

## Fourth Quarter and Annual Results 2016

### Highlights

- Fourth consecutive quarter in 2016 with strong convergence trends and high value customer base growth in Consumer
  - Fixed-mobile bundles now represent 43% of postpaid base (Q4 2015: 33%) and 37% of broadband base (Q4 2015: 29%)
  - +18k IPTV net adds, +2k broadband net adds and +19k postpaid net adds driven by the high value KPN brand
  - NPS for both Consumer Residential and Consumer Mobile increased to +10 (Q4 2015: +9)
- Migrations to integrated solutions (+27k multi play seats) and new technologies in Business accelerating in Q4 2016, resulting in stronger customer relations, but impacting revenues
  - Steep improvement in NPS for Business to -3 (Q4 2015: -10)
- First wave Simplification program completed; delivering improved quality of service and approximately EUR 460m run-rate savings by end Q4 2016

### Key figures\* (from continuing operations)

Group financials (unaudited)	Q4 2016	Q4 2015	Δ y-on-y	FY 2016	FY 2015	Δ y-on-y
<i>(in EUR m, unless stated otherwise)</i>						
Revenues	1,723	1,745	-1.3%	6,806	7,008	-2.9%
<b>Adjusted revenues**</b>	<b>1,704</b>	<b>1,745</b>	<b>-2.3%</b>	<b>6,780</b>	<b>7,018</b>	<b>-3.4%</b>
EBITDA	626	578	8.3%	2,429	2,324	4.5%
<b>Adjusted EBITDA**</b>	<b>606</b>	<b>582</b>	<b>4.1%</b>	<b>2,428</b>	<b>2,419</b>	<b>0.4%</b>
<b>Adjusted EBITDA margin The Netherlands</b>	<b>39.6%</b>	<b>36.6%</b>		<b>40.0%</b>	<b>38.6%</b>	
Operating profit (EBIT)	246	160	54%	884	708	25%
Profit for the period (net profit)	115	254	-55%	370	524	-29%
<b>Capex</b>	<b>298</b>	<b>355</b>	<b>-16%</b>	<b>1,193</b>	<b>1,300</b>	<b>-8.2%</b>
<b>Operating free cash flow</b>	<b>308</b>	<b>227</b>	<b>36%</b>	<b>1,235</b>	<b>1,119</b>	<b>10%</b>
<b>Free cash flow</b>	<b>381</b>	<b>223</b>	<b>71%</b>	<b>741</b>	<b>698</b>	<b>6.2%</b>

\* All non-IFRS terms are explained in the safe harbor section

\*\* Adjusted revenues and adjusted EBITDA reconciliations to be found on page 8 and 9

### Financial performance

- Adjusted revenues were 2.3% lower y-on-y in Q4 2016. Lower revenues in Business were partly offset by the positive impact of base growth and price adjustments in Consumer. The decline in Business was driven by accelerated migrations to integrated solutions, rationalization, and less customized work, which was traditionally higher in the fourth quarter. FY 2016 adjusted revenues decreased by 3.4% y-on-y
- Adjusted EBITDA increased by 4.1% y-on-y in Q4 2016, supported by cost savings from Simplification and lower subscriber acquisition and retention costs. FY 2016 adjusted EBITDA for the Group increased by 0.4% and for The Netherlands by 1.3% compared to FY 2015
- FY 2016 net profit of EUR 370m was EUR 154m lower y-on-y, mainly driven by EUR 312m higher net finance expenses partly offset by EUR 176m higher operating profit. Increased net finance expenses were a result of one-offs (mainly EUR 184m book gain on the sale of TEFD shares in Q4 2015 and EUR 160m additional finance expenses related to a bond tender in Q3 2016). Excluding the one-offs, net profit would have been 27% higher y-on-y
- Capex of EUR 1,193m in FY 2016 was 8.2% lower compared to last year due to structurally lower network investments following a period of elevated investment levels and lower customer driven Capex
- Free cash flow excluding TEFD dividend was EUR 631m for FY 2016, EUR 79m higher compared to last year. Higher operating free cash flow was partly offset by a higher working capital level due to lower spend levels and reduced payment terms with several suppliers

## Message from the CEO, Eelco Blok

*“The full-year results demonstrate that we have made good progress with the key priorities of our Simplify, Grow, Innovate strategy as set out at the start of 2016. Our relentless efforts to innovate and deliver a unique fixed-mobile experience in the consumer market have resulted in increasingly satisfied customers, who are taking more and more services from KPN.*

*In 2016, KPN has taken important steps to address the challenges in the business market and expand its position as the leading Business ICT service provider by building a strengthened portfolio in the areas of cloud, workspace and security. We still see challenges ahead as the migration away from legacy services to integrated solutions will continue to impact our revenues in the short term. However, we are confident that we will benefit from cross-sell opportunities, supported by our reinvigorated sales force. The strong improvement in customer satisfaction, accelerated uptake of multi play and higher order intake in the fourth quarter illustrate that we are on the right track.*

*We have completed the first wave of our Simplification program delivering an improved digital experience for our retail customers and a meaningfully lower cost base. We are now starting the second wave focused on streamlining the network related IT and further simplification of our organization, which will deliver at least another EUR 300 million run-rate savings by end-2019. Our elevated investment levels in recent years mean that our integrated networks now consist largely of fiber, which puts us in an excellent position to benefit from innovative technologies. Capital intensity will continue to decline, notwithstanding ongoing investments to further streamline our operations and in network capacity to deliver the highest quality of service.*

*The successful delivery of our strategic priorities will drive further growth in our cash flow and shareholder remuneration in the coming years.”*

## Outlook

KPN realized its outlook for 2016 of adjusted EBITDA in line with 2015 (FY 2016: EUR 2,428m), Capex ~EUR 1.2bn (FY 2016: EUR 1,193m) and free cash flow >EUR 650m, excluding EUR 52m impact from cash optimization actions (FY 2016: EUR 683m).

### 2017 (continuing operations)

- Adjusted EBITDA in line with 2016
  - Including approximately EUR 40-50m impact from roaming regulation
- Capex ~EUR 1.15bn
- Free cash flow (excl. TEFD dividend) growing<sup>1</sup>
- Additional cash flow via expected dividend from 15.5% stake in Telefónica Deutschland

## Shareholder remuneration

KPN intends to pay a total regular dividend per share of EUR 10 cents in respect of 2016. The final regular dividend of EUR 6.7 cents per share is expected to be paid following shareholder approval in April 2017. KPN intends to pay a regular dividend per share of EUR 11 cents in respect of 2017 and grow the regular dividend in line with its free cash flow growth profile thereafter.

The 15.5% stake in Telefónica Deutschland is treated as a financial investment. KPN benefits from dividend payments by Telefónica Deutschland and additional financial flexibility. KPN intends to pass-through potential dividend received from Telefónica Deutschland to its shareholders.

KPN remains committed to an investment grade credit profile and expects to utilize excess cash for operational and financial flexibility, (small) in-country M&A and/or shareholder remuneration.

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<sup>1</sup> Compared to 2016 free cash flow, after adjusting for the impact of cash optimization actions, of EUR 683m

All related documents can be found on KPN's website:  
[ir.kpn.com](http://ir.kpn.com)

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**Formal disclosures:**

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## Safe harbor

### Alternative performance measures and management estimates

*This financial report contains a number of alternative performance measures (non-GAAP figures) to provide readers with additional financial information that is regularly reviewed by management, such as EBITDA and Free Cash Flow ('FCF'). These non-GAAP figures should not be viewed as a substitute for KPN's GAAP figures and are not uniformly defined by all companies including KPN's peers. Numerical reconciliations are included in KPN's quarterly factsheets and will be included in the Integrated Annual Report 2016. KPN's management considers these non-GAAP figures, combined with GAAP performance measures and in conjunction with each other, most appropriate to measure the performance of the Group and its segments. The non-GAAP figures are used by management for planning, reporting (internal and external) and incentive purposes. KPN's main alternative performance measures are listed below.*

*KPN defines **EBITDA** as operating result before depreciation (including impairments) of PP&E and amortization (including impairments) of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union. In the **Net Debt / EBITDA ratio**, KPN defines **Net Debt** as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in Euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments, and defines EBITDA as a 12 month rolling total excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). **Free Cash Flow** is defined as cash flow from continuing operating activities plus proceeds from real estate, minus capital expenditures (Capex), being expenditures on PP&E and software. **Operating free cash flow** is defined as adjusted EBITDA minus Capex. **Revenues** are defined as the total of revenues and other income unless indicated otherwise. **Adjusted revenues** and **adjusted EBITDA** are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. The term service revenues refers to wireless service revenues.*

*All market share information in this financial report is based on management estimates based on externally available information, unless indicated otherwise. For a full overview on KPN's non-financial information, reference is made to KPN's quarterly factsheets available on [ir.kpn.com](http://ir.kpn.com)*

### Forward-looking statements

*Certain statements contained in this financial 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", "will", "may", "could", "should", "intends", "estimate", "plan", "goal", "target", "aim" 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 the Integrated Annual Report 2015.*

## Financial and operating review by segment

### Consumer

In the fourth quarter, KPN continued to strengthen its position as the leading converged operator in the Dutch consumer market by expanding the addressable fixed-mobile base with its XS4ALL brand. Combined with a strong focus on innovation and up- and cross-selling of services, this resulted in another quarter of growth in bundled services. The increased fixed-mobile penetration is delivering clear benefits in terms of improved customer satisfaction, lower churn levels and reduced marketing expenses. KPN continued to successfully address the high value segment of the market via its leading KPN brand, which is reflected in customer base and service revenue growth. There was a further improvement in customer satisfaction to an NPS of +10 in Q4 2016 (Q4 2015: +9), which keeps KPN significantly ahead of competition.

Consumer (in EUR m)	Q4 2016	Q4 2015	Δ y-on-y	FY 2016	FY 2015	Δ y-on-y
Revenues	799	781	2.3%	3,139	3,095	1.4%
<b>Adjusted revenues</b>	<b>799</b>	<b>781</b>	<b>2.3%</b>	<b>3,139</b>	<b>3,095</b>	<b>1.4%</b>
<i>Of which: Consumer Residential</i>	472	460	2.6%	1,857	1,811	2.5%
<i>Of which: Consumer Mobile</i>	327	321	1.9%	1,281	1,284	-0.2%
EBITDA (contribution margin)	481	431	12%	1,871	1,797	4.1%
<b>Adjusted EBITDA (contribution margin)</b>	<b>494</b>	<b>434</b>	<b>14%</b>	<b>1,892</b>	<b>1,809</b>	<b>4.6%</b>

Adjusted revenues in Consumer increased by 2.3% y-on-y in Q4 2016 due to good results in both residential and mobile. Residential revenues grew by 2.6% driven by an increasing number of RGUs and higher ARPU per household. Mobile service revenue growth was 5.3% y-on-y (including a 3.2% positive benefit from tax) driven by high value base growth. Growth in mobile service revenues was partly offset by lower revenues related to hardware sales. Adjusted EBITDA increased by 14% y-on-y, driven by higher revenues and lower operating expenses supported by a lower end of contract base, leading to lower subscriber acquisition and retention costs. Consequently, the adjusted EBITDA margin grew to 61.8% (Q4 2015: 55.6%).

In Q4 2016, the number of fixed-mobile households grew by 74k to 1,077k, representing 37% of the broadband customer base (Q4 2015: 29%). The number of postpaid customers in fixed-mobile bundles grew by 122k to 1,583k, equivalent to 43% penetration of the postpaid base at the end of Q4 2016 (Q4 2015: 33%). At the end of Q4 2016, 56% of all KPN brand postpaid customers were part of a fixed-mobile bundle (Q4 2015: 45%).

KPN's net adds in IPTV of 18k and broadband of 2k were driven by growth in the high value KPN brand in Q4 2016. KPN now has more than two million IPTV customers and the service has again been rated as the best TV product for nationwide operators by the Dutch Consumers' Association (Consumentenbond). Bundled residential services resulted in a growing number of RGUs per household (2.16 vs. 2.07 in Q4 2015) and ARPU per household increased to EUR 42 (Q4 2015: EUR 40).

Furthermore, KPN continued to grow its mobile base with 19k postpaid net adds, which was entirely driven by the high value KPN brand. The continued inflow of high value postpaid subscribers had a positive effect on ARPU (Q4 2016: EUR 26, Q4 2015: EUR 25). The committed part of ARPU also increased by EUR 1 y-on-y to approximately EUR 22.

## Business

In all segments of the business market, KPN is migrating customers to integrated solutions and new technologies. This presents up- and cross-sell opportunities, but also results in lower revenues from traditional services. Revenues are also impacted by rationalization and price pressure in predominantly Large Enterprises (LE) & Corporate mobile services.

KPN is building on its strong position in access and connectivity to grow share in the Dutch IT market and has improved its market positioning via selective acquisitions. KPN recently strengthened its market leading security services portfolio by acquiring DearBytes. To take advantage of growth opportunities for colocation services, KPN repositioned this part of its business by moving six data centers into a new carrier and cloud neutral entity (NLDC). Furthermore, KPN is well positioned to benefit from opportunities related to the Internet of Things (IoT) via its leading IoT infrastructure, including a nationwide LoRa network and illustrated by strong growth of M2M devices within its base in 2016.

KPN has a rigorous focus on operational excellence to further improve business customer experience and lower its cost levels. Simplification of the Business organization and portfolio, and an improved sales force delivered a strong improvement in NPS for Business to -3 in Q4 2016 compared to -10 in the same period last year.

Business (in EUR m)	Q4 2016	Q4 2015	Δ y-on-y	FY 2016	FY 2015	Δ y-on-y
Revenues	572	630	-9.2%	2,303	2,482	-7.2%
<b>Adjusted revenues</b>	<b>572</b>	<b>630</b>	<b>-9.2%</b>	<b>2,303</b>	<b>2,492</b>	<b>-7.6%</b>
EBITDA (contribution margin)	331	368	-10%	1,382	1,468	-5.9%
<b>Adjusted EBITDA (contribution margin)</b>	<b>332</b>	<b>370</b>	<b>-10%</b>	<b>1,382</b>	<b>1,515</b>	<b>-8.8%</b>

Adjusted revenues declined by 9.2% y-on-y in Q4 2016 due to lower revenues from traditional telco services, price pressure in mobile and additional impact of less customized work, partly offset by growth in multi play revenues. Adjusted EBITDA decreased by 10% y-on-y in Q4 2016 driven by lower revenues, partly offset by cost reductions through Simplification. This resulted in an adjusted EBITDA margin of 58.0% (Q4 2015: 58.7%).

In SME, the accelerated migrations to KPN's integrated service KPN ONE (+27k multi play seats in Q4 2016 versus +13k in Q3 2016) led to 27% y-on-y growth in Multi play revenues. Single play wireless revenues decreased by 9.4% y-on-y due to the impact of repricing, lower roaming fees and migrations to Multi play and Customized solutions. Traditional fixed-only services (-22%) continued to be impacted by rationalization and the ongoing migration towards VoIP and multi play.

In LE & Corporate, revenues from Network & IT services declined by 11% y-on-y. Customers are rationalizing and migrating away from legacy network services to flexible and scalable solutions, which presents opportunities to benefit from growth in areas such as software defined network services. Revenues from Customized solutions declined by -4.5% y-on-y. The shift to standardized solutions means that less customized work is needed, which was traditionally higher in the fourth quarter. Growth in New services was offset by the impact of migrating a contract to Customized solutions, which led to a -3.3% y-on-y revenue decline for New services.

## Wholesale

The migration of wholesale customers from regulated ULL (Unbundled Local Loop) services to commercially agreed VULA (Virtual Unbundled Local Access) and WBA (Wholesale Broadband Access) services continued in Q4 2016.

Wholesale (in EUR m)	Q4 2016	Q4 2015	Δ y-on-y	FY 2016	FY 2015	Δ y-on-y
Revenues	205	180	14%	763	730	4.5%
<b>Adjusted revenues</b>	<b>186</b>	<b>180</b>	<b>3.3%</b>	<b>737</b>	<b>730</b>	<b>1.0%</b>
EBITDA (contribution margin)	149	124	20%	536	495	8.3%
<b>Adjusted EBITDA (contribution margin)</b>	<b>130</b>	<b>124</b>	<b>4.8%</b>	<b>510</b>	<b>498</b>	<b>2.4%</b>

Adjusted revenues grew by 3.3% y-on-y in Q4 2016 mainly driven by the take-up of VULA and WBA services in fixed and increased data usage in mobile. Adjusted EBITDA increased by 4.8% y-on-y resulting in a 1%-point higher adjusted EBITDA margin compared to the same quarter last year (Q4 2016: 69.9%).

## Network, Operations & IT

KPN continuously innovates and upgrades capacity of its best-in-class integrated network and ICT infrastructure. The fixed core network has been upgraded and connected to 161 Metro Core locations, thereby bringing services closer to the customer, which improves stability of the connection and provides an excellent customer experience. The high coverage with FttH/FttC (approximately 78%) within KPN's network allows KPN to deliver next generation access to the majority of Dutch households. Approximately 75% of Dutch households have access to speeds of at least 100Mbps (Q4 2015: 68%). The high amount of fiber connections running to Dutch homes, streets and mobile sites puts KPN in an excellent position to benefit from the latest network technologies. In mobile, KPN continued to roll-out carrier aggregation and made VoLTE services available to an increased number of customers in Q4 2016. The excellent network experience for KPN's customers is reflected in the improved customer satisfaction levels across all segments.

Network, Operations & IT (in EUR m)	Q4 2016	Q4 2015	Δ y-on-y	FY 2016	FY 2015	Δ y-on-y
Revenues	3	5	-40%	17	16	6.3%
<b>Adjusted revenues</b>	<b>3</b>	<b>5</b>	<b>-40%</b>	<b>17</b>	<b>16</b>	<b>6.3%</b>
EBITDA (cost center)	-290	-299	-3.0%	-1,143	-1,187	-3.7%
<b>Adjusted EBITDA (cost center)</b>	<b>-286</b>	<b>-295</b>	<b>-3.1%</b>	<b>-1,124</b>	<b>-1,177</b>	<b>-4.5%</b>

Costs at Network, Operations & IT were EUR 11m lower y-on-y in Q4 2016 when adjusted for restructuring and incidentals. This was mainly driven by lower personnel expenses compared to the same period last year as a result of fewer own and external personnel. This was partly offset by a number of smaller items, such as a higher dotation of holiday provisions compared to the same period last year. Expenses related to IT/TI were somewhat higher in Q4 2016 compared to last year due to customer driven investments, related to higher order intake in Business.

**iBasis**

In Q4 2016, iBasis continued to strengthen its position as leader in the international LTE data domain by securing new customers and growing market share. However, despite its strong competitive performance, the ongoing decline in the wholesale voice carrier market resulted in continued pressure on revenues and margins.

iBasis <i>(in EUR m)</i>	Q4 2016	Q4 2015	Δ y-on-y	FY 2016	FY 2015	Δ y-on-y
Revenues	210	218	-3.7%	867	920	-5.8%
<b>Adjusted revenues</b>	<b>210</b>	<b>218</b>	<b>-3.7%</b>	<b>867</b>	<b>920</b>	<b>-5.8%</b>
EBITDA (contribution margin)	5	6	-17%	23	23	0.0%
<b>Adjusted EBITDA (contribution margin)</b>	<b>5</b>	<b>6</b>	<b>-17%</b>	<b>23</b>	<b>23</b>	<b>0.0%</b>

Adjusted revenues at iBasis decreased by 3.7% y-on-y in Q4 2016, including a small unfavorable currency effect of 0.8%. The adjusted EBITDA margin in Q4 2016 of 2.4% was somewhat lower y-on-y (Q4 2015: 2.8%) as a result of lower revenues.

## Analysis of adjusted results

The following table shows the key items between reported and adjusted revenues for the fourth quarter.

Revenues (in EUR m)	Q4 2016 reported	Incidentals	Q4 2016 adjusted	Q4 2015 reported	Incidentals	Q4 2015 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	799	-	799	781	-	781	2.3%	2.3%
Business	572	-	572	630	-	630	-9.2%	-9.2%
Wholesale	205	19	186	180	-	180	14%	3.3%
Network, Operations & IT	3	-	3	5	-	5	-40%	-40%
Other (incl. eliminations)	-41	-	-41	-47	-	-47	-13%	-13%
<b>The Netherlands</b>	<b>1,538</b>	<b>19</b>	<b>1,519</b>	<b>1,549</b>	-	<b>1,549</b>	<b>-0.7%</b>	<b>-1.9%</b>
iBasis	210	-	210	218	-	218	-3.7%	-3.7%
Other activities	3	-	3	3	-	3	0.0%	0.0%
Intercompany revenues	-28	-	-28	-25	-	-25	12%	12%
<b>KPN Group</b>	<b>1,723</b>	<b>19</b>	<b>1,704</b>	<b>1,745</b>	-	<b>1,745</b>	<b>-1.3%</b>	<b>-2.3%</b>

The following table specifies the revenue incidental in more detail.

Revenue incidental (in EUR m)	Segment	Q4 2016	Q4 2015
Release of revenue related provision	Wholesale	19	-
<b>KPN Group</b>		<b>19</b>	<b>-</b>

The following table shows the key items between reported and adjusted EBITDA for the fourth quarter.

EBITDA (in EUR m)	Q4 2016 reported	Incidentals	Restruc- turing	Q4 2016 adjusted	Q4 2015 reported	Incidentals	Restruc- turing	Q4 2015 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer (contribution margin)	481	-8	-5	494	431	-	-3	434	12%	14%
Business (contribution margin)	331	2	-3	332	368	-1	-1	370	-10%	-10%
Wholesale (contribution margin)	149	19	-	130	124	-	-	124	20%	4.8%
Network, Operations & IT (cost center)	-290	-	-4	-286	-299	-	-4	-295	-3.0%	-3.1%
Other (incl. eliminations)	-62	-	6	-68	-66	-	-	-66	-6.1%	3.0%
<b>The Netherlands</b>	<b>609</b>	<b>13</b>	<b>-6</b>	<b>602</b>	<b>558</b>	<b>-1</b>	<b>-8</b>	<b>567</b>	<b>9.1%</b>	<b>6.2%</b>
iBasis	5	-	-	5	6	-	-	6	-17%	-17%
Other activities	12	14	-1	-1	14	11	-6	9	-14%	n.m.
<b>KPN Group</b>	<b>626</b>	<b>27</b>	<b>-7</b>	<b>606</b>	<b>578</b>	<b>10</b>	<b>-14</b>	<b>582</b>	<b>8.3%</b>	<b>4.1%</b>

The following table specifies the EBITDA incidentals in more detail.

EBITDA incidentals (in EUR m)	Segment	Q4 2016	Q4 2015
Change of provision	Consumer	-8	-
Change of provision	Business	2	-1
Release of revenue related provision	Wholesale	19	-
Release of pension provision	Other activities	14	-
Release of provision	Other activities	-	11
<b>KPN Group</b>		<b>27</b>	<b>10</b>

The following table shows the key items between reported and adjusted revenues for the full year.

Revenues (in EUR m)	FY 2016 reported	Incidentals	FY 2016 adjusted	FY 2015 reported	Incidentals	FY 2015 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	3,139	-	3,139	3,095	-	3,095	1.4%	1.4%
Business	2,303	-	2,303	2,482	-10	2,492	-7.2%	-7.6%
Wholesale	763	26	737	730	-	730	4.5%	1.0%
Network, Operations & IT	17	-	17	16	-	16	6.3%	6.3%
Other (incl. eliminations)	-170	-	-170	-161	-	-161	5.6%	5.6%
<b>The Netherlands</b>	<b>6,052</b>	<b>26</b>	<b>6,026</b>	<b>6,162</b>	<b>-10</b>	<b>6,172</b>	<b>-1.8%</b>	<b>-2.4%</b>
iBasis	867	-	867	920	-	920	-5.8%	-5.8%
Other activities	4	-	4	35	-	35	-89%	-89%
Intercompany revenues	-117	-	-117	-109	-	-109	7.3%	7.3%
<b>KPN Group</b>	<b>6,806</b>	<b>26</b>	<b>6,780</b>	<b>7,008</b>	<b>-10</b>	<b>7,018</b>	<b>-2.9%</b>	<b>-3.4%</b>

The following table specifies the revenue incidentals in more detail.

Revenue incidentals (in EUR m)	Segment	FY 2016	FY 2015
Changes in revenue related provision	Business	-	-10
Release of revenue related provisions	Wholesale	26	-
<b>KPN Group</b>		<b>26</b>	<b>-10</b>

The following table shows the key items between reported and adjusted EBITDA for the full year.

EBITDA (in EUR m)	FY 2016 reported	Incidentals	Restruc- turing	FY 2016 adjusted	FY 2015 reported	Incidentals	Restruc- turing	FY 2015 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer (contribution margin)	1,871	-8	-13	1,892	1,797	-	-12	1,809	4.1%	4.6%
Business (contribution margin)	1,382	14	-14	1,382	1,468	-11	-36	1,515	-5.9%	-8.8%
Wholesale (contribution margin)	536	26	-	510	495	-	-3	498	8.3%	2.4%
Network, Operations & IT (cost center)	-1,143	-	-19	-1,124	-1,187	6	-16	1,177	-3.7%	-4.5%
Other (incl. eliminations)	-244	-	5	-249	-272	-	-8	-264	-10%	-5.7%
<b>The Netherlands</b>	<b>2,402</b>	<b>32</b>	<b>-41</b>	<b>2,411</b>	<b>2,301</b>	<b>-5</b>	<b>-75</b>	<b>2,381</b>	<b>4.4%</b>	<b>1.3%</b>
iBasis	23	-	-	23	23	-	-	23	0.0%	0.0%
Other activities	4	14	-4	-6	-	-10	-25	15	n.m.	n.m.
<b>KPN Group</b>	<b>2,429</b>	<b>46</b>	<b>-45</b>	<b>2,428</b>	<b>2,324</b>	<b>5</b>	<b>-100</b>	<b>2,419</b>	<b>4.5%</b>	<b>0.4%</b>

The following table specifies the EBITDA incidentals in more detail.

EBITDA incidentals (in EUR m)	Segment	FY 2016	FY 2015
Change of provision	Consumer	-8	-
Change of provisions	Business	14	-1
Changes in revenue related provisions	Business	-	-10
Release of revenue related provisions	Wholesale	26	-
Release of asset retirement obligation	Network, Operations & IT	-	6
Release of pension provision	Other activities	14	-
Release of provision	Other activities	-	10
<b>KPN Group</b>		<b>46</b>	<b>5</b>

## Group review

### Financial review (continuing operations)

Adjusted revenues for the Group were 2.3% lower y-on-y in Q4 2016. Adjusted revenues for The Netherlands were 1.9% lower y-on-y. Growing revenues in Consumer were driven by the positive impact of base growth and price adjustments. This was offset by declining revenues from traditional telco services in Business, driven by accelerated migrations to integrated solutions, rationalization, and less customized work, which was traditionally higher in the fourth quarter. FY 2016 adjusted Group revenues were 3.4% lower y-on-y.

Adjusted EBITDA for the Group increased by 4.1% y-on-y in Q4 2016. Adjusted EBITDA for The Netherlands increased by 6.2%. This was mainly driven by the positive impact from cost savings related to the Simplification program, such as a reduction in own and external personnel, and lower subscriber acquisition and retention costs. The adjusted EBITDA margin for The Netherlands was 39.6% in Q4 2016 (Q4 2015: 36.6%). FY 2016 adjusted Group EBITDA of EUR 2,428m was 0.4% higher than FY 2015 (EUR 2,419m). The adjusted EBITDA margin for The Netherlands for FY 2016 increased to 40.0% (FY 2015: 38.6%), supported by a rigorous cost focus in all areas of the business.

In Q4 2016, Group operating profit (EBIT) increased by EUR 86m y-on-y to EUR 246m due to EUR 48m higher EBITDA and EUR 38m lower depreciation and amortization charges. Net profit in Q4 2016 was EUR 139m lower y-on-y at EUR 115m as the higher EBIT was offset by EUR 226m higher net finance expenses, mainly due to a realized book gain on the sale of 5% Telefónica Deutschland shares in Q4 2015 of EUR 184m.

EBIT for FY 2016 increased by EUR 176m (25% y-on-y) due to EUR 105m higher EBITDA and EUR 71m lower depreciation and amortization charges. FY 2016 net profit was EUR 154m lower compared to FY 2015 at EUR 370m, mainly driven by EUR 312m higher net finance expenses in 2016. This was due to the EUR 184m book gain on the sale of 5% of Telefónica Deutschland shares in Q4 2015, EUR 160m additional finance expenses related to a bond tender in Q3 2016 and EUR 36m less dividend received on KPN's stake in Telefónica Deutschland in 2016, partly offset by EUR 82m lower interest costs on its senior bonds in 2016 as a result of a lower gross debt level compared to last year.

Capex decreased to EUR 1,193m for FY 2016 compared to EUR 1,300m in FY 2015 due to structurally lower network investments following a period of elevated investment levels and lower customer driven Capex. In 2016, KPN invested in Simplification, fiber connections to homes, streets, mobile sites and business parks, and in its fixed core network to deliver the highest quality of service for customers.

KPN finalized the first wave of its Simplification program in Q4 2016, realizing run-rate savings (opex and Capex) of approximately EUR 460m and 2,072 FTE reductions since the end of 2013. In 2016, KPN simplified its consumer fixed and consumer mobile order management systems into single IT platforms. This allows KPN to serve its customers in a faster and more efficient way, and enabled decommissioning of legacy IT platforms leading to substantial run-rate spend savings. KPN took further steps to digitalize customer interaction, illustrated by strong growth in customer contact via the KPN app and by implementing a single sign-on ID for its customers. The second wave of the Simplification program is expected to deliver at least another EUR 300m run-rate savings by the end of 2019, compared to the end of 2016. This will be driven by further digitalization and the integration of fixed and mobile network related IT systems for both consumers and businesses in KPN's network interaction layer.

Free cash flow for FY 2016 was EUR 43m higher y-on-y at EUR 741m. Excluding the EUR 110m dividend received from Telefónica Deutschland, free cash flow for the FY 2016 was EUR 631m, EUR 79m higher y-on-y. The increase was mainly driven by EUR 105m higher reported EBITDA, EUR 107m lower Capex, EUR 32m less taxes paid and EUR 25m lower interest paid. This was partly offset by EUR 151m more impact from change in working capital, primarily due to reduced spend levels and EUR 40m one-off cash optimization actions in 2016, and EUR 24m more impact from change in provisions. Total one-off cash optimization actions in FY 2016 were EUR 52m, including EUR 12m additional interest payments as a result of a bond tender in Q3 2016. Excluding these and the Telefónica Deutschland dividend, FY 2016 free cash flow would have been EUR 683m, up 24% y-on-y (FY 2015: EUR 552m).

### **Financial position**

Net debt amounted to EUR 6.8bn at the end of Q4 2016, EUR 0.3bn lower compared to the end of Q3 2016. The decrease in net debt was mainly driven by KPN's free cash flow generation in Q4 2016. At the end of Q4 2016, net debt to EBITDA was 2.8x (Q3 2016: 3.0x). The average coupon on KPN's senior bonds was 4.1% (Q4 2015: 5.1%).

KPN has additional financial flexibility via the 15.5% stake in Telefónica Deutschland. KPN has credit ratings of Baa3 with a stable outlook by Moody's, BBB- with a stable outlook by Standard & Poor's and BBB with a stable outlook by Fitch Ratings.

At the end of Q4 2016, Group equity amounted to EUR 3,601m, EUR 381m higher compared to the end of Q3 2016. The increase was mainly due to a positive revaluation of KPN's 15.5% stake in Telefónica Deutschland and a positive result in Q4 2016.