

Second Quarter 2017 Results

Highlights

- Fixed-mobile convergence continues to deliver strong results in Consumer
 - More than 60% of KPN brand postpaid base in fixed-mobile bundles (Q2 2016: 51%)
 - +8k broadband net adds, +25k IPTV net adds, and +9k postpaid net adds¹ driven by the high value KPN brand
 - Postpaid ARPU stable at EUR 26, ARPU per household increased by 5.0% y-on-y to EUR 42
 - Further improvement in customer satisfaction in Consumer; NPS +13 (Q2 2016: +9)
- Progress with Business transformation
 - SME: fixed-mobile bundling on track, +39k multi play net adds driven by uptake KPN ÉÉN; positioning for growth in IT through up- and cross-sell
 - LE & Corporate: focus on value in competitive mobile-only market; growth in IT related services, Internet of Things and Security
 - Dedicated to further improve customer satisfaction in Business; NPS -6 (Q2 2016: -9)
- Second wave Simplification program delivered ~EUR 65m run-rate savings by end Q2 2017

Key figures* (from continuing operations)

Group financials (unaudited)	Q2 2017	Q2 2016	Δ y-on-y	YTD 2017	YTD 2016	Δ y-on-y
<i>(in EUR m, unless stated otherwise)</i>						
Revenues	1,631	1,676	-2.7%	3,279	3,365	-2.6%
Adjusted revenues**	1,623	1,676	-3.2%	3,271	3,365	-2.8%
Adjusted revenues The Netherlands**	1,455	1,486	-2.1%	2,935	2,989	-1.8%
EBITDA	587	579	1.4%	1,143	1,138	0.4%
Adjusted EBITDA**	601	592	1.5%	1,185	1,160	2.2%
<i>Adjusted EBITDA margin The Netherlands</i>	41.0%	39.5%	+150bps	40.1%	38.5%	+160bps
Operating profit (EBIT)	232	205	13%	433	346	25%
Profit for the period (net profit)	191	162	18%	283	210	35%
Capex	238	312	-24%	504	630	-20%
Operating free cash flow	363	280	30%	681	530	28%
Free cash flow	296	254	17%	331	214	55%

* 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 for The Netherlands were 2.1% lower y-on-y in Q2 2017. Customer base growth and higher ARPU per household led to revenue growth in Consumer, but this was offset by lower Business and Wholesale revenues. Revenues in Business were impacted by migrations and rationalization, and price pressure in mobile, while Wholesale saw lower revenues from MVNOs and international traffic
- Adjusted EBITDA was 1.5% higher y-on-y in Q2 2017 due to improved operational efficiency as a result of Simplification and lower subscriber retention and acquisition costs
- Operating profit increased by 13% y-on-y in Q2 2017 mainly driven by EUR 19m lower amortization charges. Net profit increased by 18% y-on-y to EUR 191m in Q2 2017
- Capex in H1 2017 was 20% lower y-on-y, mainly due to different intrayear phasing compared to last year
- Free cash flow (excl. TEFD dividend) of EUR 261m in H1 2017 was EUR 157m higher compared to the same period last year, mainly driven by lower Capex and less interest paid

¹ Adjusted for 15k migration to Business

Message from the CEO, Eelco Blok

“We are firmly on track delivering the key priorities of our strategy. In the competitive Consumer market we are differentiating with a targeted household approach. Our market leading propositions that offer freedom of choice and our targeted marketing are generating increasing value per household. In Business, we are recognized as the best ICT service provider and the leading IoT operator. Our fixed-mobile bundling continues to gain traction in SME, which positions us well for up-and cross-sell of IT services. Nevertheless, we still have to improve customer satisfaction in Business towards a positive level and we continue to experience strong price competition in mobile in our Large Enterprise and Corporate segment.

Furthermore, I’m proud that KPN has partnered with Tencent to launch the WeChat Go SIM card for Chinese visitors to Europe, leveraging one of the most popular apps worldwide. And our Simplification program is again delivering substantial run-rate savings and operational improvements across the Group. All in all, our performance in the first six months positions us well to achieve the goals we set at the start of the year.”

Outlook 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) growing²
- Additional cash flow via dividend from 9.5% stake in Telefónica Deutschland

Shareholder remuneration and financial profile

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. EUR 3.7 cents per share will be paid as an interim dividend on 2 August 2017. The ex-dividend date is 28 July 2017.

The 9.5% stake in Telefónica Deutschland is treated as a financial investment. KPN benefits from dividend payments by Telefónica Deutschland and additional financial flexibility. KPN distributed the Telefónica Deutschland dividend over 2016 to its shareholders in the form of a special interim dividend distribution of EUR 1.7 cents per ordinary share on 22 May 2017. In Q2 2017, KPN completed the sale of the Telefónica shares it received as part of the swap agreement related to 6% of Telefónica Deutschland shares which was executed in Q1 2017.

At the end of Q2 2017, KPN had completed approximately 60% of the EUR 200m share buyback program announced at its Q1 2017 results.

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

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² Compared to 2016 free cash flow, after adjusting for the impact of cash optimization actions, of EUR 683m

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 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

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 2016.

Financial and operating review The Netherlands

<i>(in EUR m)</i>	Q2 2017	Q2 2016	Δ y-on-y	YTD 2017	YTD 2016	Δ y-on-y
Adjusted revenues						
Consumer	784	768	2.1%	1,572	1,540	2.1%
Business	540	574	-5.9%	1,092	1,167	-6.4%
Wholesale	170	184	-7.6%	348	364	-4.4%
Network, Operations & IT	6	5	20%	10	9	11%
Other (incl. eliminations)	-45	-45	0.0%	-87	-91	-4.4%
The Netherlands	1,455	1,486	-2.1%	2,935	2,989	-1.8%

Consumer

In Q2 2017, KPN announced new Consumer propositions giving customers freedom to choose whether they want to include one or more content packages. KPN makes a broad range of content available to households through content aggregation via partnerships. As of 1 July 2017, KPN adjusted pricing for its fixed customers. In mobile, KPN implemented more-for-more changes to its proposition line-up, with higher data allowances and unbundling of Spotify from its premium proposition.

In a competitive mobile market, KPN differentiates itself from commoditized mobile-only players by its focus on convergence and deploying data and analytics for targeted household marketing instead of mass marketing campaigns. This drives value as it delivers an improved customer service, lower churn, higher value per household and lower marketing expenses. KPN continued to successfully address the high value segment of the market via the KPN brand, which is reflected in customer base and service revenue growth. Despite the tariff adjustments, customer satisfaction increased further to an NPS of +13 in Q2 2017 (Q2 2016: +9), keeping KPN significantly ahead of its competitors. At the end of June, KPN acquired Telecom and ICT service provider Solcon, which provides Internet, fixed and mobile telephony, and TV services to approximately 45k retail customers. Solcon will be consolidated as per Q3 2017.

Adjusted revenues in Consumer increased by 2.1% y-on-y in Q2 2017 due to good results in both residential and mobile. Residential revenues grew by 1.5% driven by a higher ARPU per household and customer base growth. Mobile service revenue growth was 2.4% y-on-y driven by base growth of the high value KPN brand and a VAT benefit. Excluding this benefit and the impact from regulation (roaming), service revenue growth would have been flat y-on-y in Q2 2017.

In Q2 2017, the number of fixed-mobile households grew by 34k to 1,156k, representing 40% of the broadband customer base (Q2 2016: 33%). The number of postpaid customers in fixed-mobile bundles grew by 61k to 1,733k, equivalent to 47% penetration of the postpaid base at the end of Q2 2017 (Q2 2016: 38%). 61% of the KPN brand postpaid base is now part of a fixed-mobile bundle.

In Q2 2017, KPN added 25k IPTV and 8k broadband customers to its base. ARPU per household increased to EUR 42 (Q2 2016: EUR 40).

Furthermore, KPN grew its postpaid base by 9k³ in Q2 2017, fully driven by the high value KPN brand with 21k net adds. The no frills customer base remained under pressure from ongoing competitive dynamics in this part of the market. Postpaid ARPU remained stable y-on-y at EUR 26.

³ Adjusted for 15k migration to Business

Business

The Dutch business market continues to witness rationalization and migration away from traditional telco services to new technologies and integrated solutions. In SME, KPN is migrating traditional fixed and mobile-only customers to its multi play proposition KPN ÉÉN. This results in lower revenues, but also positions KPN for growth in IT through up- and cross-sell opportunities, such as Office365, and cloud & security services. In LE & Corporate, revenues remain under pressure as a result of a highly competitive mobile-only market, in which KPN maintains a strong focus on value, and migrations away from legacy network services to new technologies. KPN is generating strong growth in IT related services, Internet of Things ('IoT') and Security.

KPN is positioned as the leading Business ICT service provider in The Netherlands, recognized by the Dutch IT Partner Preference Survey of Dutch CIOs. NPS for Business improved to -6 in Q2 2017 compared to -9 in Q2 2016. KPN remains dedicated to further improve customer satisfaction through quality programs. For example, in the second quarter KPN completed the migration of KPN brand mobile customers to an integrated IT system, which will reduce time-to-market and IT/TI costs.

Adjusted revenues in Business declined by 5.9% y-on-y in Q2 2017 due to lower revenues from traditional telco services, migrations to new technologies and repricing of mobile services. This was partly offset by growing revenues from integrated solutions, IT related services, IoT and Security.

In SME, the migrations from traditional fixed to multi play are on track. The continued growth in multi play seats (Q2 2017: +39k) led to strong growth in Multi play revenues (+34%). Traditional fixed-only services (-19%) continued to be impacted by rationalization and the ongoing migration towards KPN ÉÉN (multi play) services. The single play wireless customer base partly includes LE & Corporate customers, which have reduced significantly in the last 12 months due to the migrations to KPN ÉÉN LE (Customized solutions). Overall, single play wireless revenues decreased by 16% y-on-y, mostly due to these migrations.

In LE & Corporate, revenues from Network & IT services declined by 7.1% y-on-y. Network services show continuing customer migrations away from legacy network services to new technologies, impacting revenues. This was partly offset by growth of revenues from IT related services, such as housing and licenses. Revenues from Customized solutions increased by 0.7% y-on-y supported by migrations from single play wireless, but impacted by rationalization and repricing. In the first half of 2017, KPN finalized a number of important client wins and regained its leading position in the financial services and food retail segments.

KPN is the leading IoT player in the Dutch market. This is reflected in strong M2M base growth over the last 12 months (+1.1m to a base of 3.1m end Q2 2017) and a growing IoT market share (Q2 2017: 57%). KPN's innovative IoT platform provides a full solution for its customers which combines IoT with consulting, data and security services and represents a three times higher ARPU compared to connectivity-alone services.

Wholesale

Adjusted revenues in Wholesale decreased by EUR 14m or 7.6% y-on-y in Q2 2017, mainly due to lower international traffic and competitive dynamics in the Dutch mobile market leading to lower revenues from MVNOs. On the other hand, KPN continued to see a positive net intake of WBA and VULA services contributing to fixed revenues.

In July 2017, KPN announced a partnership with China's largest internet software company Tencent and leading internet video operator Sunway Culture Media to launch the WeChat Go SIM card for Chinese tourists travelling in Europe.

Network, Operations & IT

KPN continuously innovates and upgrades capacity of its best-in-class integrated network and ICT infrastructure. Over the last years, KPN has experienced exponential growth of data usage, particularly through increased unicast traffic such as (OTT) video streaming services and KPN's IPTV platform. KPN invested in its fixed core network to accommodate this change in customer behavior. The upgraded core network is a key differentiator for quality of service with 161 Metro Core locations, including a decentralized content delivery network. This drives down energy usage and associated costs, and supports customer experience, evidenced by a doubling y-on-y of the KPN IPTV NPS to +22.

Operating expenses The Netherlands

<i>(in EUR m)</i>	Q2 2017	Q2 2016	Δ y-on-y	YTD 2017	YTD 2016	Δ y-on-y
Opex The Netherlands (excl. D&A)*	858	899	-4.6%	1,759	1,837	-4.2%
Cost of goods & services	337	357	-5.6%	686	713	-3.8%
Personnel expenses	284	291	-2.4%	573	605	-5.3%
IT/TI	122	134	-9.0%	256	277	-7.6%
Other operating expenses	115	117	-1.7%	244	242	0.8%
Adjusted EBITDA The Netherlands	597	587	1.7%	1,176	1,152	2.1%

* Adjusted for restructuring costs and incidentals

Adjusted EBITDA for The Netherlands increased by 1.7% y-on-y. The adjusted EBITDA margin for The Netherlands improved to 41.0% in Q2 2017 (Q2 2016: 39.5%). This was mainly driven by improved operational efficiency supported by the Simplification program and lower costs of goods and services.

The Simplification program is delivering significant quality improvements and structural savings in personnel expenses and IT/TI costs. KPN will continue to generate savings as a result of Simplification. For example, in the second quarter, the migration of KPN brand mobile business customers to its integrated mobile IT system was completed, reducing time-to-market. With this milestone, KPN entered the final phase of integrating its mobile IT systems. This is a multi-year project that started in 2014 and delivers approximately EUR 50m run-rate savings in total from decommissioned legacy IT systems.

Cost of goods & services were EUR 20m lower y-on-y, mainly due to lower subscriber retention and acquisition costs and lower traffic compared to Q2 2016. This was partly offset by higher content costs in Consumer and somewhat higher hardware and IT licenses costs in Business. The lower SAC/SRC was mainly driven by a higher number of SIM-only transactions and higher upfront payments following the implementation of new handset credit legislation in The Netherlands. Other operating expenses were lower y-on-y, mainly driven by reduced marketing spend as a result of the increased fixed-mobile penetration in Consumer.

Financial and operating review iBasis

In Q2 2017, the wholesale voice carrier market continued to be impacted by price pressure. Furthermore, part of the revenue decline was driven by less traffic as a result of the divestments of E-Plus and BASE Company. iBasis continues to experience a transition from voice towards data services.

iBasis (in EUR m)	Q2 2017	Q2 2016	Δ y-on-y	YTD 2017	YTD 2016	Δ y-on-y
Revenues	192	218	-12%	385	433	-11%
Adjusted revenues	192	218	-12%	385	433	-11%
EBITDA	4	6	-33%	9	12	-25%
Adjusted EBITDA	4	6	-33%	9	12	-25%

Adjusted revenues at iBasis decreased by 12% y-on-y in Q2 2017 (including a 1.4% favorable currency effect), driven by lower traffic and price pressure in the wholesale voice carrier market. The adjusted EBITDA margin in Q2 2017 of 2.1% was lower y-on-y (Q2 2016: 2.8%) as a result of lower revenues.

Profit, Capex, FCF and financial position KPN Group

In Q2 2017, Group operating profit (EBIT) increased by 13% y-on-y to EUR 232m, mainly due to lower amortization charges as the amortization period of the UMTS license ended in 2016. Net profit in Q2 2017 was 18% higher y-on-y at EUR 191m, mainly due to the higher operating profit.

Capex in Q2 2017 decreased by 24% y-on-y and for H1 2017 it was 20% lower y-on-y at EUR 504m. The Capex reduction was mainly driven by different intrayear phasing compared to the same period last year.

Free cash flow (excl. TEFD dividend) in Q2 2017 was EUR 82m higher at EUR 226m, while for H1 2017 it was EUR 157m higher y-on-y at EUR 261m. The increase for the first six months of 2017 was mainly driven by EUR 126m lower Capex and EUR 69m lower interest paid due to the lower gross debt level. This was partly offset by EUR 13m taxes paid in H1 2017 versus EUR 44m tax received in H1 2016 (mainly due to a tax reimbursement of EUR 59m). Furthermore, KPN received EUR 70m dividend from its shareholding in Telefónica Deutschland in Q2 2017 (Q2 2016: EUR 110m).

Net debt amounted to EUR 6.19bn at the end of Q2 2017, which was EUR 0.35bn lower compared to the end of Q1 2017. The decrease in net debt was mainly driven by the completion of the sale of KPN's shares in Telefónica and free cash flow generation in Q2 2017, partly offset by the final dividend payment over 2016 in April 2017 and approximately 60% completion of the EUR 200m share buyback program. At the end of Q2 2017, net debt to EBITDA was 2.5x (Q1 2017: 2.7x). This includes the equity credit on the hybrids representing 0.4x net debt to EBITDA. The average coupon on KPN's senior bonds was 4.1% (Q2 2016: 5.0%).

KPN retains additional financial flexibility via the remaining 9.5% stake in Telefónica Deutschland. KPN has credit ratings of Baa3 with a stable outlook by Moody's, BBB with a stable outlook by Fitch Ratings and BBB- with a positive outlook by Standard & Poor's. In Q2 2017, KPN extended the maturity of its EUR 1.25bn revolving credit facility to July 2022.

At the end of Q2 2017, Group equity amounted to EUR 3,517m, EUR 389m lower compared to the end of Q1 2017. The decrease was mainly driven by the final dividend payment over 2016 in April 2017 and execution of the EUR 200m share buyback program in Q2 2017, partly offset by net income generated in Q2 2017.

Analysis of adjusted results Q2 2017

The following table shows the key items between reported and adjusted revenues:

Revenues (in EUR m)	Q2 2017 reported	Incidentals	Q2 2017 adjusted	Q2 2016 reported	Incidentals	Q2 2016 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	784	-	784	768	-	768	2.1%	2.1%
Business	540	-	540	574	-	574	-5.9%	-5.9%
Wholesale	178	8	170	184	-	184	-3.3%	-7.6%
Network, Operations & IT	6	-	6	5	-	5	20%	20%
Other (incl. eliminations)	-45	-	-45	-45	-	-45	0.0%	0.0%
The Netherlands	1,463	8	1,455	1,486	-	1,486	-1.5%	-2.1%
iBasis	192	-	192	218	-	218	-12%	-12%
Other activities	-1	-	-1	-	-	-	n.m.	n.m.
Intercompany revenues	-23	-	-23	-28	-	-28	-18%	-18%
KPN Group	1,631	8	1,623	1,676	-	1,676	-2.7%	-3.2%

The following table specifies the revenue incidentals in more detail:

Revenue incidentals (in EUR m)	Segment	Q2 2017	Q2 2016
Release of revenue related provisions	Wholesale	8	-
KPN Group		8	-

The following table shows the key items between reported and adjusted EBITDA:

EBITDA (in EUR m)	Q2 2017 reported	Incidentals	Restruc- turing	Q2 2017 adjusted	Q2 2016 reported	Incidentals	Restruc- turing	Q2 2016 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
The Netherlands	584	8	-21	597	574	6	-19	587	1.7%	1.7%
iBasis	4	-	-	4	6	-	-	6	-33%	-33%
Other activities	-1	-	-1	-	-1	-	-	-1	0.0%	-100%
KPN Group	587	8	-22	601	579	6	-19	592	1.4%	1.5%

The following table specifies the opex incidentals in more detail:

Opex incidentals (in EUR m)	Opex category	Q2 2017	Q2 2016
Release of provisions	Other operating expenses	8	6
KPN Group		8	6

The following table shows the key items between reported and adjusted revenues for YTD 2017:

Revenues (in EUR m)	YTD 2017 reported	Incidentals	YTD 2017 adjusted	YTD 2016 reported	Incidentals	YTD 2016 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
Consumer	1,572	-	1,572	1,540	-	1,540	2.1%	2.1%
Business	1,092	-	1,092	1,167	-	1,167	-6.4%	-6.4%
Wholesale	356	8	348	364	-	364	-2.2%	-4.4%
Network, Operations & IT	10	-	10	9	-	9	11%	11%
Other (incl. eliminations)	-87	-	-87	-91	-	-91	-4.4%	-4.4%
The Netherlands	2,943	8	2,935	2,989	-	2,989	-1.5%	-1.8%
iBasis	385	-	385	433	-	433	-11%	-11%
Other activities	-	-	-	1	-	1	-100%	-100%
Intercompany revenues	-49	-	-49	-58	-	-58	-16%	-16%
KPN Group	3,279	8	3,271	3,365	-	3,365	-2.6%	-2.8%

The following table specifies the revenue incidentals in more detail for YTD 2017:

Revenue incidentals (in EUR m)	Segment	YTD 2017	YTD 2016
Release of revenue related provisions	Wholesale	8	-
KPN Group		8	-

The following table shows the key items between reported and adjusted EBITDA for YTD 2017:

EBITDA (in EUR m)	YTD 2017 reported	Incidentals	Restruc- turing	YTD 2017 adjusted	YTD 2016 reported	Incidentals	Restruc- turing	YTD 2016 adjusted	Δ y-on-y reported	Δ y-on-y adjusted
The Netherlands	1,139	-3	-34	1,176	1,132	6	-26	1,152	0.6%	2.1%
iBasis	9	-	-	9	12	-	-	12	-25%	-25%
Other activities	-5	-	-5	-	-6	-	-2	-4	17%	-100%
KPN Group	1,143	-3	-39	1,185	1,138	6	-28	1,160	0.4%	2.2%

The following table specifies the opex incidentals in more detail for YTD 2017:

Opex incidentals (in EUR m)	Opex category	YTD 2017	YTD 2016
Change in provisions	Other operating expenses	-3	6
KPN Group		-3	6