffic-related expenses in line with the grown subscriber base as well as higher personnel and advertising expenses. Reversal of the GSM license impairment as of December 2003 adversely affected the amortization charges.

Other activities

Q2 2004	Q2 2003	Amounts in millions of euro	YTD 2004	YTD 2003
124	**127**	**Operating revenues**	**258**	**692**
		Of which:		
91	106	Net sales	180	222
-	-	Own work capitalized	-	-
33	21	Other operating revenues	78	470
76	**151**	**Operating expenses**	**169**	**333**
		Of which:		
17	37	Depreciation, amortization and impairments	38	88
48	**–24**	**Operating result**	**89**	**359**

This segment mainly comprises other and supporting activities.

Operating revenues

Q2 2004 versus Q2 2003
In the second quarter of 2004, operating revenues decreased by 2.4% to EUR 124 million (2003: EUR 127 million). A reduced revenue level at Xantic due to lower sales and adverse US dollar exchange effects offsets the EUR 20 million book gain on the sale of KPN's interest in PTC.

YTD 2004 versus YTD 2003
In the first half of 2004, operating revenues decreased by 62.7% to EUR 258 million (2003: EUR 692 million). The main reasons behind this were the book gain on the sale of Directory Services in the first quarter of 2003 (EUR 435 million), partially offset by EUR 56 million book gains on the sale of KPN's interest in Eutelsat and PTC in 2004. The remaining decrease reflects the Logistics & Repair deconsolidation and reduced operating revenues from Xantic.

Operating expenses

Q2 2004 versus Q2 2003
In the second quarter of 2004, operating expenses decreased by 49.7% to EUR 76 million (2003: EUR 151 million). This decrease is a result of a release from the restructuring provision (EUR 15 million), cost reduction programs, deconsolidation of Logistics & Repair upon the sale thereof and a decrease in operational expenses within Xantic due to termination of certain activities. As a result of the reduction of office space used in 2002 and 2003, the smaller depreciation base resulted in lower charges.

YTD 2004 versus YTD 2003

In the first half of 2004, operating expenses decreased by 49.2% to EUR 169 million (2003: EUR 333 million) resulting from a net release from the restructuring provision (EUR 11 million), cost reduction programs, deconsolidation of Logistics & Repair and a decrease in operational expenses due to partly terminating some of Xantic's activities. Depreciation and amortization charges were lower due to a smaller depreciation base following an office space reduction in 2002 and 2003 and an impairment of intangible fixed assets (EUR 15 million) in 2003.

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. An ADSL modem is required.

ARPU
Average Revenue Per User
The sum of connection fees, subscription fees and airtime service revenues during one month minus related discounts and divided by the average number of customers for that period.

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 different variations of DSL, such as ADSL, HDSL, VDSL and SDSL.

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

i-mode
Mobile data services platform that is 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.

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

MVNO
Mobile Virtual Network Operator
A mobile operator that does not own a spectrum or network structure but has business arrangements with traditional mobile operators to buy minutes of use to sell to its customers.

MVPN
Managed Virtual Private Network
MVPN (formerly known as LAN Interconnect) is a complete solution for companies that want to (inter) nationally connect user applications between separate offices into one VPN.

PSTN
Public Switched Telephone Network
A traditional telephone system using twisted-pair copper lines (voice traffic: up to 64 KB/s; 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
A wireless connection that provides Internet access at the same speed as broadband

Financial calendar

August 10, 2004
Ex-dividend date (interim dividend)

August 19, 2004
Start payment interim dividend

August 26, 2004
Start payment dividend on ADRs

November 1, 2004
Publication of results for the third quarter of 2004

March 1, 2005
Publication of results for the fourth quarter of 2004

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

Please note that dates may be subject to change.

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