

## Third Quarter 2016 Results

### Highlights

- Customer base growth in Consumer driven by continuous improvements in customer experience
  - Fixed-mobile bundles now represent 40% of postpaid base (Q3 2015: 28%) and 35% of broadband base (Q3 2015: 25%)
  - +6k broadband net adds, +22k IPTV net adds and +36k postpaid net adds driven by continued good performance of the high value KPN brand
  - NPS for Consumer improved further (Residential NPS: 9, Mobile NPS: 10)
- Environment in Business still challenging driven by repricing and migration from traditional telco services to IP-based services
  - Growth in multi play and IT related services encouraging
  - Dedicated customer satisfaction programs deliver strong improvement in NPS for Business to -5 (Q3 2015: -10)
- Simplification program reached approximately EUR 405m run-rate savings by end Q3 2016

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

Group financials (unaudited) <i>(in EUR m, unless stated otherwise)</i>	Q3 2016	Q3 2015	Δ y-on-y	YTD 2016	YTD 2015	Δ y-on-y
Revenues	1,718	1,764	-2.6%	5,083	5,263	-3.4%
<b>Adjusted revenues**</b>	<b>1,711</b>	<b>1,764</b>	<b>-3.0%</b>	<b>5,076</b>	<b>5,273</b>	<b>-3.7%</b>
EBITDA	665	602	10%	1,803	1,746	3.3%
<b>Adjusted EBITDA**</b>	<b>662</b>	<b>640</b>	<b>3.4%</b>	<b>1,822</b>	<b>1,837</b>	<b>-0.8%</b>
<i>Adjusted EBITDA margin The Netherlands</i>	<b>43.3%</b>	<b>40.7%</b>		<b>40.1%</b>	<b>39.2%</b>	
Operating profit (EBIT)	292	204	43%	638	548	16%
Profit for the period (net profit)	45	87	-48%	255	270	-5.6%
Capex	265	305	-13%	895	945	-5.3%
<b>Operating free cash flow***</b>	<b>397</b>	<b>335</b>	<b>19%</b>	<b>927</b>	<b>892</b>	<b>3.9%</b>
<b>Free cash flow</b>	<b>146</b>	<b>213</b>	<b>-31%</b>	<b>360</b>	<b>475</b>	<b>-24%</b>

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

\*\* 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. Reconciliations to be found on page 7 and 8

\*\*\* Adjusted EBITDA minus Capex

### Financial performance

- Adjusted revenues were 3.0% lower y-on-y in Q3 2016. The positive impact of base growth and price adjustments supported revenue growth in Consumer. This was offset by declining revenues from traditional telco services in Business and lower wholesale voice revenues at iBasis
- Adjusted EBITDA increased by 3.4% y-on-y in Q3 2016, supported by the positive impact of cost savings related to the Simplification program
- Operating profit increased by 43% y-on-y, mainly driven by higher EBITDA and lower depreciation. Net profit was EUR 42m lower y-on-y, due to EUR 160m additional finance expenses related to the bond tender. Adjusted for this impact (net of tax), net profit would have doubled y-on-y to EUR 165m
- Capex YTD 2016 decreased by 5.3% due to lower customer driven Capex and structurally lower network investments following a period of elevated investment levels
- Free cash flow (excl. TEFD dividend) YTD 2016 of EUR 250m was positively impacted by higher operating free cash flow, but negatively impacted by changes in working capital related to lower spend levels, phasing within the year and reduced payment terms with several suppliers. In addition, payment of accrued interest related to the bond tender executed in Q3 2016 negatively impacted free cash flow by EUR 23m

## Message from the CEO, Eelco Blok

*“In the third quarter of 2016, we delivered an improved financial performance supported by cost savings and good commercial performance in Consumer, where we have just passed the milestone of one million fixed-mobile households. We strive to continuously improve the experience of customers with our products and services; this quarter we have further improved our fixed and mobile propositions in Consumer, reached a speed of 1.1Gbps in a 4G test and are starting to see the benefits of dedicated customer experience programs in Business. Challenges remain in the Business segment though, particularly due to the impact of migrating customers away from traditional single play services to integrated services and due to price pressure in mobile.*

*I am proud that our commitment to corporate social responsibility has again received external recognition, as KPN received a CDP award and has been included in the Dow Jones Sustainability World Index for the fifth consecutive year. We are firmly on track with our Simplification program, which is delivering solid cost savings as well as operational improvements, evidenced by us winning the award for offering the best digital customer experience in telecoms in The Netherlands.”*

## Outlook

### 2016 (continuing operations)

- Adjusted EBITDA in line with 2015
- Capex ~EUR 1.2bn
- Free cash flow (excl. TEFD dividend) > EUR 650m
  - Excluding EUR 52m impact from cash optimization
- Additional cash flow via dividend from 15.5% stake in Telefónica Deutschland

### Cash optimization actions

By the end of Q3 2016, KPN has leveraged its relatively high cash position by optimizing supplier conditions and through the execution of a bond tender.

KPN has agreed reduced payment terms leading to structural benefits such as discounts and more flexibility in selecting suppliers, but also in a negative one-off impact on free cash flow of EUR 40m through working capital.

KPN executed a EUR 1bn bond tender in September 2016 which lowers future interest payments, but led to additional interest payments of EUR 23m in Q3 2016. This will be partly offset by interest savings in the remainder of the year, resulting in EUR 12m additional interest payments as a result of the bond tender for full year 2016.

Together, the negative one-off impact of cash optimization in 2016 will be EUR 52m, which is excluded from KPN’s free cash flow outlook.

### Shareholder remuneration

KPN intends to pay a total regular dividend per share of EUR 10 cents in respect of 2016 and grow the dividend in line with its free cash flow growth profile thereafter. EUR 3.3 cents per share was paid as an interim dividend over 2016 on 3 August 2016.

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 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.

All related documents can be found on KPN's website:

[ir.kpn.com](http://ir.kpn.com)

**For further information:**

**Corporate Communications**

Media Relations

Tel: +31 70 4466300

E-mail: [press@kpn.com](mailto:press@kpn.com)

**Investor Relations**

Tel: +31 70 4460986

E-mail: [ir@kpn.com](mailto:ir@kpn.com)

**Formal disclosures:**

**Royal KPN N.V.**

Head of IR: Wouter Stammeijer

Inside information: Yes

Topic: Q3 2016 Results

27/10/2016; 7:30h

## Safe harbor

### Non-GAAP measures and management estimates

*This financial report contains a number of non-GAAP figures, 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 numerical reconciliations are included in KPN's quarterly factsheets. 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 Consumer market, KPN's strategy is focused on delivering leading services centered around households and the ongoing convergence of fixed and mobile services. Combined with an excellent customer experience this resulted in another quarter of growth in bundled services. KPN's value focus was reflected in changes to its fixed and mobile propositions implemented in the third quarter. These new propositions at adjusted prices include an enrichment of bundles for customers, such as an internet security package for fixed customers, EU roaming within the bundle for new mobile subscribers and live Dutch football at improved conditions. KPN continued to focus on the high value segment of the market via its leading KPN brand. New propositions were also introduced for the Telfort brand, aligning FttH and copper pricing and targeting fixed-mobile convergence.

Consumer (in EUR m)	Q3 2016	Q3 2015	Δ y-on-y	YTD 2016	YTD 2015	Δ y-on-y
Revenues	802	790	1.5%	2,340	2,314	1.1%
<b>Adjusted revenues</b>	<b>802</b>	<b>790</b>	<b>1.5%</b>	<b>2,340</b>	<b>2,314</b>	<b>1.1%</b>
<i>Of which: Consumer Residential</i>	467	453	3.1%	1,385	1,351	2.5%
<i>Of which: Consumer Mobile</i>	335	337	-0.6%	955	963	-0.8%
EBITDA (contribution margin)	495	477	3.8%	1,390	1,366	1.8%
<b>Adjusted EBITDA (contribution margin)</b>	<b>498</b>	<b>482</b>	<b>3.3%</b>	<b>1,398</b>	<b>1,375</b>	<b>1.7%</b>

Adjusted revenues in Consumer increased by 1.5% y-on-y in Q3 2016 due to good results in residential and mobile. Residential revenues grew by 3.1% driven by an increasing number of RGUs and higher ARPU per household. Mobile service revenue growth (-2.3%) was negatively impacted by a EUR 9m higher tax benefit in Q3 2015; excluding the impact of this benefit, mobile service revenues increased by 0.7%. The benefit of the high value base growth on mobile service revenues was partly offset by the impact of lower roaming fees (EUR 4m).

Adjusted EBITDA (contribution margin) increased by 3.3% due to higher revenues and lower costs as a result of lower churn. Consequently, the adjusted EBITDA margin grew to 62.1% (Q3 2015: 61.0%).

The number of fixed-mobile households grew to over 1 million (1,003k), representing 35% of the broadband customer base (Q3 2015: 25%). The number of postpaid customers in fixed-mobile bundles grew by 77k to 1,461k, equivalent to 40% penetration of the postpaid base at the end of Q3 2016 (Q3 2015: 28%). At the end of Q3 2016, already more than half (53%) of all KPN brand postpaid customers were part of a fixed-mobile bundle (Q3 2015: 41%).

KPN's net adds in broadband of 6k and IPTV of 22k in Q3 2016 were driven by growth in the high value KPN brand. Bundled residential services resulted in a growing number of RGUs per household (2.14 vs. 2.04 in Q3 2015). ARPU per household increased to EUR 41 (Q3 2015: EUR 39), mainly driven by the price increase implemented on 1 July 2016.

Furthermore, KPN continued to grow its mobile customer base with 36k postpaid net adds, which was entirely driven by the high value KPN brand. The continued inflow of postpaid subscribers had a positive effect on ARPU in Q3 2016, but this was offset by the higher tax benefit in Q3 2015 and lower roaming fees in Q3 2016. As a result, the postpaid ARPU decreased to EUR 26 in Q3 2016, compared to EUR 28 in the same quarter last year. However, the committed part of ARPU was stable y-on-y at approximately EUR 22.

## Business

KPN is expanding its capabilities in the business market by building on its strong position in access and connectivity with a focus on growing share in the Dutch IT market. In Q3 2016, KPN invested in SecurityMatters, a leading provider of advanced cyber security solutions, as part of its strategy to grow in digital security services. In Q3 2016, a number of new multi-year contracts related to hosting and workspace management were signed with several large clients.

Dedicated customer satisfaction programs delivered a strong improvement in NPS for Business to -5 in Q3 2016 compared to -10 in the same period last year. The strategic focus on offering multi play seats provides opportunities for KPN's reorganized sales force to up- and cross-sell additional (IT) services to customers. However, KPN still faces the challenges of repricing and migration of customers away from traditional single play services to IP-based services and price pressure in wireless in the LE & Corporate segment.

Business (in EUR m)	Q3 2016	Q3 2015	Δ y-on-y	YTD 2016	YTD 2015	Δ y-on-y
Revenues	569	612	-7.0%	1,731	1,852	-6.5%
<b>Adjusted revenues</b>	<b>569</b>	<b>612</b>	<b>-7.0%</b>	<b>1,731</b>	<b>1,862</b>	<b>-7.0%</b>
EBITDA (contribution margin)	348	380	-8.4%	1,051	1,100	-4.5%
<b>Adjusted EBITDA (contribution margin)</b>	<b>348</b>	<b>385</b>	<b>-9.6%</b>	<b>1,050</b>	<b>1,145</b>	<b>-8.3%</b>

Adjusted revenues declined by 7.0% y-on-y in Q3 2016 due to lower revenues from traditional telco services and price pressure in mobile. This was partly offset by growth in multi play and IT related services. Adjusted EBITDA decreased by 9.6% y-on-y in Q3 2016 driven by lower revenues, partly offset by lower personnel costs. This resulted in an adjusted EBITDA margin of 61.2% (Q3 2015: 62.9%).

In SME, single play wireless revenues decreased by 13% due to the impact of repricing, lower roaming fees and the migration to multi play and customized solutions. Traditional fixed-only services (-18%) continued to be impacted by rationalization and the ongoing migration towards VoIP and multi play. Multi play revenues grew by 25% driven by KPN's integrated service KPN ONE in the SME segment. In LE & Corporate, revenues from Network & IT services (-9.9%) continued to decline, mainly due to price pressure on Network services and lower hardware sales this year. Revenues from customized solutions grew by 1.5%, supported by migrations from single play wireless and traditional fixed. Revenues from new services showed growth (7.1%) due to higher cloud revenues. The growth from new services has slowed down compared to previous quarters as the impact of consolidating Internetservices per 1 July 2015 has annualized.

## 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 Q3 2016.

Wholesale (in EUR m)	Q3 2016	Q3 2015	Δ y-on-y	YTD 2016	YTD 2015	Δ y-on-y
Revenues	194	182	6.6%	558	550	1.5%
<b>Adjusted revenues</b>	<b>187</b>	<b>182</b>	<b>2.7%</b>	<b>551</b>	<b>550</b>	<b>0.2%</b>
EBITDA (contribution margin)	134	121	11%	387	371	4.3%
<b>Adjusted EBITDA (contribution margin)</b>	<b>127</b>	<b>124</b>	<b>2.4%</b>	<b>380</b>	<b>374</b>	<b>1.6%</b>

Adjusted revenues grew by 2.7% y-on-y in Q3 2016 mainly driven by the take-up of VULA and WBA in fixed and increased data usage in mobile. Adjusted EBITDA increased by 2.4% y-on-y resulting in a relatively stable adjusted EBITDA margin compared to last year (Q3 2016: 67.9%).

## Network, Operations & IT

KPN continued to invest in its best-in-class networks and IT infrastructure. In fixed, the selective FttH roll-out is combined with the roll-out of fiber to the street cabinets. This resulted in approximately 74% coverage of Dutch households with access to speeds of at least 100Mbps (Q3 2015: 61%). KPN continuously works on innovation and upgrades of its integrated network. Recently, KPN reached 1.1Gbps download speed in a test on its 4G network. The continued capacity upgrades of its fixed and mobile network drive an excellent network service experience for KPN's customers, which is also reflected in improved customer satisfaction levels across all segments.

Network, Operations & IT (in EUR m)	Q3 2016	Q3 2015	Δ y-on-y	YTD 2016	YTD 2015	Δ y-on-y
Revenues	5	4	25%	14	11	27%
<b>Adjusted revenues</b>	<b>5</b>	<b>4</b>	<b>25%</b>	<b>14</b>	<b>11</b>	<b>27%</b>
EBITDA (cost center)	-259	-295	-12%	-853	-888	-3.9%
<b>Adjusted EBITDA (cost center)</b>	<b>-257</b>	<b>-294</b>	<b>-13%</b>	<b>-838</b>	<b>-882</b>	<b>-5.0%</b>

Costs at Network, Operations & IT were EUR 36m lower y-on-y in Q3 2016 when adjusted for restructuring and incidentals. This was mainly driven by lower IT and TI, and personnel costs. IT and TI costs were lower compared to the same period last year due to rationalization of IT platforms, finalization of some large innovation programs in H1 2016 and further efficiencies due to improved business processes. Personnel costs were lower y-on-y due to fewer personnel and a higher release of holiday provisions compared to the same period last year.

## iBasis

In the third quarter, iBasis continued to build its customer base in international LTE data traffic, securing a number of new key customers. iBasis continued to be successful in gaining market share, however the ongoing decline in the wholesale voice carrier market resulted in price pressure while traffic volumes were flat.

iBasis (in EUR m)	Q3 2016	Q3 2015	Δ y-on-y	YTD 2016	YTD 2015	Δ y-on-y
Revenues	224	241	-7.1%	657	702	-6.4%
<b>Adjusted revenues</b>	<b>224</b>	<b>241</b>	<b>-7.1%</b>	<b>657</b>	<b>702</b>	<b>-6.4%</b>
EBITDA (contribution margin)	6	6	0.0%	18	17	5.9%
<b>Adjusted EBITDA (contribution margin)</b>	<b>6</b>	<b>6</b>	<b>0.0%</b>	<b>18</b>	<b>17</b>	<b>5.9%</b>

Adjusted revenues at iBasis decreased by 7.1% y-on-y in Q3 2016, including a small unfavorable currency effect of 0.2% in Q3 2016. The adjusted EBITDA margin in Q3 2016 of 2.7% was higher y-on-y (Q3 2015: 2.5%) as a result of continued cost focus.

## Analysis of adjusted results

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

Revenues (in EUR m)	Q3 2016 reported	Incidentals	Q3 2016 adjusted	Q3 2015 reported	Incidentals	Q3 2015 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	802	-	802	790	-	790	1.5%	1.5%
Business	569	-	569	612	-	612	-7.0%	-7.0%
Wholesale	194	7	187	182	-	182	6.6%	2.7%
Network, Operations & IT	5	-	5	4	-	4	25%	25%
Other (incl. eliminations)	-45	-	-45	-40	-	-40	13%	13%
<b>The Netherlands</b>	<b>1,525</b>	<b>7</b>	<b>1,518</b>	<b>1,548</b>	-	<b>1,548</b>	<b>-1.5%</b>	<b>-1.9%</b>
iBasis	224	-	224	241	-	241	-7.1%	-7.1%
Other activities	-	-	-	3	-	3	-100%	-100%
Intercompany revenues	-31	-	-31	-28	-	-28	11%	11%
<b>KPN Group</b>	<b>1,718</b>	<b>7</b>	<b>1,711</b>	<b>1,764</b>	-	<b>1,764</b>	<b>-2.6%</b>	<b>-3.0%</b>

The following table specifies the revenue incidental in more detail.

Revenue incidental (in EUR m)	Segment	Q3 2016	Q3 2015
Change in revenue related provisions	Wholesale	7	-
<b>KPN Group</b>		<b>7</b>	<b>-</b>

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

EBITDA (in EUR m)	Q3 2016 reported	Incidentals	Restruc- turing	Q3 2016 adjusted	Q3 2015 reported	Incidentals	Restruc- turing	Q3 2015 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer (contribution margin)	495	-	-3	498	477	-	-5	482	3.8%	3.3%
Business (contribution margin)	348	6	-6	348	380	-	-5	385	-8.4%	-9.6%
Wholesale (contribution margin)	134	7	-	127	121	-	-3	124	11%	2.4%
Network, Operations & IT (cost center)	-259	-	-2	-257	-295	-	-1	-294	-12%	-13%
Other (incl. eliminations)	-57	-	2	-59	-77	-	-10	-67	-26%	-12%
<b>The Netherlands</b>	<b>661</b>	<b>13</b>	<b>-9</b>	<b>657</b>	<b>606</b>	-	<b>-24</b>	<b>630</b>	<b>9.1%</b>	<b>4.3%</b>
iBasis	6	-	-	6	6	-	-	6	0.0%	0.0%
Other activities	-2	-	-1	-1	-10	-6	-8	4	-80%	n.m.
<b>KPN Group</b>	<b>665</b>	<b>13</b>	<b>-10</b>	<b>662</b>	<b>602</b>	<b>-6</b>	<b>-32</b>	<b>640</b>	<b>10%</b>	<b>3.4%</b>

The following table specifies the EBITDA incidentals in more detail.

EBITDA incidentals (in EUR m)	Segment	Q3 2016	Q3 2015
Release of provision	Business	6	-
Changes in revenue related provisions	Wholesale	7	-
Change in provision	Other activities	-	-6
<b>KPN Group</b>		<b>13</b>	<b>-6</b>



The following table shows the key items between reported and adjusted revenues for the first nine months.

Revenues (in EUR m)	YTD 2016 reported	Incidentals	YTD 2016 adjusted	YTD 2015 reported	Incidentals	YTD 2015 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	2,340	-	2,340	2,314	-	2,314	1.1%	1.1%
Business	1,731	-	1,731	1,852	-10	1,862	-6.5%	-7.0%
Wholesale	558	7	551	550	-	550	1.5%	0.2%
Network, Operations & IT	14	-	14	11	-	11	27%	27%
Other (incl. eliminations)	-129	-	-129	-114	-	-114	13%	13%
<b>The Netherlands</b>	<b>4,514</b>	<b>7</b>	<b>4,507</b>	<b>4,613</b>	<b>-10</b>	<b>4,623</b>	<b>-2.1%</b>	<b>-2.5%</b>
iBasis	657	-	657	702	-	702	-6.4%	-6.4%
Other activities	1	-	1	32	-	32	-97%	-97%
Intercompany revenues	-89	-	-89	-84	-	-84	6.0%	6.0%
<b>KPN Group</b>	<b>5,083</b>	<b>7</b>	<b>5,076</b>	<b>5,263</b>	<b>-10</b>	<b>5,273</b>	<b>-3.4%</b>	<b>-3.7%</b>

The following table specifies the revenue incidentals in more detail.

Revenue incidentals (in EUR m)	Segment	YTD 2016	YTD 2015
Revenue related provision	Business	-	-10
Change in revenue related provisions	Wholesale	7	-
<b>KPN Group</b>		<b>7</b>	<b>-10</b>

The following table shows the key items between reported and adjusted EBITDA for the first nine months.

EBITDA (in EUR m)	YTD 2016 reported	Incidentals	Restruc- turing	YTD 2016 adjusted	YTD 2015 reported	Incidentals	Restruc- turing	YTD 2015 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer (contribution margin)	1,390	-	-8	1,398	1,366	-	-9	1,375	1.8%	1.7%
Business (contribution margin)	1,051	12	-11	1,050	1,100	-10	-35	1,145	-4.5%	-8.3%
Wholesale (contribution margin)	387	7	-	380	371	-	-3	374	4.3%	1.6%
Network, Operations & IT (cost center)	-853	-	-15	-838	-888	6	-12	-882	-3.9%	-5.0%
Other (incl. eliminations)	-182	-	-1	-181	-206	-	-8	-198	-12%	-8.6%
<b>The Netherlands</b>	<b>1,793</b>	<b>19</b>	<b>-35</b>	<b>1,809</b>	<b>1,743</b>	<b>-4</b>	<b>-67</b>	<b>1,814</b>	<b>2.9%</b>	<b>-0.3%</b>
iBasis	18	-	-	18	17	-	-	17	5.9%	5.9%
Other activities	-8	-	-3	-5	-14	-1	-19	6	-43%	n.m.
<b>KPN Group</b>	<b>1,803</b>	<b>19</b>	<b>-38</b>	<b>1,822</b>	<b>1,746</b>	<b>-5</b>	<b>-86</b>	<b>1,837</b>	<b>3.3%</b>	<b>-0.8%</b>

The following table specifies the EBITDA incidentals in more detail.

EBITDA incidentals (in EUR m)	Segment	YTD 2016	YTD 2015
Revenue related provision	Business	-	-10
Release of provision	Business	12	-
Changes in revenue related provisions	Wholesale	7	-
Release of asset retirement obligation	Network, Operations & IT	-	6
Release of provisions	Other activities	-	-1
<b>KPN Group</b>		<b>19</b>	<b>-5</b>



## Group review and other developments

### Group financial review (continuing operations)

Adjusted revenues for the Group were 3.0% lower y-on-y in Q3 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 in Business, mainly driven by the impact of repricing and migrations to IP-based services and lower wholesale voice revenues at iBasis.

Adjusted EBITDA for the Group increased by 3.4% y-on-y in Q3 2016. Adjusted EBITDA for The Netherlands increased by 4.3%. 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 IT/TI spend. The adjusted EBITDA margin for The Netherlands in Q3 2016 was 43.3% (Q3 2015: 40.7%).

Group operating profit (EBIT) increased by EUR 88m y-on-y to EUR 292m due to EUR 63m higher EBITDA and EUR 25m lower depreciation charges in Q3 2016. Net profit was EUR 42m lower y-on-y at EUR 45m, due to EUR 160m finance expenses related to the bond tender (consisting of EUR 222m tender premium, offset by a EUR 62m net amortized cost gain). Adjusted for this impact (net of tax), net profit in Q3 2016 would have been EUR 165m (Q3 2015: EUR 87m).

Capex in Q3 2016 and YTD 2016 decreased by 13% and 5.3% y-on-y respectively due to lower customer driven Capex and structurally lower network investments following a period of elevated investment levels.

KPN is well on track with its Simplification program to realize run-rate savings (opex and Capex) of approximately EUR 450m by the end of 2016, compared to the end of 2013. The savings are primarily realized through simplification and rationalization of IT processes and systems, and network infrastructure. In Q3 2016, fixed Telfort customers have been migrated to a new integrated order management IT platform. By the end of Q3 2016, KPN had realized run-rate opex and Capex savings of approximately EUR 405m since the end of 2013.

Free cash flow (excl. TEFD dividend) in Q3 2016 of EUR 146m and YTD 2016 of EUR 250m was positively impacted by higher operating free cash flow, but negatively impacted by changes in working capital and one-off additional interest payments related to the bond tender. Lower spend levels in 2016 and early timing of payments to certain suppliers (partly driven by reduced payment terms) resulted in less trade payables outstanding, which led to changes in working capital. In addition, approximately 85% of expected interest payments for 2016 were already done in the first nine months of 2016.

By the end of Q3 2016, KPN has leveraged its relatively high cash position by optimizing supplier conditions and through the execution of the bond tender. KPN has agreed reduced payment terms leading to structural benefits such as discounts and more flexibility in selecting suppliers, but this also led to a negative one-off impact on free cash flow of EUR 40m through working capital. Furthermore, KPN executed a EUR 1bn bond tender in September 2016 which lowers future interest payments, but led to additional interest payments of EUR 23m in Q3 2016. Excluding the EUR 63m negative one-off impact of cash optimization and EUR 110m positive impact of Telefónica Deutschland dividend, free cash flow was EUR 313m for the first nine months of 2016 (YTD 2015: EUR 329m).

**Net debt to EBITDA**

Net debt amounted to EUR 7.1bn at the end of Q3 2016, EUR 0.3bn higher compared to the end of Q2 2016. The increase in net debt was mainly driven by the premiums and accrued interest related to the EUR 1bn bond tender in September 2016 and payment of the interim dividend over 2016 of EUR 141m in August, partly offset by cash flow generated in Q3 2016. Net debt to EBITDA at the end of Q3 2016 was 3.0x (Q2 2016: 2.8x). The bond tender further optimized KPN's debt portfolio resulting in a lower average coupon on KPN's senior bonds of 4.1% (Q2 2016: 5.0%) and an extended average maturity of KPN's outstanding debt.

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.