



## **Quarterly report KPN First quarter of 2004**

*May 10, 2004*

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# Press Release

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May 10, 2004

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## KPN closes successful quarter with EUR 375 million profit after tax

**Q1 2004**

For the first quarter of 2004, KPN reports a profit after tax of EUR 375 million (2003: EUR 770 million) and an operating result of EUR 661 million (2003: EUR 1,235 million). In 2003, the first quarter included an amount of EUR 672 million reported as book gains, including a gain on the sale of Directory Services and from the MobilCom termination agreement, while in 2004, the first quarter includes a book gain of EUR 36 million on the sale of Eutelsat. Excluding these book gains, the operating result increased by 11.0% to EUR 625 million.

### Highlights

- Both Operating and Net result show a substantial year-on-year improvement when book gains are excluded. (Operating result improved by +11.0% and Net result more than tripled).
- Net sales (EUR 2,903 million) were the same as last year, despite the negative impact of reduced mobile terminating access ("MTA") tariffs as required by OPTA, the Dutch regulator, on both mobile and fixed operations (EUR -57 million)
  - The Mobile division achieved an increase in net sales of 6.9% driven by strong performance of E-Plus (+12.5%) and BASE (+38.9%) which more than offset the negative impact of MTA (EUR -26 million)
  - In the Fixed division net sales fell to a level below last year (-3.5% or EUR -67 million), primarily due to the negative impact of MTA (EUR -68 million)
- The number of ADSL customers more than doubled to 913,000;
- A further decrease in group operating expenses of 3.1% (EUR 75 million);
- A decrease in financial expenses (EUR -95 million) as a result of redemptions and early redemptions totaling EUR 4.9 billion in 2003;
- An improvement in cash flow from operations (EUR +180 million or +23.1%);
- Earnings per share of EUR 0.15 (Q1 2003: EUR 0.31);
- EUR 289 million spent on repurchasing shares under the initial share repurchase program announced in March of this year (of which EUR 40 million settled in April);
- During the quarter, S&P upgraded KPN's credit rating to A- (with stable outlook).

### Ad Scheepbouwer, CEO of KPN:

*"We have had another successful quarter, underpinned by a good performance of our businesses. We have grown our market share in our international markets, have passed the important mark of 15 million mobile customers, and achieved our goals of growing both our cash flow from operations and our net profit. We are pleased to see that our strong cash generation is increasingly flowing through to the bottom-line. The substantial reduction of debt last year has enabled us to increase our commitment to our shareholders by paying a dividend, and indirectly, by buying back shares. Thus, the year has started well and, with a disciplined management approach, we look forward to the remainder of 2004 with confidence."*

## **Business Update**

### **Fixed division**

At the end of the first quarter, KPN reached 913,000 operational 'ADSL by KPN' customers (March 31, 2003: 418,000) and reached 99% ADSL coverage (percentage of central offices that is ADSL enabled (March 31, 2003: 85%). KPN's share of the consumer broadband market (DSL + cable) increased from 39% to 41% compared to December 31, 2003 (March 31, 2003: 33%).

KPN also announced that it would offer business DSL in the Netherlands. This offer is a permanent secure Internet connection for a fixed monthly price. KPN expects to make this service technically available to 97% of Dutch companies by the end of 2004.

As of the end of the first quarter, a total of 975 business customers had migrated from traditional data to IP-VPN networks, a sharp rise from 148 at the end of March 2003. The number of IP-VPN connections increased from 5,258 at the end of March 2003 to 20,041 at the end of March 2004.

The increase in marketing activities reflected KPN's efforts to add more value to our customers through the BelPlus discount packages (BelPlus 60, 100, 200, 300 and Business) and win back voice customers from the competition through an aggressive direct marketing campaign. Since the introduction in the second quarter of 2003, 800,000 consumers (15% of our residential customers) have applied for BelPlus packages, of whom 85,000 applied in the first quarter of 2004.

Market shares saw a decline versus the same quarter last year and at the end of the first quarter were approximately 75% (local), >60% (national), >60% (fixed-to-mobile) and >45% (international). Despite tough competition in the business market in the first quarter, KPN successfully closed major contracts with partners including KLM (worldwide IP-VPN network), Siemens (international network) and ABN AMRO (worldwide data network).

### **Mobile division**

During the first quarter of 2004, KPN's Mobile division passed the mark of 15 million customers, reaching 15.1 million by the end of March. The number of i-mode customers also continued to grow reaching 1.2 million at the end of the quarter. Customers are now able to choose from around a dozen handset models for i-mode, whilst the i-mode portals offer more than 600 content sites and services.

In Germany, E-Plus continued its growth course, reaching 8.4 million customers by the end of the quarter, representing a market share of 12.8% (Q1 2003: 12.4%), with net sales up 12.5% year-on-year. E-Plus continued to challenge the market with competitive and differentiating offers such as the 3-eurocent tariff for calls to the fixed network, as well as offers focused on specific market segments like the new flat tariff of 24 eurocents per minute for all calls to Turkey.

In The Netherlands, KPN Mobile further increased its customer base to 5.3 million customers by the end of the first quarter, representing a market share of 39.4% in one of the most competitive markets in Europe with five operators. KPN Mobile introduced new propositions focused on simplicity and service such as the all-in-one KPN Mobile Plus bundles and the 'Happy Hour' campaign for its Hi brand, designed to stimulate SMS awareness and usage.

In Belgium, BASE was able to grow its customer base still further, achieving almost 1.37 million customers by the end of March, giving BASE an approximate 16% share of the Belgian mobile market. BASE has announced a reorganization program in order to further focus the organization on its core activities. Discussions are ongoing with the relevant social partners.

KPN also announced that it would start offering the first services over its new UMTS networks in June 2004. Business customers in Germany will be the first to be able to benefit, with E-Plus offering high-speed mobile access to the Internet and intranet. KPN will then expand its services for business customers in the Netherlands with UMTS this summer. Services for consumers in both countries will also follow in the summer. The introduction of UMTS services for the Belgian market is planned to follow later.

## Financial Results

### Operating result

For the first quarter of 2004, KPN reports an operating result of EUR 661 million, compared to EUR 1,235 million last year. Included in the operating result of the first quarter of 2003 were book gains on the sale of Directory Services (EUR 435 million in *Other activities*) and UMC (EUR 15 million in the *Mobile* division) as well as profit related to the MobilCom termination agreement (EUR 222 million in the *Mobile* division). The operating result of the first quarter of 2004 includes a book gain on the sale of Eutelsat (EUR 36 million in *Other activities*).

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

(amounts in millions of euro)	Q1 2003	Q1 2004	Total difference
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	
	672	36	636

The net negative impact of MTA (EUR 16 million) was more than offset by the combination of higher operating revenues (EUR 44 million) and lower operating expenses (EUR 34 million).

### **Operating revenues**

Excluding the effects of book gains, operating revenues saw a marginal decrease of –0.4% from EUR 2,996 million to EUR 2,983 million, including a EUR 57 million adverse MTA effect. Reported operating revenues amounted to EUR 3,019 million (2003: EUR 3,668 million).

- In the *Fixed* division, operating revenues decreased by EUR 68 million to EUR 1,859 million. Including the negative MTA impact (EUR –68 million), net sales in the Fixed division decreased by EUR –67 million or 3.5%. Fixed Networks was able to show a fast-growing ADSL customer base.
- *Mobile* division's net sales (EUR 1,216 million) were up EUR 79 million, or 6.9%, driven mainly by subscriber growth.
- Revenues of *Other activities* decreased by EUR 431 million mainly as a result of book gains recorded in the first quarter of last year.
- *Inter-division* revenues decreased by EUR 15 million to EUR 253 million.

### **Operating expenses**

Operating expenses decreased by EUR 75 million (–3.1%) to EUR 2,358 million. The decrease was partly the result of cost reduction programs (reduced workforce and lower depreciation charges resulting from a reduced level of capital expenditure), and partly the result of MTA. Reduced operating expenses in the Fixed division and Other activities were partially offset by increased operating expenses in the Mobile division.

### **Financial income/(expense)**

Net financial expense amounted to EUR 137 million in the first quarter of 2004 (2003: EUR 232 million). The decrease of EUR 95 million was the result of lower interest charges following substantial (regular and early) debt redemptions, totaling EUR 4.9 billion, in 2003.

### **Profit before taxes**

The profit before taxes in the first quarter of 2004 amounted to EUR 524 million (2003: EUR 1,003 million). Net of EUR 636 million book gains, the profit before tax increased from EUR 331 million to EUR 488 million (+47.4%).

### **Taxation**

The total tax charge in the first quarter of 2004 amounted to EUR 145 million. In accordance with the agreement with the Dutch tax authorities, interest of EUR 315 million on shareholder loans to E-Plus is ignored for Dutch tax purposes.

The effective tax rate in the first quarter of 2004 was positively affected by reduced valuation allowances on tax losses carried forward of EUR 36 million, and partial recognition of deferred tax assets in Germany and Belgium. Deferred tax assets on operating losses of the German mobile activities have not been fully recognized.

### **Profit after taxes**

The profit after taxes amounted to EUR 375 million in the first quarter of 2004 (2003: EUR 770 million). Without the book gains referred to earlier, the profit after taxes rose by EUR 241 million from EUR 98 million last year to EUR 339 million this year.

## **Financial items**

### **Cash flow**

The cash flow from operating activities showed a substantial increase and amounted to EUR 960 million (2003: EUR 780 million). The improvement mainly relates to changes in working capital. The working capital in the first quarter of 2003 was negatively impacted by capital tax related to the financial restructuring of KPN Mobile (EUR 77 million), while the MobilCom termination agreement had a negative effect of EUR 80 million. The cash flow from operating activities minus capital expenditure amounted to EUR 646 million compared to EUR 582 million in the first quarter of 2003.

### **Net debt**

At the end of the first quarter of 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 December 31, 2003 and EUR 11.2 billion at the end of the first quarter of 2003. In the first quarter of 2004, KPN's gross debt showed a minor decrease (EUR 36 million). On January 29, 2004, Standard & Poor's upgraded KPN's credit rating from BBB+ (with positive outlook) to A- (with stable outlook).

### **Share repurchase program**

In March 2004, KPN announced a share repurchase program for an initial amount of up to EUR 500 million. So far KPN has repurchased 45.7 million shares amounting to EUR 289 million in total (of which EUR 40 million was settled in April). The shares were purchased via on-market transactions for an average price of EUR 6.32 per share.

### **Dividend**

On April 15, 2004, the Annual General Meeting of Shareholders duly noted the dividend policy and approved the proposed dividend payments. As a result, KPN paid a dividend of EUR 0.25 per share on April 28 resulting in a cash outflow of EUR 611 million. The EUR 0.25 dividend per ordinary share comprises a dividend of EUR 0.12 and an additional special dividend of EUR 0.13. KPN expects to declare an interim dividend for 2004 upon publication of its Half Year results which is scheduled for August 9, 2004.

### **Headcount**

At the end of the first quarter 2004, KPN employed a total of 29,741 FTEs (full time equivalents), of which 18,534 FTEs were subject to the KPN collective labor agreement in the Netherlands. At the end of 2003, this number was 18,649 FTEs. The reduction of 115 FTEs in Q1 2004 was caused by reduction via social plan and natural attrition. The actual number of employees at March 31, 2004 was 32,894.

During the first quarter, KPN announced that it would reduce its Fixed division labor force by a further 800 jobs following the implementation of efficiency measures and the introduction of new technologies. KPN considers improvements in efficiency and effectiveness to be essential to maintain the margin of its Fixed operations.

### **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 347 million as of March 31, 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.

### **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.

As already announced in the Q4 2003 press release, KPN has decided to eliminate as much as possible non-GAAP measures and 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 will differ from those of previous quarters. 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 will disclose items with significant impact that in our opinion are important to interpret these trends. We will also disclose the split of operating revenues into net sales, own work capitalized and other operating revenues.

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

### **1.1 Enquiries:**

#### **Note to editors (not for publication)**

For more information contact KPN Press Office at +31 70 4466300 or see our website: [www.kpn.com](http://www.kpn.com)

#### **Note to investors and analysts (not for publication)**

For more information contact KPN Investor Relations at +31 70 4460986.



## **1.2 Notes for editors: 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 telecommunications market. Through E-Plus in Germany and BASE in Belgium, KPN holds the number three position in the mobile markets in these countries.

At the end of the first quarter of 2004, KPN had 7.6 million fixed-line subscribers and 1.6 million Internet customers in the Netherlands and had a total of 15.1 million mobile customers in the Netherlands, Germany and Belgium. As of the same date, there were 32,894 employees.

KPN was incorporated in 1989 and its shares are listed on the stock exchanges of Amsterdam, New York, London and Frankfurt.

On January 29, 2004, Standard & Poor's (S&P) upgraded KPN's credit rating from BBB+ (with positive outlook) to A- (with stable outlook). Moody's credit rating remained unchanged at Baa1 (with stable outlook)

# Annex financial statements

## Interim Q1 2004 financial statements

### Segmentation and other information

As from January 1, 2004, KPN EnterCom was relocated from Other activities to the Fixed division; in addition, KPN Sales, the distribution channel for personal sales, together with External Distribution, was relocated as of the same date from the Fixed division to Other activities.

Moreover, various Fixed division activities were transferred within Fixed Networks as well as Business Solutions. Within Business Solutions, we have divided our activities into three new business units (Connectivity, Integrated & Managed Services and EnterCom) to increase synergies in both our product portfolio and management capabilities.

The new business unit Connectivity consists of the former business units:

- Transmission Services;
- KPN EuroRings; and
- the IP-VPN (Ecapacity) and Internet Access activities from IP Services.

Integrated & Managed Services contains the former business units:

- Integrated Solutions;
- Managed Application Services; and
- the MVPN activities from IP Services

The remaining activities of former business unit IP Services were integrated into the new business unit Broadband and subsequently transferred from Business Solutions to Fixed Networks.

All comparative information has been restated in order to reflect the new organizational structure.

As a consequence of the new segmentation, which has no impact on KPN's total figures, the 2004 outlook had to be adjusted with regard to the Fixed division's growth of operating revenues (–4.4% to –6.4% instead of –5% to –7%) as well as its operating EBITDA margin (41.4% to 43.4% instead of 43% to 45%).

## Consolidated Statement of Income

Amounts in millions of euro, unless otherwise stated	Q1 2004	Q1 2003
<b>Net sales</b>	<b>2,903</b>	<b>2,903</b>
Own work capitalized	40	38
Other operating revenues	76	727
<b>Total operating revenues</b>	<b>3,019</b>	<b>3,668</b>
Cost of materials	-218	-247
Cost of work contracted out and other external expenses	-983	-918
Salaries and social security contributions	-407	-429
Depreciation, amortization and impairments	-602	-645
Other operating expenses	-148	-194
<b>Total operating expenses</b>	<b>-2,358</b>	<b>-2,433</b>
<b>Operating result</b>	<b>661</b>	<b>1,235</b>
Interest and similar income	22	23
Interest and similar expenses	-159	-255
<b>Financial income and expenses</b>	<b>-137</b>	<b>-232</b>
<b>Profit before taxes</b>	<b>524</b>	<b>1,003</b>
Tax on profit	-145	-238
Income from participating interests	1	-1
<b>Group profit after taxes</b>	<b>380</b>	<b>764</b>
Minority interests	-5	6
<b>Profit after taxes</b>	<b>375</b>	<b>770</b>
Earnings per ordinary share/ADS (in EUR)	0.15	0.31
Earnings per ordinary share/ADS on a fully diluted basis (in EUR)	0.15	0.31

## Consolidated Balance Sheet

Before appropriation of net result

### ASSETS

Amounts in millions of euro	Mar. 31, 2004	Dec. 31, 2003
<b>FIXED ASSETS</b>		
<i>Intangible fixed assets</i>		
Licenses	4,446	4,457
Goodwill	4,067	4,126
	<b>8,513</b>	<b>8,583</b>
<i>Property, plant and equipment</i>		
Land and buildings	854	881
Plant and equipment	6,864	7,082
Other tangible fixed assets	422	431
Assets under construction	776	725
	<b>8,916</b>	<b>9,119</b>
<i>Financial fixed assets</i>		
Participating interests	163	194
Loans to participating interests	25	19
Other loans	76	119
Prepayments and accrued income	1,875	1,986
	<b>2,139</b>	<b>2,318</b>
<b>Total fixed assets</b>	<b>19,568</b>	<b>20,020</b>
<b>CURRENT ASSETS</b>		
Inventory	191	164
Receivables	1,461	1,452
Prepayments and accrued income	688	641
Marketable securities and other financial interests	2	9
Cash and cash equivalents	2,263	1,839
<b>Total current assets</b>	<b>4,605</b>	<b>4,105</b>
<b>TOTAL</b>	<b>24,173</b>	<b>24,125</b>

**LIABILITIES**

Amounts in millions of euro	Mar. 31, 2004	Dec. 31, 2003
<b>GROUP EQUITY</b>		
Shareholders' equity	7,297	7,163
Minority interests	202	196
<b>Total group equity</b>	<b>7,499</b>	<b>7,359</b>
<b>PROVISIONS</b>		
Pension provisions	801	814
Deferred tax liabilities	2,134	2,111
Other provisions	421	414
<b>Total provisions</b>	<b>3,356</b>	<b>3,339</b>
<b>LONG-TERM LIABILITIES</b>		
Loans	9,173	9,207
Accruals and deferred income	18	23
<b>Total long-term liabilities</b>	<b>9,191</b>	<b>9,230</b>
<b>CURRENT LIABILITIES</b>		
Other debts *)	1,924	2,107
Accruals and deferred income	2,203	2,090
<b>Total current liabilities</b>	<b>4,127</b>	<b>4,197</b>
<b>TOTAL</b>	<b>24,173</b>	<b>24,125</b>

\*) Of which interest-bearing debts: EUR 949 million (December 31, 2003: EUR 952 million).

## Consolidated Cash Flow Statement

Amounts in millions of euro	Q1 2004	Q1 2003
<b>Profit or loss after taxes</b>	<b>375</b>	<b>770</b>
Minority interests	5	-6
Depreciation, amortization and impairments	602	645
Changes in provisions	10	124
Changes in deferred tax assets	117	-18
Income from participating interests	-1	1
Results from sale of assets, operations and participating interests	-36	-450
<b>Net cash flow provided by/used in operating activities before changes in working capital</b>	<b>1,072</b>	<b>1,066</b>
Changes in working capital:		
Inventory	-27	-32
Trade receivables	-	20
Other current assets	-13	-116
Current liabilities (excluding short-term financing)	-72	-158
<b>Net cash flow provided by/used in changes in working capital</b>	<b>-112</b>	<b>-286</b>
<b>Net cash flow provided by/used in operating activities</b>	<b>960</b>	<b>780</b>
Group companies/joint ventures sold	-	495
Investments in intangible fixed assets	-6	-6
Investments in property, plant and equipment	-314	-198
Disposals of property, plant and equipment	2	7
Changes in other financial fixed assets	66	112
<b>Net cash flow provided by/used in investing activities</b>	<b>-252</b>	<b>410</b>
Share repurchase	-249	-
Shares purchased for option plans	-	-9
Long-term loans contracted	-	21
Redemption of long-term loans	-38	-75
Changes in interest-bearing current liabilities	2	-5
<b>Net cash flow provided by/used in financing activities</b>	<b>-285</b>	<b>-68</b>
<b>Changes in cash and cash equivalents</b>	<b>423</b>	<b>1,122</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,839</b>	<b>2,657</b>
Cash and cash equivalents in group companies and joint ventures acquired and sold	1	-2
Changes in cash and cash equivalents	423	1,122
<b>Cash and cash equivalents at end of period</b>	<b>2,263</b>	<b>3,777</b>

## Statement of changes in shareholders' equity

Amounts in millions of euros (except for numbers of shares)	2004	2003
<b>Balance as of January 1,</b>	<b>7,163</b>	<b>4,508</b>
Change in accounting principles	-	-6
Shares repurchased	-249	-
Shares purchased for option plans	-	-9
Net income for the period	375	770
Translation differences and other changes	8	-4
<b>Balance as of March 31,</b>	<b>7,297</b>	<b>5,259</b>
<b>Number of outstanding shares at March 31,</b>	<b>2,490,996,877</b>	<b>2,490,996,877</b>
<b>Weighted average number of outstanding shares (excluding treasury stock) during the first quarter of</b>	<b>2,464,843,796</b>	<b>2,469,570,605</b>

## Additions

Amounts in millions of euros	Q1 2004	Q1 2003
Additions to intangible fixed assets	6	6
Additions to tangible fixed assets	319	200
Additions to financial fixed assets	3	58

## Business performance by division

### Fixed division

<b>Fixed Division</b>	<b>1st Quarter</b>	
Amounts in millions of euro	<b>2004</b>	<b>2003</b>
<b>Operating revenues</b>	<b>1,859</b>	<b>1,926</b>
of which:		
Net sales	1,851	1,918
Own work capitalized	6	4
Other operating revenues	2	4
<b>Operating expenses</b>	<b>-1,402</b>	<b>-1,462</b>
of which:		
Depreciation, amortization and impairments	-313	-329
<b>Operating result</b>	<b>457</b>	<b>464</b>
of which:		
Fixed Networks	350	351
Business Solutions	107	113

### Operating revenues

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

<b>Fixed Division: Operating revenues</b>	<b>1st Quarter</b>	
Amounts in millions of euro	<b>2004</b>	<b>2003</b>
<b>Fixed Networks</b>	<b>1,599</b>	<b>1,651</b>
Fixed Telephony	853	930
Carrier Services	699	699
Other FN (including intercompany revenues)	47	22
<b>Business Solutions</b>	<b>517</b>	<b>524</b>
Connectivity	334	343
Integrated & Managed Solutions	111	90
EnterCom	111	113
Other BS (including intercompany revenues)	-39	-22
<b>Intra-division sales</b>	<b>-257</b>	<b>-249</b>
<b>Operating revenues</b>	<b>1,859</b>	<b>1,926</b>

Total operating revenues of the Fixed division decreased to EUR 1,859 million in the first quarter of 2004. Traffic revenues decreased as a result of the shift from Internet Originating Services to broadband Internet, the trend of mobile-only customers and MTA tariff reductions.



### **Fixed Telephony**

Total operating revenues of Fixed Telephony decreased to EUR 853 million (–8.3%) in the first quarter of 2004 (2003: EUR 930 million) mainly driven by increasing competition and overall market decline. In addition, MTA tariff reductions had an adverse impact of EUR 26 million. Since the introduction in the second quarter 2003, 800,000 consumers (15% of our residential customers) applied for BelPlus packages, of whom 85,000 in the first quarter 2004.

Total number of connections in thousands at the end of the first quarter of 2004:

Total number of connections in thousands	March 31, 2004	March 31, 2003	%
PSTN	6,080	6,257	–2.83
ISDN	1,548	1,549	–0.06
<b>Total</b>	<b>7,628</b>	<b>7,806</b>	<b>–2.28</b>

One-off connection fees and monthly subscription fees remained stable; traffic revenues were lower stemming primarily from decreased traffic volumes (Q1 2004: 8.97 billion minutes; Q1 2003: 11.13 billion minutes).

The following table sets out the developments in traffic volumes in the first quarter of 2004:

In billions of minutes	Q1 2004	Q1 2003	%
Domestic local	3.26	3.87	–15.8
Domestic long-distance	1.97	2.29	–14.0
<b>Total domestic traffic volumes</b>	<b>5.23</b>	<b>6.16</b>	<b>–15.1</b>
Internet-related	2.86	4.04	–29.2
Fixed-to-mobile	0.61	0.63	–3.2
International	0.27	0.30	–10.0
<b>Total traffic volumes Fixed Telephony</b>	<b>8.97</b>	<b>11.13</b>	<b>–19.4</b>
Terminating	3.59	3.16	13.6
Originating voice	3.22	2.76	16.7
Originating internet	1.37	1.98	–30.8
Transit	1.52	1.49	2.0
International	1.60	1.53	4.6
<b>Total traffic volumes Carrier Services</b>	<b>11.30</b>	<b>10.92</b>	<b>3.5</b>
Other/intra-division traffic 1)	–0.27	–0.31	12.9
<b>Total traffic volumes Fixed division</b>	<b>20.00</b>	<b>21.74</b>	<b>–8.0</b>

(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.

Due to ongoing competition in the business market and mobile-for-fixed substitution, domestic traffic volumes decreased to 5.23 billion minutes in the first quarter of 2004. Total Internet traffic volumes decreased to 2.86 billion minutes in the same quarter as a result of the fast ADSL growth.

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

In euro per minute (=rate)	Q1 2004	Q1 2003	%
Domestic local	0.0304	0.0294	3.4
Domestic long-distance	0.0436	0.0411	6.1
Internet-related	0.0229	0.0197	16.2
Fixed-to-mobile	0.2122	0.2534	-16.3
International	0.1850	0.1892	-2.2

### **Carrier Services**

Total operating revenues of Carrier Services remained stable at EUR 699 million in the first quarter of 2004. Higher volumes for terminating, originating voice, transit and international traffic offset the adverse impact on revenues of MTA tariff reductions amounting to EUR 42 million.

### **Other units within Fixed Networks**

Other units within Fixed Networks include ISPs Planet Internet, Het Net and XS4ALL, call center company SNT, the Fixed Network Operator unit and the Broadband unit. Total operating revenues of Fixed Networks' other units increased in the first quarter of 2004 to EUR 47 million (2003: EUR 22 million) as a result of the higher sales of ADSL connections partly offset by the deconsolidation of SNT France and SNT Sweden. Revenues of the ISPs remained stable. Moreover, intercompany sales in the first quarter of 2004 decreased to EUR 472 million (2003: EUR 489 million).

Operational data	March 31, 2004	March 31, 2003
Number of ADSL connections (in thousands)	913	418
ADSL coverage	99%	85%
Market share consumer broadband	41%	33%

### **Business Solutions**

Operational data	March 31, 2004	March 31, 2003
Number of leased lines (in thousands) of which:	64	91
- analog	70%	61%
- digital	30%	39%
Ecapacity/IP-VPN connections (in thousands)	20	5
VPN (customers)	975	148
Customer programs	78	61

In the first quarter of 2004, operating revenues of the Business Solutions units decreased slightly with EUR 7 million to EUR 517 million (2003: EUR 524 million).

Operating revenues of Connectivity decreased by EUR 9 million, mainly as a result of migration of Leased Lines and Frame relay to xDSL products. Furthermore, intercompany revenues with units outside Business Solutions decreased. Operating revenues of EnterCom remained stable. On the other hand, operating revenues of Integrated & Managed Services (IMS) increased by EUR 21 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, the revenues from joint ventures (Mobirail and Tetraned) increased. This increase was offset by a decrease in operating revenues of the other units within Business Solutions, which included revenues from KPN Belgium (settlement of the sale of its activities) in the first quarter of 2003.

**Operating expenses**

In the first quarter of 2004, operating expenses of the Fixed division (excluding intercompany expenses) decreased by 4.1% to EUR 1,402 million (2003: EUR 1,462 million).

***Fixed Networks***

Operating expenses of Fixed Networks' business units decreased to EUR 1,249 million (-3.9%) in the first quarter of 2004 (2003: EUR 1,300 million) reflecting the ongoing cost-cutting programs as well as the effect of MTA tariff reductions. Due to the restructuring, the workforce was reduced resulting in lower personnel cost at most units. This was partially offset by a charge of EUR 7 million in relation to the new restructuring announced in the first quarter of 2004.

In line with the lower revenues in Fixed Telephony, purchasing costs decreased contrary to Broadband, where the adverse trend occurred. The deconsolidation of SNT's French and Scandinavian activities in 2003 also reduced operating expenses. Depreciation, amortization and impairment charges decreased as a consequence of investment optimization programs.

***Business Solutions***

Operating expenses remained stable in the first quarter at EUR 410 million (2003: EUR 411 million). Purchasing costs at IMS increased in line with higher revenues. Due to the new restructuring announced in the first quarter of 2004, a charge of EUR 8 million was taken. The effects from successful cost reduction programs implemented in 2001 offset these increases.

## Mobile division

<b>Mobile Division</b>	<b>1st Quarter</b>	
Amounts in millions of euro	<b>2004</b>	<b>2003</b>
<b>Operating revenues</b>	<b>1,279</b>	<b>1,445</b>
of which:		
Net sales	1,216	1,137
Own work capitalized	34	34
Other operating revenues	29	274
<b>Operating expenses</b>	<b>-1,116</b>	<b>-1,057</b>
of which:		
Depreciation, amortization and impairments	-268	-265
<b>Operating result</b>	<b>163</b>	<b>388</b>

### Operating revenues

In the first quarter of 2004, net sales were up 6.9% driven by subscriber growth. The profit from the MobilCom termination agreement (EUR 222 million) and the book gain on the sale of UMC (EUR 15 million), both recorded in the first quarter of 2003, were the reason for the 11.5% lower operating revenues amounting to EUR 1,279 million (2003: EUR 1,445 million). This decrease was partially offset by a EUR 15 million royalty fee in 2004.

The total number of customers increased to 15.1 million at the end of March 2004 (March 31, 2003: 13.5 million); the increase consisted of approximately 0.6 million additional postpaid customers and 1.0 million additional prepaid customers. The total number of i-mode customers in Germany, the Netherlands and Belgium increased to 1,190,000 customers as of March 31, 2004 (March 31, 2003: 285,000; December 31, 2003: 868,000).

### Operating expenses

Operating expenses increased by 5.6% to EUR 1,116 million, mainly due to an increase in interconnection costs and increased marketing and promotion expenses.

### Germany

<b>Mobile Division: Germany</b>	<b>1st Quarter</b>	
Amounts in millions of euro	<b>2004</b>	<b>2003</b>
<b>Operating revenues</b>	<b>620</b>	<b>797</b>
of which:		
Net sales	586	521
Own work capitalized	26	26
Other operating revenues	8	250
<b>Operating expenses</b>	<b>-648</b>	<b>-609</b>
of which:		
Depreciation, amortization and impairments	-189	-190
<b>Operating result</b>	<b>-28</b>	<b>188</b>

Net sales increased by 12.5% mainly due to a higher customer base; the subscriber base as of March 31, 2004 showed a 13.5% increase to 8.4 million subscribers. Total operating revenues decreased due to the effect of the MobilCom termination agreement (EUR 222 million) in the first quarter of 2003.

Total operating expenses increased by 6.4%, which is mainly attributable to higher interconnection costs as well as higher marketing and promotion costs resulting from the intensified subscriber acquisition. Depreciation charges in the first quarter of 2004 remained stable compared to 2003.

The development of the customer base in Germany is provided below:

Number of subscribers in thousands	March 31, 2004	Dec. 31, 2003	March 31, 2003
Customers:			
• Prepaid	4,453	4,329	3,993
<i>Of which i-mode</i>	181	82	0
• Postpaid	3,995	3,877	3,453
<i>Of which i-mode</i>	470	358	140
<b>Total</b>	<b>8,448</b>	<b>8,206</b>	<b>7,446</b>

Traffic volumes and weighted average revenues in Germany	Q1 2004	Q1 2003
Total traffic volume (in millions of minutes)	1,840	1,614
Weighted monthly MoU (average Minutes of Use):	74	73
• Prepaid	23	24
• Postpaid	131	130
Total monthly ARPU (average revenues per user; in EUR):	23	23
• Prepaid	8	8
• Postpaid	40	41

### *The Netherlands*

Mobile Division: The Netherlands	1st Quarter	
Amounts in millions of euro	2004	2003
<b>Operating revenues</b>	<b>564</b>	<b>556</b>
of which:		
Net sales	539	549
Own work capitalized	7	4
Other operating revenues	18	3
<b>Operating expenses</b>	<b>-364</b>	<b>-355</b>
of which:		
Depreciation, amortization and impairments	-44	-44
<b>Operating result</b>	<b>200</b>	<b>201</b>

In the first quarter of 2004, operating revenues increased by 1.4% to EUR 564 million (2003: EUR 556 million). The reason for the rather moderate growth in operating revenues is the MTA tariff reduction, which negatively affected the Q1 2004 revenues by EUR 26 million. In the first quarter of 2004, an amount of EUR 15 million was recorded as royalty fees.

Total net sales decreased by 1.8% to EUR 539 million in the first quarter of 2004 caused by lower traffic revenues due to MTA tariff reductions and less peripheral and other equipment sales. Prepaid traffic revenues benefited from an increasing subscriber base, mainly more prepaid customers, which effect was more than offset by reduced MoU and ARPU. The net decrease in prepaid traffic revenues was fully compensated by higher postpaid traffic revenues due to a growing subscriber base and increased MoU and ARPU.

In the first quarter of 2004, the total number of customers increased from 4.9 million as of March 31, 2003 to 5.3 million at the end of March 2004. The percentage of i-mode customers in the total customer base increased from 2.8% at the end of the first quarter of 2003 to 9.7% as of March 31, 2004. The decrease in equipment revenues is the effect of higher equipment sales volumes being more than offset by lower retail prices.

In the first quarter of 2004, operating expenses increased by 2.5% compared to the same period in 2003. Drivers for the higher operating expenses are higher marketing and promotion expenses. The costs of materials were slightly lower due to an addition to a provision for replacement of i-mode handsets in the first quarter of 2003. Depreciation charges in the first quarter of 2004 remained stable compared to 2003.

The development of the customer base in The Netherlands is provided in the table below:

Number of subscribers in thousands	March 31, 2004	Dec. 31, 2003	March 31, 2003
Customers:			
• Prepaid	3,310	3,252	3,008
<i>Of which i-mode</i>	260	163	0
• Postpaid	1,959	1,953	1,900
<i>Of which i-mode</i>	249	240	137
<b>Total</b>	<b>5,269</b>	<b>5,205</b>	<b>4,908</b>

Traffic volumes and weighted average revenues in the Netherlands	Q1 2004	Q1 2003
Total traffic volume (in millions of minutes)	1,961	1,873
Weighted monthly MoU (in minutes):	125	126
• Prepaid	37	45
• Postpaid	272	257
Total monthly ARPU (in EUR):	33	36
• Prepaid	11	14
• Postpaid	71	70

## Belgium

<b>Mobile Division: Belgium</b>	<b>1st Quarter</b>	
Amounts in millions of euro	<b>2004</b>	<b>2003</b>
<b>Operating revenues</b>	<b>104</b>	<b>77</b>
of which:		
Net sales	100	72
Own work capitalized	2	4
Other operating revenues	2	1
<b>Operating expenses</b>	<b>-108</b>	<b>-94</b>
of which:		
Depreciation, amortization and impairments	-35	-31
<b>Operating result</b>	<b>-4</b>	<b>-17</b>

In the first quarter of 2004, operating revenues increased by 35.1% compared to the same quarter last year. The revenue growth is driven by more net sales (+38.9%) due to a higher customer base and higher ARPU and MoU, especially on prepaid.

The 14.9% increase in operating expenses compared to the first quarter of 2003 is related to higher interconnection costs driven by an increased customer base and more marketing and promotion costs. Amortization charges were higher than in the first quarter of 2003 resulting from the EUR 103 million reversal of the GSM license impairment in December 2003.

Number of subscribers in thousands	<b>March 31, 2004</b>	<b>Dec. 31, 2003</b>	<b>March 31, 2003</b>
Customers:			
• Prepaid	1,081	974	870
<i>Of which i-mode</i>	2	1	0
• Postpaid	288	279	261
<i>Of which i-mode</i>	28	24	8
<b>Total</b>	<b>1,369</b>	<b>1,253</b>	<b>1,131</b>

Traffic volumes and weighted average revenues in Belgium	<b>Q1 2004</b>	<b>Q1 2003</b>
Total traffic volume (in millions of minutes)	399	258
Weighted monthly MoU (in minutes):	101	76
• Prepaid	71	36
• Postpaid	209	208
Total monthly ARPU (in EUR)	25	21
• Prepaid	15	10
• Postpaid	61	56

## Other activities

<b>Other Activities</b>	<b>1st Quarter</b>	
	<b>2004</b>	<b>2003</b>
Amounts in millions of euro		
<b>Operating revenues</b>	<b>134</b>	<b>565</b>
of which:		
Net sales	89	116
Own work capitalized	0	0
Other operating revenues	45	449
<b>Operating expenses</b>	<b>-93</b>	<b>-182</b>
of which:		
Depreciation, amortization and impairments	-21	-51
<b>Operating result</b>	<b>41</b>	<b>383</b>

This segment mainly comprises other and supporting activities.

### Operating revenues

In the first quarter of 2004, operating revenues of Other activities decreased by EUR 431 million to EUR 134 million. Mainly attributable to this decrease were the book gain on the sale of Directory Services in the first quarter of 2003 (EUR 435 million) partially offset by the EUR 36 million book gain on the sale of KPN's interest in Eutelsat in the first quarter of 2004. The remaining EUR 32 million decrease reflects the deconsolidation of Logistics and Repair upon the sale thereof and lower operating revenues from Xantic due to US dollar exchange effects.

### Operating expenses

Operating expenses decreased by EUR 89 million to EUR 93 million (2003: EUR 182 million). This decrease includes an addition to the restructuring provision (EUR 4 million) and impairments of intangible assets in 2003 (EUR 15 million). The decrease is the result of the deconsolidation of Logistics and Repair and a decrease in operational expenses within Xantic due to the partly termination of its activities.



# Glossary

## **ADSL**

Asymmetric Digital Subscriber Line.

With ADSL, transmissions from provider to user take place at a higher speed than from user to provider. ADSL allows high-speed digital communication, including video signals, across an ordinary twisted-pair copper phone line. An ADSL modem is required.

## **ARPU**

Average Revenue Per User.

The sum of connection fee revenues, subscription fee revenues and airtime service revenues during the period of one month, reduced for related discounts, divided by the average number of customers for that period.

## **DSL**

Digital Subscriber Line.

DSL is a technology for bringing high-bandwidth information to homes and small businesses over ordinary copper PSTN 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.

Offers a secured and private network using IP-based infrastructure.

## **i-mode**

Mobile data services 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**

Mobile Terminating Access.

The tariff telecommunication companies charge each other for the termination of a call of a mobile caller to a fixed or mobile subscriber.

## **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.

Traditional telephone system that runs through copper cables (voice up to 64 KB/s, data up to 56 Kb/s).

**SMS**

Short Message Service.

SMS is a service for sending messages of up to 160 characters to mobile phones that use GSM communications.

**UMTS**

Universal Mobile Telecommunications System.

One of the major third generation mobile communications systems being developed. UMTS is suited to deliver voice, text, music and animated images. Data can be sent via UMTS almost 6 times as quick as via ISDN.

## Financial calendar

August 9, 2004

Publication of results for the second quarter of 2004

August 10, 2004

Ex-interim dividend listing of shares

August 19, 2004

Start of payment interim dividend

November 1, 2004

Publication of results for the third quarter of 2004

Please note that dates may be subject to change.

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