



IFRS transition

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Safe harbor

This presentation provides a general overview of the impact of IFRS on KPN's financial reporting. It does not replace any formal reporting. Investment considerations should continue to be based on the periodical reportings and other information that KPN is required to disclose by law or stock exchange regulations. This presentation has been prepared based on IFRS Standards and IFRIC interpretations issued by the IASB effective as of 31 December 2004. Any amounts in this presentation are estimates, unaudited and presented in millions of Euros unless otherwise indicated. The IFRS accounting policies are not final and may change as a result of (amongst others) the following

- ♦ Changes in IFRS Standards and Interpretations
- ♦ Changes in regulatory requirements
- ♦ Additional reviews and analyses, including market trends
- ♦ Audit procedures

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Agenda

- ◆ Introduction
- ◆ Summary of impact
- ◆ Reclassifications 2004
- ◆ Key areas of impact and balance sheet 2004
- ◆ Impact on the income statement and KPIs
- ◆ Impact on opening balance sheet 2005
- ◆ Outlook 2005 based on IFRS
- ◆ Q&A



Introduction

The IFRS conversion project

- ◆ Start May 2003
- ◆ Phases
 - 1 Preliminary study and impact analysis (May 2003 – Dec. 2003)
 - 2 Conversion (2004)
 - 3 Training and embedding (2004 - present)

IFRS Timetable

- ♦ KPN adopted the International Financial Reporting Standards (IFRS) as its primary accounting basis for its consolidated financial information as of January 1, 2005
- ♦ Consequently, KPN converted its comparative consolidated financial information covering the year 2004 to IFRS, except for the financial instrument rules that will be applied only as of January 1, 2005
- ♦ First quarter results 2005 will be reported under IFRS on May 10, 2005

Key messages

- ◆ Accounting and disclosure adjustments only
- ◆ No impact on operational performance of underlying business
- ◆ No significant impact on free cash flow and distribution policy
- ◆ Main areas of impact
 - Revaluation Property, Plant and Equipment
 - Goodwill
 - Revenue recognition
 - Employee benefits
 - Borrowing costs
 - Taxes
 - Financial instruments (as at January 1, 2005)



KPN will facilitate a smooth transition by providing detailed reconciliation and explanation



Summary of impact

Main impact on consolidated results and balance sheet

€ mn	P&L 2004			Balance sheet 2005 ¹	
	Operating revenue	Operating result	Net result ²	Net Debt ³	Group equity
Dutch GAAP	12,102	2,457	1,511	7,869	6,965
IFRS change	- 283	188	246	75	- 554
IFRS	11,819	2,645	1,757	7,944	6,411

- ◆ No material change in EBITDA
- ◆ Reported EBITDA margin increases with 0.8 percentage points
- ◆ EPS 2004 increases with € 0,08 to € 0,71 under IFRS

1 As at January 1, 2005 (Dutch GAAP: December 31, 2004)

2 Net result under Dutch GAAP after deduction of € 47 million minority interests (IFRS: before deduction of minority interests)

3 Net debt is defined as the value of interest bearing financial liabilities plus the fair value of financial instruments related to these financial liabilities minus cash and cash equivalents as from January 1, 2005

Impact on net debt¹

€ mn	Jan. 1, 2004	Dec. 31, 2004	Jan. 1, 2005
Dutch GAAP	8,320	7,869	7,869
Financial instruments ²	-	-	70
Assets held for sale	-	-	- 55
Deconsolidation joint ventures	31	22	22
Other	45	38	38
Total impact	76	60	75
IFRS	8,396	7,929	7,944

1 Net debt is defined as the value of interest bearing financial liabilities plus the fair value of financial instruments related to these financial liabilities minus cash and cash equivalents as from January 1, 2005

2 The fair value of financial instruments (assets and liabilities) related to interest bearing financial liabilities

Impact on group equity

€ mn	Jan. 1, 2004	Dec. 31, 2004	Jan. 1, 2005
Dutch GAAP	7,359	6,965	6,965
Employee benefits	- 836	- 755	- 755
Revaluation cables	567	487	487
Revenue recognition	- 485	- 484	- 484
Borrowing costs	- 122	- 136	- 136
Goodwill	-	254	254
Financial instruments	-	-	- 239
Other	- 25	- 7	16
Tax impact of IFRS adjustment	262	232	303
Total impact	- 639	- 409	- 554
IFRS	6,720	6,556	6,411

Impact on opening balance sheet 2004

€ mn	Dutch GAAP	IFRS changes	IFRS
Assets			
Non current assets	20,020	929	20,949
Current assets	4,105	- 127	3,978

Total assets	24,125	802	24,927
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Equity and liabilities			
Shareholders' equity	7,163	- 628	6,535
Minority interest	196	- 11	185
Group equity	7,359	- 639	6,720
Non-current liabilities	12,569	1,198	13,767
Current liabilities	4,197	243	4,440

Total equity and liabilities	24,125	802	24,927
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Impact on closing balance sheet 2004

€ mn	Dutch GAAP	IFRS changes	IFRS
Assets			
Non current assets	18,634	1,044	19,678
Current assets	4,102	- 119	3,983
Total assets	22,736	925	23,661
Equity and liabilities			
Shareholders' equity	6,821	- 410	6,411
Minority interest	144	1	145
Group equity	6,965	- 409	6,556
Non current liabilities	11,076	1,181	12,257
Current liabilities	4,695	153	4,848
Total equity and liabilities	22,736	925	23,661



Reclassifications 2004

Reclassifications

Main impact on P&L

	Dutch GAAP	IFRS	Impact P&L 2004
Own work capitalized	Part of operating revenues	Deducted from operating expenses	-/- € 180 mn on operating revenues and expenses
Minority interest	Part of net result	Separately disclosed on the face of the income statement	€ 47 mn Net result
Interest cost of unfunded early retirement	Part of finance cost	Part of salary cost	€ 35 mn

Reclassifications

Main impact on balance sheet

	Dutch GAAP	IFRS	Impact on balance sheet 2004
Deferred taxes	Current and non-current	All non-current	January 1 : € 58 mn December 31 : € 59 mn
Provisions for other liabilities and charges	All non-current liabilities	Current and non-current	January 1 : € 127 mn December 31 : € 111 mn
Software	Fully part of PP&E	PP&E or intangible assets	January 1 : € 201 mn December 31 : € 207 mn



Key areas of impact and balance sheet 2004

Revaluation Property, Plant & Equipment

- ♦ KPN elected the IFRS 1 optional exemption to revalue its cables at January 1, 2005



- ♦ Impact on PP&E in balance sheet (non-current assets) as at
 - January 1, 2004 € 567 mn
 - December 31, 2004 € 487 mn
- ♦ Impact on P&L 2004 is an additional depreciation charge of € 80 mn

Goodwill

Dutch GAAP

Goodwill is amortized and subject to impairment test upon triggering event

IFRS

Goodwill is not amortized but subject to annual impairment test

- ◆ KPN reversed goodwill amortization in the 2004 P&L of € 254 mn
- ◆ No impairments have been identified at January 1 and December 31, 2004

Revenue recognition

- ♦ Main difference is accounting for fees related to connection and installation

Dutch GAAP	IFRS
Directly recorded as revenue	Deferred over the estimated lifetime of the customer relationship



- ♦ Impact on balance sheet equity as at
 - January 1, 2004 -/- € 485 mn
 - December 31, 2004 -/- € 484 mn
- ♦ Impact on P&L € 1 mn

Share based payments

- ♦ Fair value charge calculated using binomial model
- ♦ Total costs spread over vesting period

Dutch GAAP

Only charged if on date of grant market value of common stock exceeds exercise price or repricing after grant date

IFRS

Costs charged to P&L during vesting period based on fair value (with corresponding entry in equity)

- ♦ Impact on balance sheet equity as at

– January 1, 2004 € 0

– December 31, 2004 € 0

- ♦ Impact on P&L € 22 mn

Accounting for employee benefits (1)

General

- ♦ Accounting and calculation method under IFRS is generally similar to US GAAP
- ♦ KPN recorded all cumulative gains and losses in retained earnings using the exemption of IFRS 1

Balance sheet

- ♦ Pension-obligations minus pension fund assets ('funded')
- ♦ Early retirement obligations ('unfunded')
- ♦ Other long term employee benefits ('unfunded') → e.g., jubilee- and life insurance benefits

Accounting for employee benefits (2)

P&L

- ♦ Pension expenses are based on actuarial calculations in accordance with IFRS (P&L effect)
- ♦ Interest costs for unfunded early retirement obligations reclassified to salary costs
- ♦ Cash contribution to the pension fund is based on Dutch funding regulations for pension funds (no P&L effect)
- ♦ Actuarial gains/losses related to pensions are only directly recognized if they exceed a certain threshold 'corridor approach' and are otherwise recognized over the remaining future service years of participants of the pension scheme

Accounting for employee benefits (3) - Impact on KPN

Dutch GAAP	IFRS
<p>Early retirement obligation ('unfunded') in balance sheet plus accrual pension obligation</p>	<p>Pension-obligations minus pension fund assets</p> <p>Early retirement obligations and other long term employee benefits('unfunded')</p>



- ♦ Interest costs under Dutch GAAP are classified as salary costs under IFRS (€ 35 mn)
- ♦ On the transition date KPN had a shortfall of € 836 mn
- ♦ Pension charge in 2004 under IFRS decreased with € 81 mn

Borrowing costs

- ◆ KPN elected not to capitalize borrowing costs

Dutch GAAP	IFRS
Borrowing costs on PP&E are capitalized	All borrowing costs directly charged to the P&L



- ◆ Impact on balance sheet as at
 - January 1, 2004 -/- € 122 mn
 - December 31, 2004 -/- € 136 mn
- ◆ Impact on 2004 P&L -/- € 14 mn operating expenses

Joint ventures and taxes

Joint ventures

Dutch GAAP	IFRS
Proportionally consolidated	Equity method



◆ Biggest impact from joint ventures Mobirail and Tetranet

Tax

- ◆ The IFRS conversion adjustments have a tax effect
- ◆ Impact on balance sheet (equity) as at
 - January 1, 2004 € 262 mn
 - December 31, 2004 € 232 mn
- ◆ Impact on P&L 2004 -/- € 30 mn



Impact on the income statement and KPIs

Impact on P&L 2004

€ mn	Dutch GAAP	IFRS adjustment	IFRS
Operating revenue	12,102	- 283	11,819
Own work capitalized	0	147	147
D&A	- 2,397	207	- 2,190
Other operating expenses	- 7,248	117	- 7,131
Operating expenses	- 9,645	471	- 9,174
Operating profit	2,457	188	2,645
Finance costs	-620	31	- 589
Share of profit of associates and joint ventures	- 11	12	1
Profit on continuing operations before taxes	1,826	231	2,057
Income tax	- 268	- 32	- 300
Profit on continuing operations after taxes	1,558	199	1,757
Minority interest	- 47	47	
Profit for the year	1,511	246	1,757
of which: - minority shareholders			50
- attributable to equity holders			1,707

Impact on operating revenue

<i>€ mn</i>	P&L 2004
Operating revenue Dutch GAAP	12,102
Reclassification own work capitalized	-/- 180
Joint venture accounting (equity method)	-/- 55
Revenue recognition	-/- 49
Other adjustments	1
Total impact	-/- 283
Operating revenue under IFRS	11,819

Impact on operating expenses

<i>€ mn</i>	P&L 2004
Operating expenses Dutch GAAP	-/- 9,645
Reversal goodwill amortization	254
Reclassification own work capitalized	180
Revenue recognition	50
Employee benefits	46
Joint ventures accounting	44
Borrowing costs	-/- 14
Share based compensation	-/- 22
Increase depreciation due to revaluation PP&E	-/- 80
Other	13
Total impact	471
Operating expenses under IFRS	-/- 9,174

Impact on 2004 KPIs

- ♦ Significant change in E-Plus ARPU resulting from definition alignment with IFRS revenue recognition

	2004 reported	2004 IFRS	% Change
ARPU (blended)	€ 24	€ 22	- 9%
Postpaid	€ 41	€ 38	- 7%
Prepaid	€ 8	€ 7	- 13%

- ♦ Slight changes in
 - ARPU (KPN Mobile NL en BASE)
 - Non-voice % ARPU (all mobile entities)
 - SAC (all mobile entities)
- ♦ For Fixed impact on KPIs is not significant

Impact on 2004 Cash flow statement

- ◆ Impact on free cash flow negligible (€ 18 mn) and the result of no longer consolidating joint ventures

€ mn	Dutch GAAP	IFRS changes	IFRS
Net cash flow from operating activities	3,969	-12	3,957
Net cash flow from investing activities	-1,594	-20	-1,574
-of which Capex	-1,698	30	-1,668
-of which software ¹			111
Net cash flow from financing activities	-2,636	3	-2,639
Change in cash and cash equivalents	-261	-5	-256
Net cash flow from operating activities -/- Capex	2,271	18	2,289

1 See reclassification of software



Impact on opening balance sheet 2005

Impact on opening balance sheet 2005

€ mn	IFRS closing balance 2004	IFRS changes	IFRS opening balance 2005
Assets			
Non-current assets	19,678	- 254	19,424
Current assets	3,983	702	4,685
Non-current assets held for sale	0	121	121
Total assets	23,661	569	24,230
Equity and liabilities			
Shareholders' equity	6,411	- 145	6,266
Minority interest	145	0	145
Group equity	6,556	- 145	6,411
Non-current liabilities	12,257	40	12,297
Current liabilities	4,848	583	5,431
Liabilities classified as held for sale	0	91	91
Total equity and liabilities	23,661	569	24,230

Financial instruments

Dutch GAAP	IFRS
<ul style="list-style-type: none"> ◆ Loans stated at face value ◆ Hedged foreign currency loans at swap rate ◆ Hedging instruments off-balance ◆ Attributable costs capitalized and amortized 	<ul style="list-style-type: none"> ◆ Loans stated at amortized cost ◆ Hedged foreign currency loans at closing rate ◆ Fair value of hedging instruments stated in the balance sheet ◆ Hedge accounting

Main impact on balance sheet as at January 1, 2005

- ◆ All loans are stated at amortized costs; hedged foreign currency loans are recognized at closing rate (impact: -/- €1,119 mn)
- ◆ Hedging instruments: increase liabilities € 1.220 mn, increase assets € 37 mn
- ◆ Hedge accounting: at January 1, 2005 all off-balance, unrealized gains and losses under Dutch GAAP (€ 239 mn) are recorded in equity (hedge reserve)
- ◆ Reversal transaction cost reduces “trade and other receivables” with € 177 mn
- ◆ Increase of the balance sheet total of € 615 mn

Non-current assets held for sale

Dutch GAAP	IFRS
Assets and liabilities consolidated in balance sheet (not separately disclosed)	Presented separately in the balance sheet as current assets and current liability held for sale



Impact on balance sheet as at January 1, 2005

- ♦ From (non) current assets to “non-current assets classified as held for sale” € 121 mn
- ♦ From (non) current liabilities to “liabilities directly associated with non current assets classified as held for sale” € 91 mn



Outlook 2005 based on IFRS

2005 Outlook¹ based on IFRS

- ◆ 2004 IFRS figures form the basis for the IFRS restated outlook

Dutch GAAP	IFRS
Group revenue flat, including MTA reduction	Unchanged
Group EBITDA ^{1,2} expected to decline by high single digit figure, with greatest impact in Q1	Unchanged
CAPEX ≈ € 1.7 bn	Unchanged ³
Free cash flow ⁴ > € 2 bn	Unchanged

- ◆ Financial framework and distribution policy are not affected by the transition to IFRS

1 Excluding restructuring charges, impairments and book gains/losses over € 20 mn

2 Defined as Operating result plus depreciation, amortization & impairments

3 Including all software investments

4 Free cash flow is defined as net cash flow from operating activities minus CAPEX (including all software)



Q & A