Consolidated Management Report

2016

proximus

Management discussion and analysis of financial results

1. Introductory remarks

Underlying revenue and EBITDA

Proximus ' management discussion focuses on underlying figures, i.e. after deduction of the incidentals.

In order to allow a like-for-like comparison, Proximus provides a clear view of the operational-driven trends of the business by isolating incidentals, i.e. revenues and costs that are unusual or not directly related to Proximus' business operations, and which had a significant impact on the year-on-year variance of the Proximus Group revenue or EBITDA. The adjusted revenue and EBITDA are referred to as "underlying". Definitions can be found as from page 31 of this document.

(EUR million)	Revenue			EBITDA		
	2014	2015	2016	2014	2015	2016
Reported	**6,112**	**6,012**	**5,873**	**1,755**	**1,646**	**1,733**
Underlying	**5,864**	**5,994**	**5,871**	**1,653**	**1,733**	**1,796**
Incidentals - Total	248	17	3	102	-87	-63
Non Recurring Items	62	0	0	34	2	-95
Other incidentals	187	17	3	67	-90	32
Non-recurring items:	62	0	0	34	2	-95
Early Leave Plan and Collective Agreement	0	0	0	0	0	-103
Disposal of consolidated companies	62	0	0	27	0	0
Other : in 2016 mainly removal of the favourable early retirement clause	0	0	0	7	2	8
Other incidentals:	187	17	3	67	-90	32
Capital gains on building sales	46	17	3	46	17	3
Divesture TLS FR/UK	134	0	0	3	-1	0
Reversal Pylon Tax provision 2014 & 2015	0	0	0	0	0	29
Settlement agreement on mobile tariff related litigations	0	0	0	0	-116	0
Scarlet NL / Sahara net disposals	7	0	0	0	0	0
Network litigation settlement	0	0	0	22	10	0
Compensation pay Pension previous year	0	0	0	10	0	0
Update stock option liability	0	0	0	-14	0	0
Transformation & Rebranding	0	0	0	-16	0	0
Other	0	0	0	16	0	0

Changes in Segment reporting

To improve the relevancy of reported figures, Proximus has applied the changes described below with restatements provided for 2014 and 2015:

Domestic is composed of three customer segments : Consumer, Enterprise and Wholesale for which the revenue and direct margin is provided.

Segment results (contribution to Group EBITDA) are no longer reported as these figures were non-relevant, given the fact that Proximus does not apply full cost allocation.

The expenses (after direct margin) are split into Workforce expenses and Non Workforce expenses and are reported at Group, Domestic and BICS level, in a more relevant manner.

- Workforce expenses: expenses related to own employees (former HR-expenses) as well as to external employees (part of former non-HR expenses) for Proximus S.A. For subsidiaries, only internal HR expenses are reported under Workforce expenses
- Non Workforce: all other expenses (part of former non-HR expenses)

Rounding

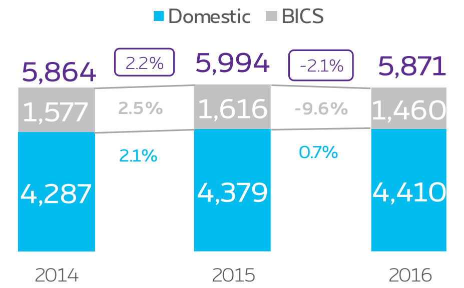
In general, all figures are rounded. Variances are calculated from the source data before rounding, implying that some variances could not add up.

- Proximus grew its domestic revenue by 0.7% in 2016 and its Group EBITDA by 3.6% on underlying basis, in spite of regulatory headwinds.
- The Domestic EBITDA grew by 4.7% driven by a positive Direct Margin contribution and especially by a solid reduction in expenses.
- Good progress for Fixed Services revenue more than offset the pressure on Mobile service revenue resulting from lower roaming rates.
- In the context of a shift from voice to data, BICS posted a 7.2% EBITDA decline on a high comparable base.
- Sound Free Cash Flow of EUR 559 million.

2. Proximus Group

Revenue

Revenue - 3-year view (underlying, M€)

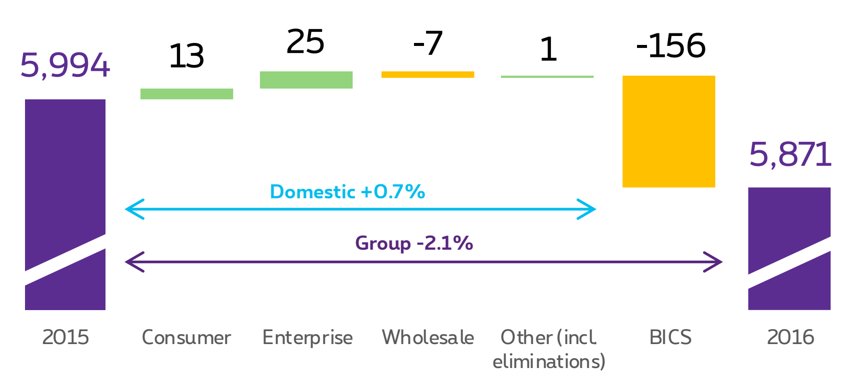


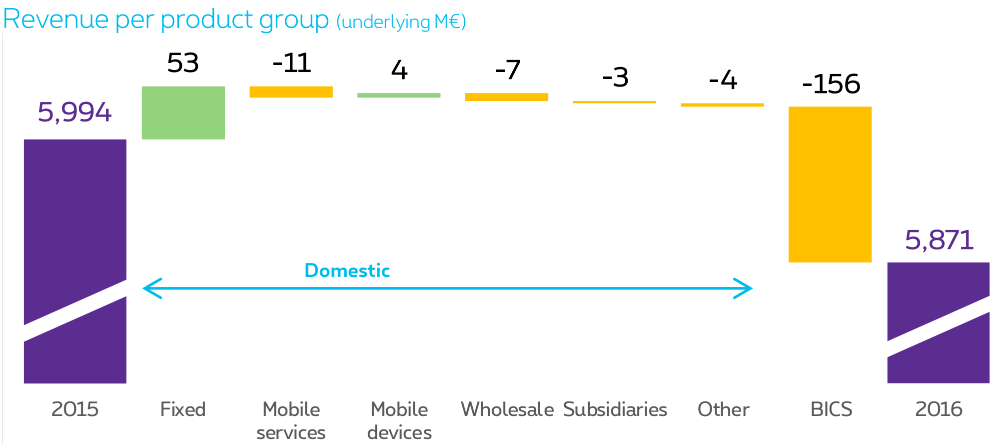
The Proximus Group ended the year 2016 with total underlying revenue of EUR 5,871 million, 2.1% below that of the prior year. The lower Group underlying revenue resulted from a decline in revenue from BICS, Proximus' International Carrier business unit. This was partly offset by Proximus' Domestic operations which continued to show growth in 2016.

For full-year 2016, **the Proximus Domestic revenue totaled EUR 4,410 million, a 0.7% improvement over 2015.** The revenue growth was driven by both the Consumer and Enterprise segments of Proximus.

In 2016, BICS generated total revenue of EUR 1,460 million, 9.6% lower compared to its record-high revenue posted in 2015. The decline was driven by continued high volatility in the Voice business and a less favorable destination mix. The non-Voice revenue on the other hand continued to show solid growth.

Revenue - evolution by segment (underlying, M€)



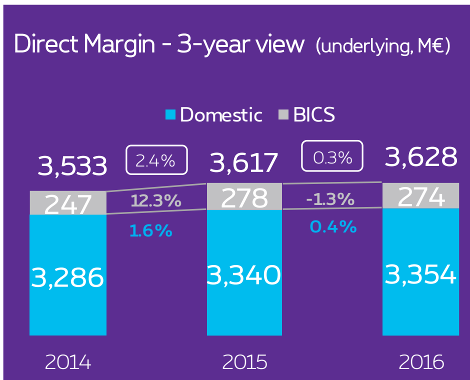


Domestic underlying revenue +0.7%

Revenue from the **Consumer segment** progressed by 0.4% to reach EUR 2,905 million. This was driven by solid revenue from Fixed Internet and TV through a growing customer base. Proximus benefitted from its great efforts on customer centricity and its convergence strategy. Through its successful multi-Play offering, Proximus enhanced its customer mix, increasing loyalty and value. This resulted in a good Fixed revenue growth, in spite of the continued revenue erosion in Fixed Voice. In 2016, the revenue from Mobile came under pressure. In line with the EU regulation, EU roaming rates were lowered as of 30 April 2016, which has been visibly reflected in the Mobile Service Revenue trend since then.

Proximus' **Enterprise segment** posted a 1.9% underlying revenue growth for 2016 to reach EUR 1,360 million. This was mainly driven by a solid revenue growth in ICT and Be-Mobile NV[1], a smart mobility company created mid-March 2016. The growth more than compensated for the continued Fixed Voice revenue erosion. Mobile services revenue remained fairly stable compared to 2015 in spite of the high roaming exposure.

The above favorable trends of Proximus' Domestic revenue were partly offset by a decrease in **Wholesale** revenue, mainly due to the regulated lowering of fixed termination rates and the ceased revenue stream from Snow. Snow wholesale customers were fully outphased since mid-2015, with many welcomed by Scarlet.



The 2016 underlying Direct Margin of Proximus Group totaled EUR 3,628 million. This is a 0.3% increase from the prior year, with the growth in Domestic direct margin partially offset by a lower direct margin for BICS.

The Domestic direct margin was up by 0.4% to reach EUR 3,354 million on the back of a favorable evolution for both the Consumer and the Enterprise segments.

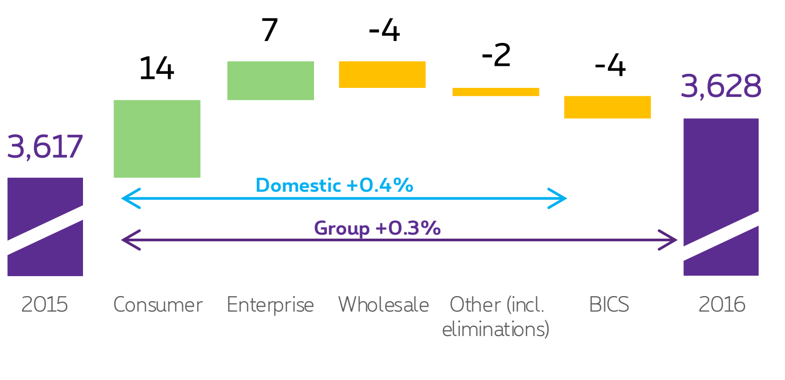
BICS' direct margin of EUR 274 million was 1.3% below that of 2015, during which BICS benefitted from a higher Voice-unit margin in a favourable though volatile Voice market.

[1] Be-Mobile, active in the Smart Mobility domain, is the combination of the entities of Be-Mobile NV (previously Mobile-For NV), Be-Mobile Tech NV, and Flow NV. Being majority shareholder, Proximus consolidates the turnover of all these entities. The revenue is reported in 'Other products".

Underlying Group Direct Margin

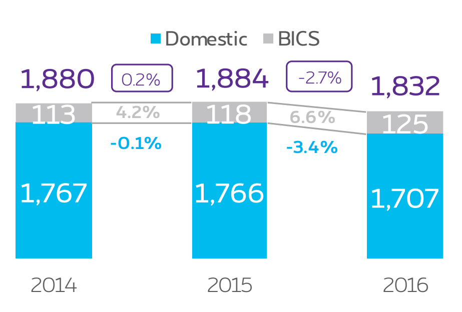
+0.3%

Direct Margin - evolution by segment (underlying, M€)



Operating expenses

Operating expenses - 3-year view (underlying, M€)

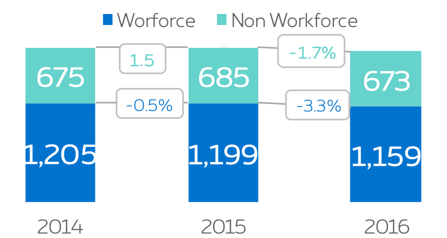


Executing upon its 'Fit for Growth' strategy, and specifically by focusing on efficiency and productivity gains, **Proximus managed to reduce its 2016 expenses to EUR 1,832 million, a 2.7% or EUR 52 million improvement** from 2015. With its Domestic expenses decreasing in 2016 by 3.4% or EUR 59 million, Proximus is well on track to deliver upon its cost reduction plan, aiming for a EUR 150 million net decrease by 2019. This resulted from an overall improved efficiency and productivity. The cost base benefitted from the optimization of Proximus' physical sales channels (integration of The Phone House) and network simplification. Volumes to contact centers decreased following improved customer interactions (first-time-right) and enhanced digital solutions encouraging self-care and further digitization of billing and ordering

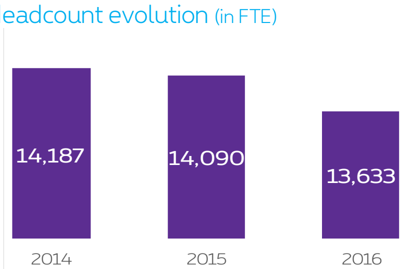
Domestic expenses

-3.4%

Operating expenses split (M€)



Headcount evolution (in FTE)

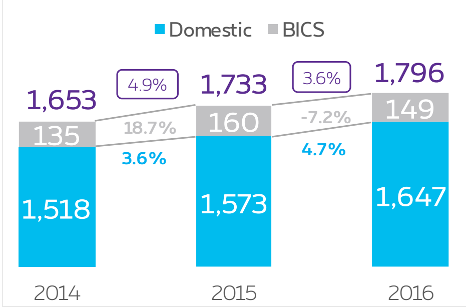


For BICS, the 2016 operating costs were up by 6.6%, or EUR 8 million, from last year, adding. This was mainly driven by investments in new geographies and future growth domains.

Proximus **Workforce expenses declined by 3.3% year-on-year to EUR 1,159 million**, supported by a lower internal headcount enabled by a voluntary early leave plan ahead of retirement. The favorable effect this had on Proximus' cost base was however partly offset by the impact of an inflation-based salary increase in July 2016. End-2016, Proximus employed a total of 13,633 FTEs. This was 457 FTEs less compared to one year ago mainly due to a combination of employees having left the company under the early leave plan and through regular retirement, and the strengthening of its human resources by hiring some business-critical profiles supporting, among other things, new domains.

EBITDA

EBITDA - 3-year view (underlying, M€)

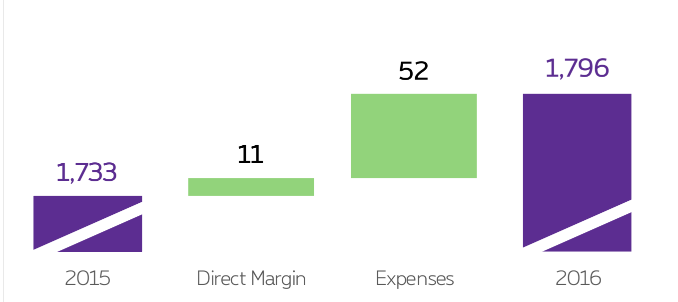


The Proximus Group posted for 2016 underlying EBITDA of EUR 1,796 million, an increase by 3.6% compared to 2015. The Domestic operations of Proximus grew EBITDA by 4.7% to a total of EUR 1,647 million. BICS closed 2016 with its Segment Result totaling EUR 149 million. This is 7.2% below that of its record-high in 2015, during which BICS benefitted from favourable – though volatile – market conditions.

Group underlying EBITDA

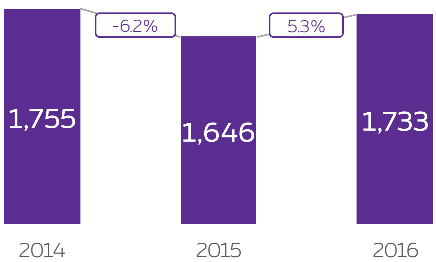
+3.6%

EBITDA - evolution (underlying, M€)



Reported EBITDA (incidentals included)

Reported EBITDA – 3-year view (M€)
including incidentals

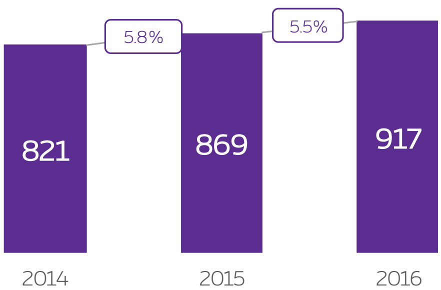


In 2016, the Proximus Group recorded **EUR -63 million** net **EBITDA incidentals**.

Including these, the Proximus Group's **reported EBITDA** totaled **EUR 1,733 million**, compared to EUR 1,646 million for the year before, i.e. +5.3%. See section 1 for more information on the incidentals.

Depreciation & Amortization

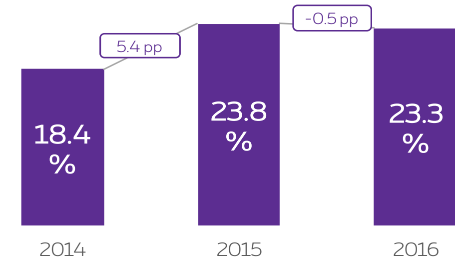
Depreciation & Amortization– 3-year view



In 2016, the **depreciation and amortization** totaled **EUR 917 million**. This compares to EUR 869 million for 2015, with the increase mainly due to a higher asset base to depreciate.

Tax Expense

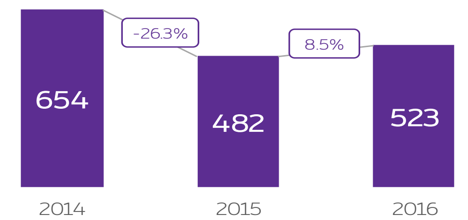
Effective Tax Rate – 3-year view



The full-year 2016 tax expenses amounted to EUR 167 million. This represents an effective tax rate of 23.3%, fairly stable in relation to the 23.8% of 2015.
The 2016 effective tax rate results from applying the Belgian tax law and was below the corporate tax rate of 33.99% following some tax deductions and one off transactions.

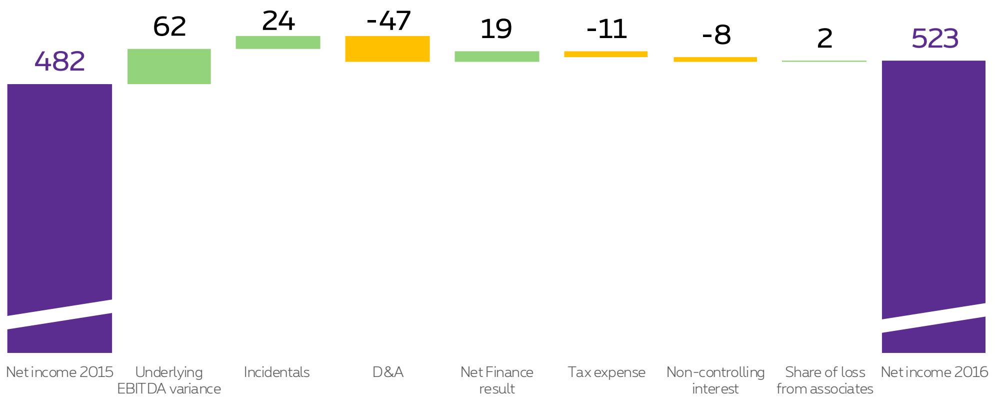
Net income

Net income (Group Share) - 3-year view (M€)



Proximus reported a **net income (Group share) of EUR 523 million for 2016.** The year-on-year increase by EUR 41 million or 8.5% is mainly explained by higher Group EBITDA and lower finance costs, partly offset by higher depreciation and amortization and tax expenses.

Net income evolution (M€)

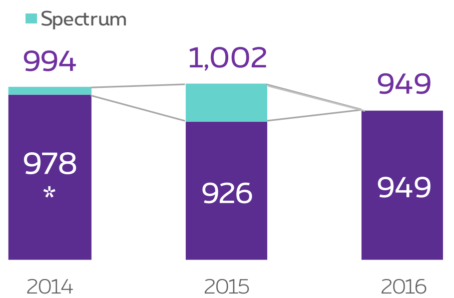


+8.5%

Net Income

Capex

Capex - 3-year view (M€)



* Including the three-year broadcasting rights of Belgian Jupiler Pro league football

In 2016 Proximus invested a total amount of EUR 949 million, fully in line with the capex outlook provided for 2016. This compares to a total capex of EUR 1,002 million for 2015, which included EUR 75 million capex related to spectrum renewal.

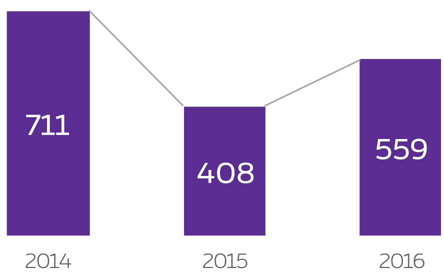
In 2016, Proximus invested among others in its Fixed and Mobile networks to increase coverage and speed, as well as in IT systems, in further simplification and transformation which all contributed to the decreasing cost base. Furthermore, Proximus successfully started its Fiber-to-the-Business roll-out in 2016, deployed greenfield fiber projects for new-builds, and initiated a brownfield project in Brussels.

€ 949m

invested to improve overall customer experience

Free Cash Flow

Free Cash Flow - 3-year view (M€)

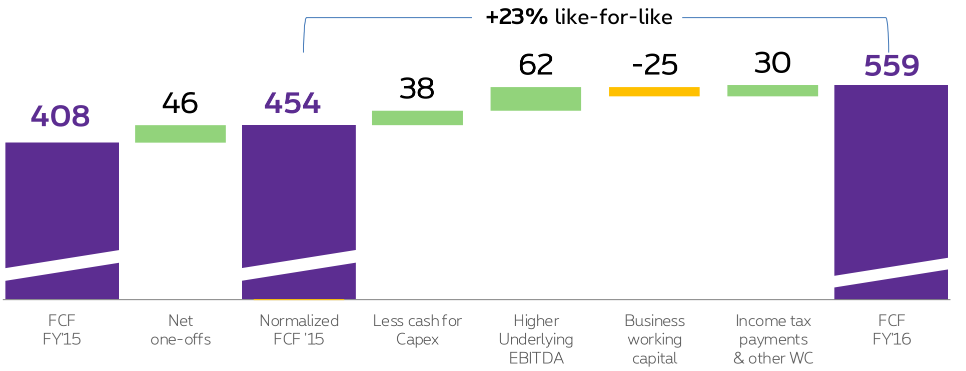


Proximus' **FCF for the year 2016 totaled EUR 559 million**, supported by the transversal cash management initiative launched mid-2015 in view of optimizing free cash flow generation. The 2016 FCF was up by EUR 151 million from the EUR 408 million FCF reported for 2015. When excluding the net impact of major one-off[2] cash items in 2015, the FCF increased year-on-year by EUR 105 million, i.e. 23% on like-for-like basis. This was driven by the growth in underlying EBITDA and less cash paid for Capex. More cash was needed however for Business working capital due to an increase in inventory with the level normalizing from a low 2015.

€ 559m

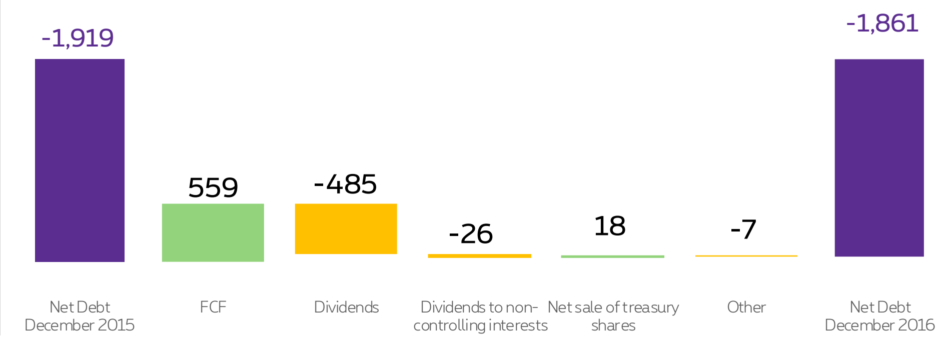
Free Cash Flow

Free Cash Flow - evolution (M€)



Net financial position

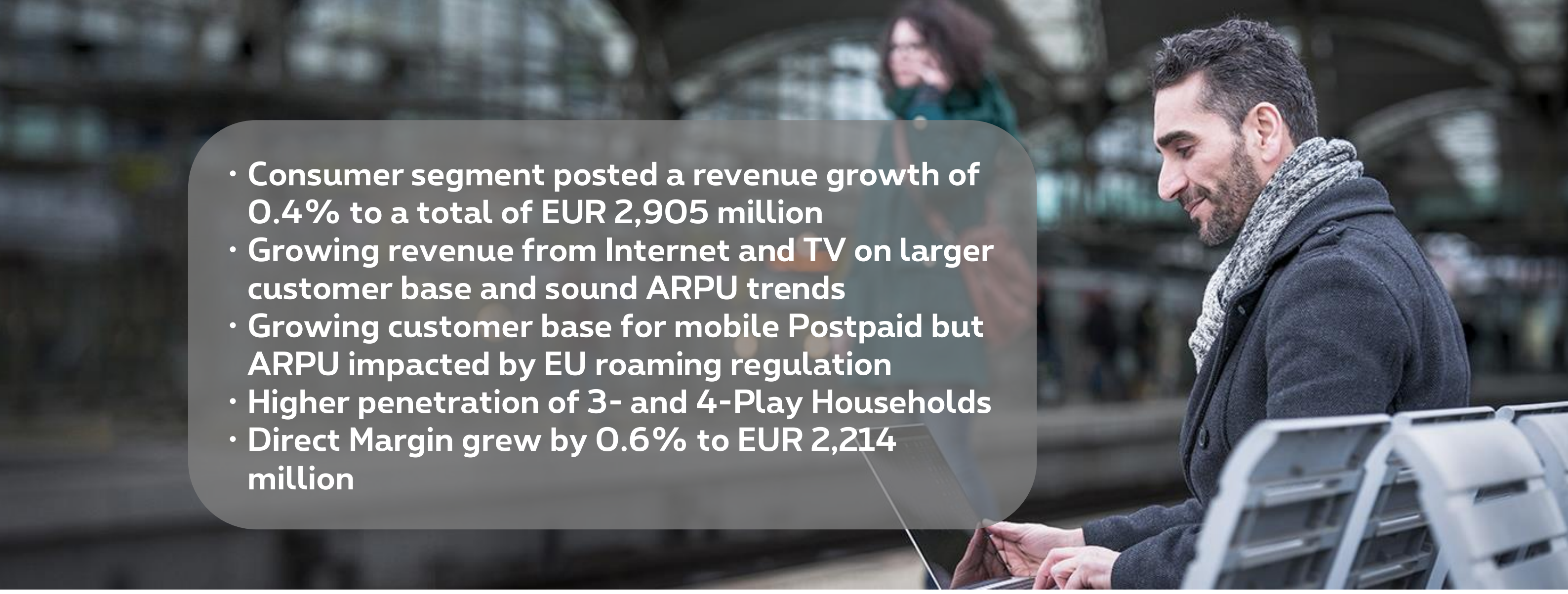
Net debt - evolution (M€)



Proximus maintained a solid financial position with a net debt of EUR 1,861 million end-2016. The net debt/EBITDA ratio remained at around 1X.

The net debt decreased from one year ago, with a solid 2016 FCF level more than covering for the committed dividend pay-out.

[2] Net impact of: major settlement agreements, cash paid for subsidiaries, disposal of buildings and other tangible assets



- Consumer segment posted a revenue growth of 0.4% to a total of EUR 2,905 million
- Growing revenue from Internet and TV on larger customer base and sound ARPU trends
- Growing customer base for mobile Postpaid but ARPU impacted by EU roaming regulation
- Higher penetration of 3- and 4-Play Households
- Direct Margin grew by 0.6% to EUR 2,214 million

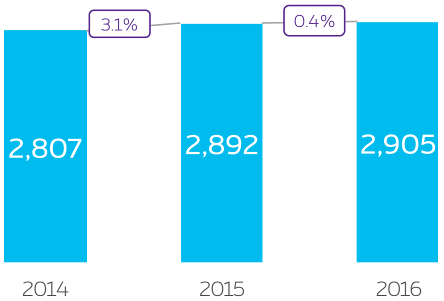
NOTE: In line with Proximus' strategy, most products are sold through multi-Play Packs, a trend reinforced by the launch of the converged offers Tuttimus and Bizz All-in since mid-October 2016. The packs are sales arrangements with multiple deliverables. The revenue is allocated to the different products such as Internet, Voice, TV and Mobile, based on their relative fair value, being the amount for which the product could be sold separately and considering the cash cap. The revenue allocation per product as reported below might be impacted by changes in the composition of multi-Play offers. The resulting product ARPUs as reported in this document for TV, Internet, Fixed Voice and Mobile, and the variances compared to preceding periods, are therefore partly the mere mathematical consequence of the application of this accounting policy to a changed pack composition.

3. Consumer Segment

Revenue

For 2016, the Consumer segment posted **total underlying revenue of EUR 2,905 million, or an increase of 0.4% compared to 2015**.

Revenue - 3-year view (underlying, M€)



This favorable evolution is largely the result of the strong progress made by Fixed Internet and TV, which more than compensated for the erosion in Fixed Voice revenue. In 2016, the revenue from Mobile services came under pressure. EU roaming rates were lowered as of 30 April 2016, in line with the imposed EU regulation, visibly impacting the Mobile Service revenue trend. While revenue from Postpaid services was still up year-on-year driven by a growing customers base, it was no longer sufficient to fully compensate for the revenue decline in Prepaid. As a result, the total Consumer Mobile services revenue was down by 1.0% compared to 2015.

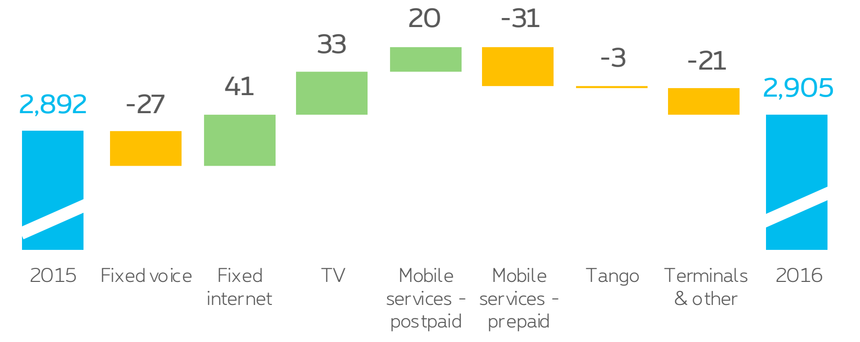
The revenue from the Consumer segment was strongly supported by Proximus' successful convergence strategy, upselling additional services to its customer base. This strategy was further strengthened by the launch of Proximus' new product portfolio mid-October, with Tuttimus and Biz-All-in accelerating the uptake of 4-Play. Proximus closed the year with 601,000 4-Play households and small offices (HH/SO), an increase by 9.9% from the prior year. With 4-Play HH/SO typically at higher ARPH and significantly lower full-churn, the Consumer customer base became more valuable and loyal in 2016.

For full-year 2016, the **revenue** of **Tango,** Proximus' Luxembourgish subsidiary, **totaled EUR 127 million, 1.9% below that of the prior year**. This was mainly driven by a highly competitive market, a decline in Prepaid revenue and a negative impact from roaming regulation, in part offset by the benefits of a growing postpaid customer base.

+0.4%

Consumer revenue YoY

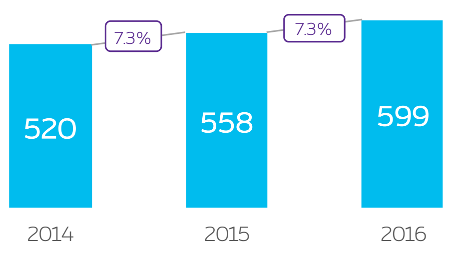
Revenue evolution per product group (underlying, M€)



+64,000

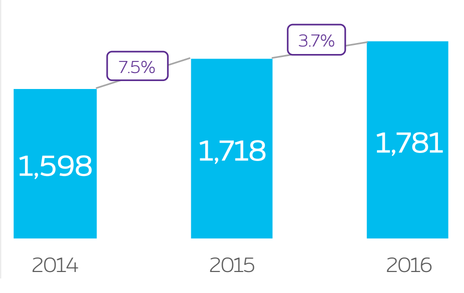
Fixed Internet customers added, revenue up by 7.3%

Fixed Internet revenue (M€)

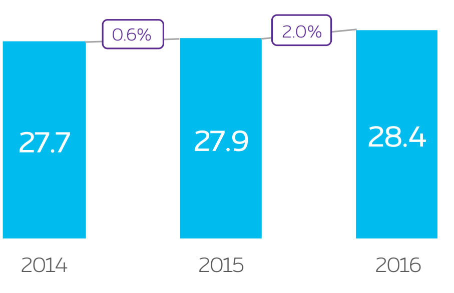


Revenue from Fixed Internet grew by 7.3% year-on-year to EUR 599 million for 2016. This resulted from a growing customer base, up by 64,000 or 3.7% in a one year period to reach a total of 1,781,000. Besides a larger customer base, the positive revenue evolution is also the result of a higher revenue per customer, with ARPU increasing 2.0% to EUR 28.4 for 2016, including the benefit of price adjustments.

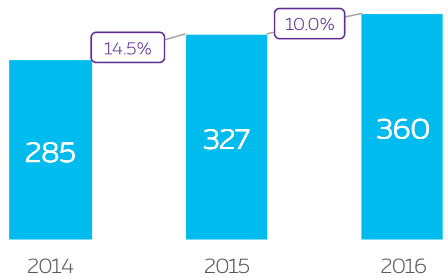
Fixed internet customers (in '000)



Fixed Internet ARPU (in €)

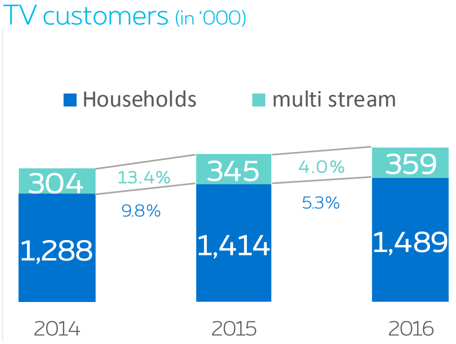


TV revenue (M€)



In 2016, Proximus continued to grow its **revenue from TV, up by 10.0% compared to 2015**, to a **total of EUR 360 million**. This resulted from a continued increase in the TV subscriber base, for both the Proximus and Scarlet brands. In 2016, Proximus welcomed an additional 75,000 households to its TV-platform bringing the total to 1,489,000 TV households or a 5.3% annual growth. When also including the 359,000 second/third TV set-top boxes, the total of connected TV set-up boxes totaled 1,848,000. Besides a growing customer base, the TV revenue also benefitted from the more extensive TV content offered to customers. The TV ARPU for 2016 was EUR 20.6, 2.8% up from 2015.

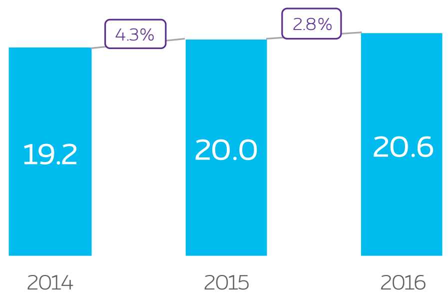
TV customers (in '000)



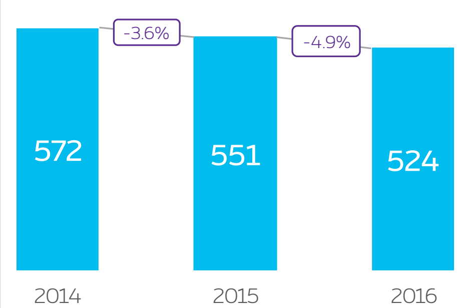
+75,000

TV households

TV ARPU (in €)



Fixed voice revenue (M€)

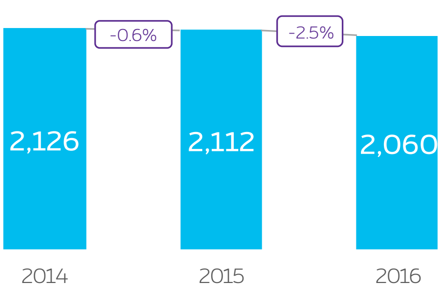


Over 2016, Consumer generated EUR 524 million from Fixed Voice, or 4.9% less than for 2015. The erosion in the Fixed Voice line base continued in 2016, with -52,000 Voice lines. This in spite of the support provided by multi-Play packs including Voice, with in particular a notable positive impact from the Tuttimus offer since its launch in October 2016, resulting in a net Fixed Voice line growth in the fourth quarter 2016. Consumer ended 2016 with a total Fixed Voice line base of 2,060,000, a 2.5% decline from one year ago.

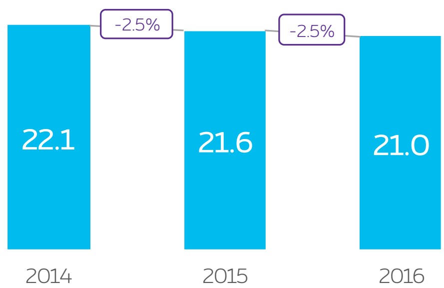
However, the success of multi-Play packs at favorable pricing impacted the standalone Fixed Voice ARPU, only in part offset by upward price adjustments[3]. Over 2016, the Fixed Voice line ARPU totaled EUR 21.0, 2.5% less than for 2015.

Fixed voice
marked by continued erosion of Fixed line park

Fixed voice customers (in 000's)

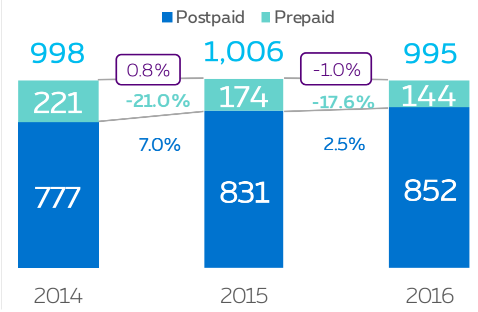


Fixed voice ARPU (in €)



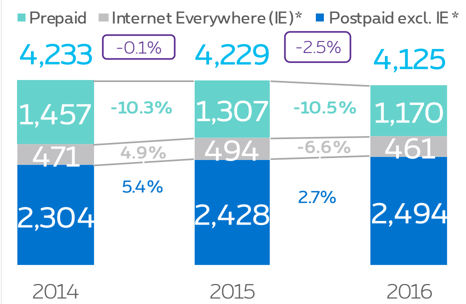
[3] Price changes on 1 January 2016 and 1 July 2016

Mobile Services revenue (M€)



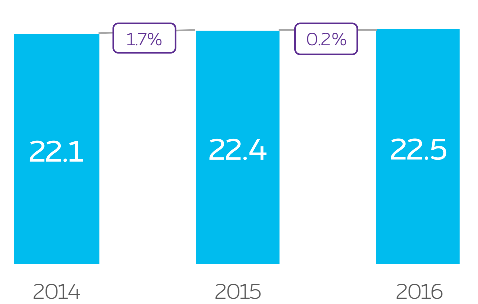
+66,000
Mobile postpaid cards
(Free Internet Everywhere cards & M2M excluded)

Mobile customers (in '000)



* including a limited number of M2M cards

Mobile Blended ARPU (in €)



Consumer's full-year revenue from Mobile Services totaled EUR 995 million, or a 1.0% decrease from 2015. The Consumer mobile service was under pressure since the adoption of the European roaming regulation end-April 2016, significantly reducing the European roaming rates. Moreover, a less favorable travel destination mix, with a higher traction for European destinations, put some additional pressure on roaming revenues.

Nevertheless, the Postpaid revenue was up by 2.5%, benefitting from a growth of 66,000 Mobile postpaid cards, M2M and free Internet Everywhere cards excluded. Accordingly, Consumer ended 2016 with a total Postpaid customer base of 2,494,000, 2.7% higher versus one year ago. If including M2M and free Internet Everywhere cards, the Postpaid base totaled 2,955,000, or +1.1%.

In spite of the benefits from a higher smartphone penetration, higher mobile data usage and a better customer tiering versus one year ago, the Postpaid ARPU of EUR 28.9 was 1.4% below that of the prior year, fully driven by the impact from roaming regulation.

Revenue from mobile Prepaid declined by 17.6% from the prior year. In an already declining Prepaid market, the announced legislation on Prepaid card identification, as published in the Belgian Official Journal on 7 December 2016, refueled the erosion of Prepaid cards. In 2016, the Proximus' prepaid park declined by 137,000. By end-2016, Consumer counted 1,170,000 Prepaid cards, or 10.5% less than for the previous year, with ARPU at EUR 9.7.

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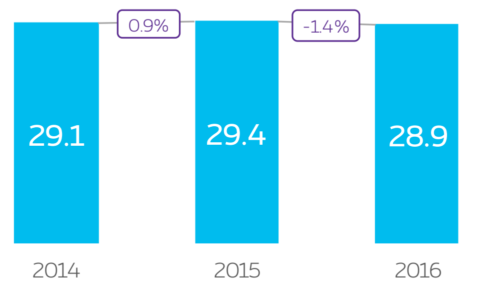
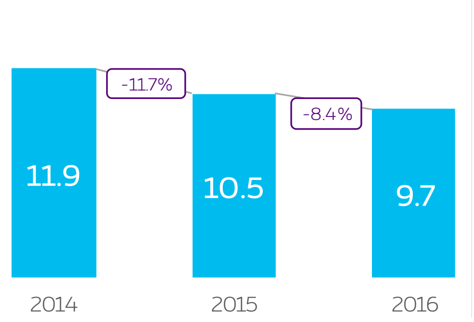
Benefits on Mobile ARPU of incremental data usage were offset by lower roaming rates

Mobile Postpaid ARPU (in €)



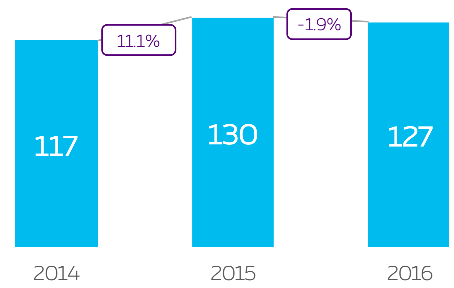
Mobile Prepaid ARPU (in €)



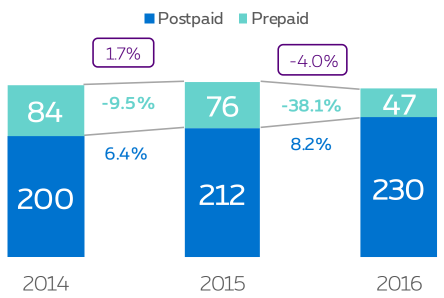
Tango
+17,000
Postpaid customers

Operating in a competitive market, Tango, Proximus' Luxembourgish telecom operator, generated for the full-year 2016, revenue of EUR 127 million, or 1.9% less than for 2015. This was mainly driven by a decline in Prepaid revenue and a negative impact from EU roaming regulation, in part offset by the benefits of a growing postpaid customer base by +17,000. The solid growth in Postpaid follows the launch of new offers. TV, Internet and Fixed voice also contributed.

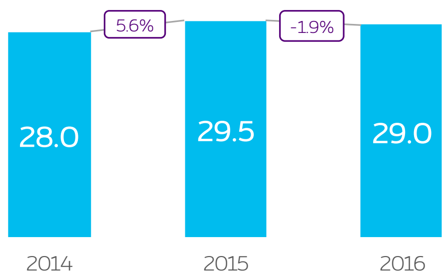
Tango revenue (M€)



Tango mobile customers (in '000)



Mobile blended ARPU (in €)

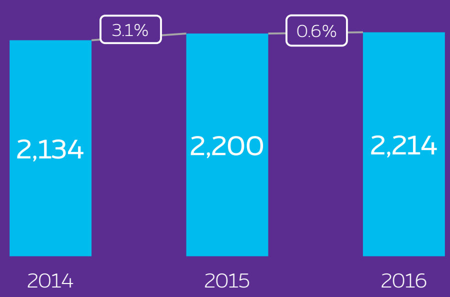


Consumer Direct Margin

+0.6%
Direct Margin

For the full-year 2016, the **Consumer direct margin totaled EUR 2,214 million, or a 0.6% increase** from the previous year driven by the direct margin growth from Internet, TV and - to a lesser extent - Mobile services. This was.

Direct Margin- 3-year view (underlying, M€)



proximus

Successful multi-Play strategy

The progress on Proximus' long-term convergence and value strategy is measured through household-based reporting. In contrast to traditional reporting per product group, X-Play Household and Small Offices (HH/SO) reporting focuses on operational and financial metrics in terms of Households and Small Offices serviced by Proximus and the number of Plays and Revenue Generating Units (RGU) offered. The X-Play reporting also includes Scarlet as of 2016. 2015 figures have been restated accordingly

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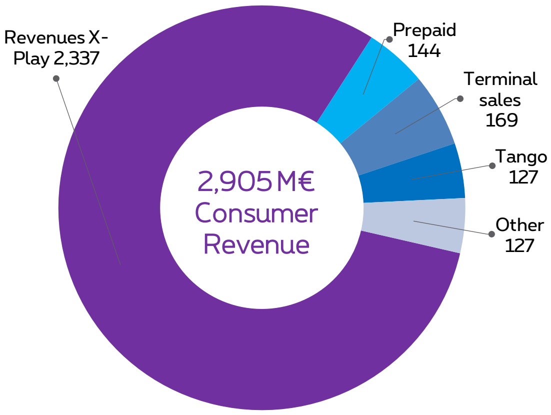
2016 Consumer revenue (M€)



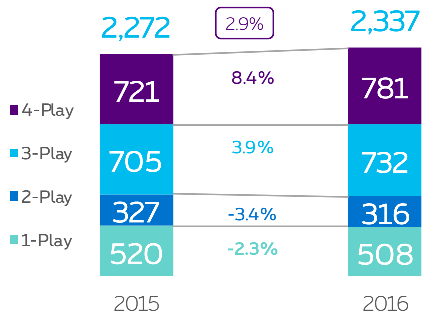
46.3%

Households/Small Offices on 3 or 4 Play

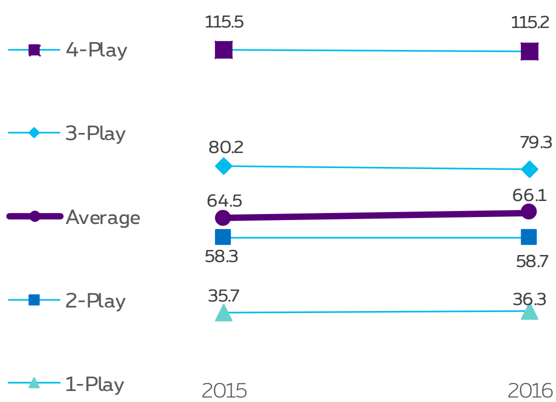
In 2016, the Consumer Segment generated EUR 2,905 million underlying revenue, of which EUR 2,337 million was X-Play revenue, a 2.9% increase compared to 2015. End-2016, 80.5% of Consumer underlying revenue came from X-Play households.

The revenue from 4-Play households showed a continued strong growth, ending 2016 with EUR 781 million, up by 8.4% from the prior year. The 3-Play revenue increased as well, up by 3.9% compared to 2015. Following the better product mix and increased RGUs, the average revenue per HH/SO increased by 2.4% to EUR 66.1.

HH/SO revenue per X-Play (M€)



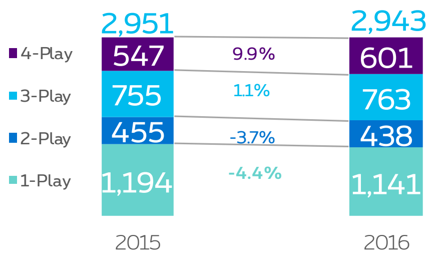
Average Revenue per Household/Small offices (ARPH in €)



+2.9%

Household revenue

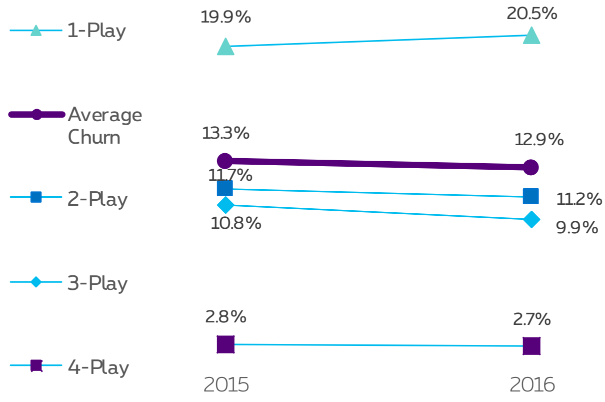
Consumer Households & Small Offices (HH/SO) per X-play (000's)



End-2016 the Consumer segment serviced 2,943,000 HH/SO

Within the household mix, Proximus' convergence success was especially apparent in the continued progress it made in the number of households that take 3 or 4 Plays. In 2016, Proximus' household mix improved, its 3-Play customer base growing by 8,000 households and 4-Play customer base by 54,000. As such, Proximus ended the year with 763,000 3-Play households (+1.1 %) and 601,000 4-Play households (+ 9.9%). As a consequence, Proximus strengthened its customer base with 3-and 4-Play households having typically a lower churn rate, i.e. a full churn rate of 9.9% and 2.7% respectively.

Annualized full churn rate (HH/SO level)



The average RGU continued to show some progress throughout 2016, with the average across all X-Play households rising to 2.65 RGU in the fourth quarter 2016, up 2.3% year-on year.

2.65

Average RGU +2.3% YoY

Furthermore, the number of households having both Proximus Fixed and Mobile services, i.e. convergent households, grew to 54.5%, 1.4 p.p. more than a year ago.

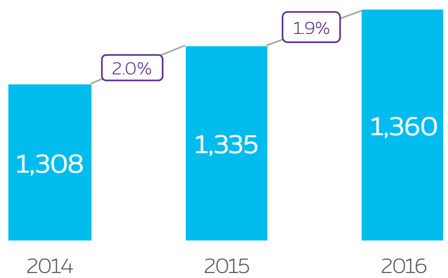
4. Enterprise Segment

Revenue

The successful convergence and innovation strategy of the Enterprise segment, supported by a recognized high-quality network, resulted in a 1.9% revenue growth to EUR 1,360 million for 2016.

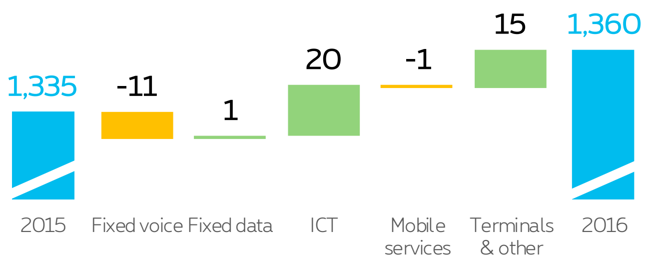
Proximus' Enterprise segment benefitted in 2016 from a solid revenue growth in ICT and Be-Mobile NV[4], a smart mobility company created mid-March 2016. The overall revenue growth was however tempered by an ongoing erosion of revenue from legacy Fixed Voice, and by regulatory measures reducing the Mobile Services revenue. Since end-April 2016, Proximus has lowered its Enterprise roaming pricing in line with the EU regulation. This combined with an unfavorable change in the travel destination mix of customers, resulted in a weaker mobile service revenue as from mid-2016.

Revenue - 3-year view (underlying, M€)



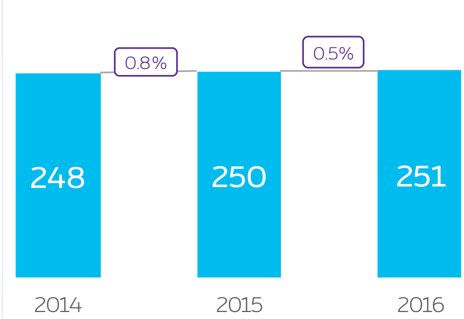
+1.9%
Revenue YoY

Revenue evolution per product group (underlying, M€)



[4] Smart Mobility company combining the activities of Be-Mobile and Flow with Proximus' subsidiary Mobile-For. Being the majority shareholder, Proximus consolidates the turnover of the company. The revenue is reported in 'Other revenue'.

Fixed Data revenue (M€)

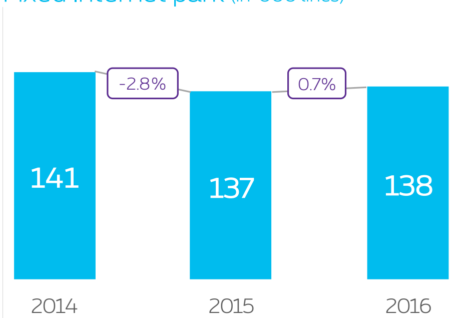


138,000
Fixed Internet park

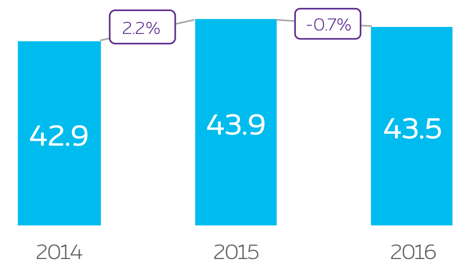
The 2016 revenue from **Fixed Data,** consisting of Fixed Internet and Data Connectivity **revenue**, totaled **EUR 251 million, 0.5% above** that of 2015. The favorable evolution was driven by Data Connectivity services following a growing customer base, better product mix and the further roll-out of P2P fiber.

Revenue from Fixed Internet was a touch down from the prior year due to a slightly lower ARPU. In a competitive and highly penetrated Internet market, Proximus' Enterprise segment managed to increase its Fixed Internet park by 0.7% to 138,000 Fixed Internet lines by end-2016. This was however offset by a 0.7% decline in Fixed Internet ARPU to EUR 43.5, reflecting the impact of the outphasing and migration of legacy products in the context of simplification programs offering customers new solutions at more attractive pricing.

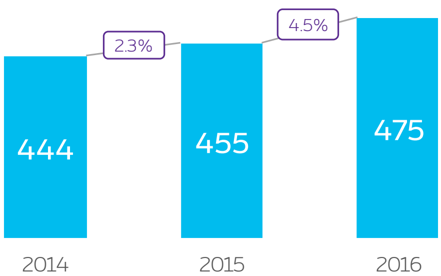
Fixed Internet park (in '000 lines)



Fixed Internet ARPU (in €)



ICT revenue (M€)



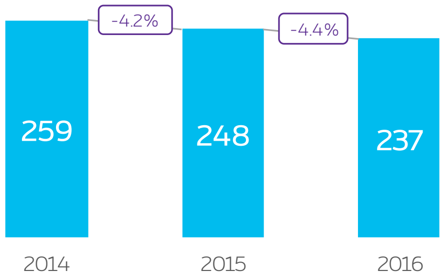
A good revenue uptake in both National and International ICT led to **a solid total ICT revenue of EUR 475 million, or up by 4.5%** from the prior year. The year-on-year increase by EUR 20 million included a good growth in ICT services and some large products deals.

+4.5%
ICT revenue growth

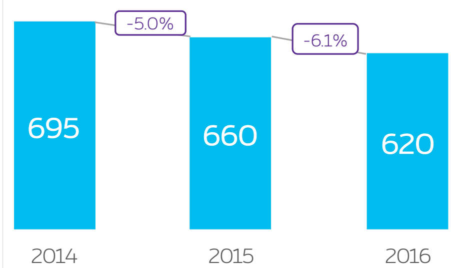
proximus

For 2016, Enterprise posted **EUR 237 million revenue from Fixed Voice lines**, which is 4.4% less than for 2015. This resulted from continued Fixed Voice line erosion triggered by companies rationalizing on Fixed line connections and the move to IP-based Voice Solutions. In the course of 2016, the line erosion equaled 40,000 bringing the total Fixed line base to 620,000, i.e. a year-on-year lines loss of 6.1%. The 2016 Fixed Voice ARPU of EUR 30.9 was 1.5% higher than for 2015, strengthened by limited upward price revisions.

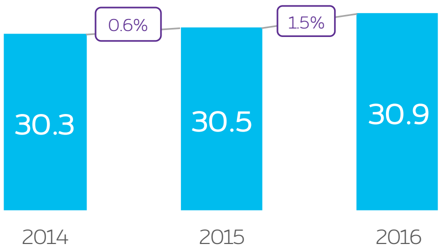
Fixed voice revenue (M€)



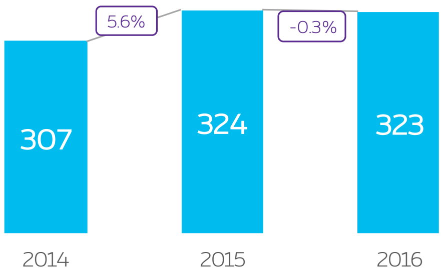
Fixed voice lines (in '000)



Fixed voice ARPU (in €)

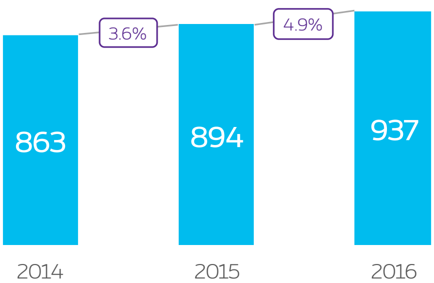


Mobile services revenue (M€)



For 2016 the Enterprise segment posted **Mobile services revenue of EUR 323 million, nearly stable (-0.3%) in relation to the previous year**, in spite of an eight-month impact of roaming regulation.

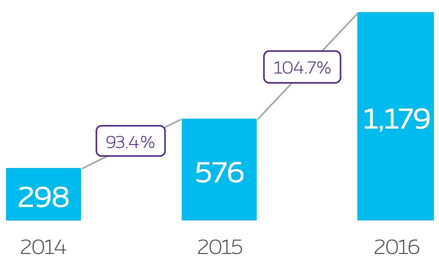
Mobile cards excluding M2M and free data cards (in '000)



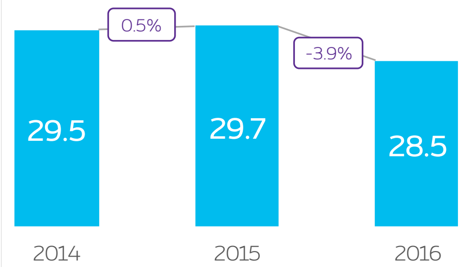
+43,000
Mobile cards added

Despite operating in a competitive landscape, the Enterprise segment showed a continued solid growth in its Mobile cards park, up by 4.9% to 937,000 mobile cards (Machine-to-machine and free data cards excluded). The sustained growth in mobile voice cards was supported by a low mobile churn of 10.0%, reflecting good customer experience of Proximus' mobile network and service levels, and increasing customer satisfaction.

Mobile M2M and free data cards (in '000)



Mobile ARPU (in €)



With the roll-out of the Road User Charging project[5], the number of M2M cards activated in 2016 was boosted. Enterprise added a total of 603,000 M2M cards in 2016.

Tiering of mobile subscriptions continued to improve in the Medium Enterprise Segment, with high-end pricing plans gaining traction, providing more abundance to customers. Data usage picked-up considerably, resulting from a greater smartphone penetration and a growing number of 4G users. The average data usage went up by 52% compared to one year ago to 982 Mb/user/month for 2016. These beneficial usage evolutions could however not fully offset the roaming regulation impact on ARPU.

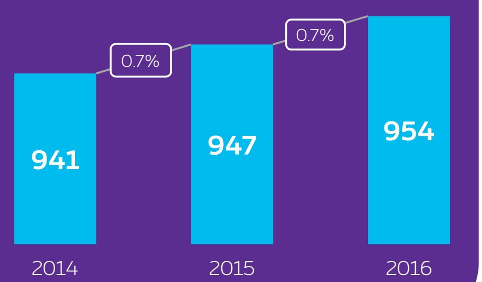
The full-year 2016 Mobile ARPU totaled EUR 28.5, down by 3.9% from the previous year.

Enterprise Direct Margin

+0.7%
Direct Margin

For the year 2016 the Enterprise segment posted a total direct margin of EUR 954 million, a favorable evolution of 0.7% compared to the previous year. The Direct Margin as percentage of revenue went down 0.8pp to reach 70.2% as a result of a changing revenue mix, with ICT taking an increasing share in the total Enterprise revenue.

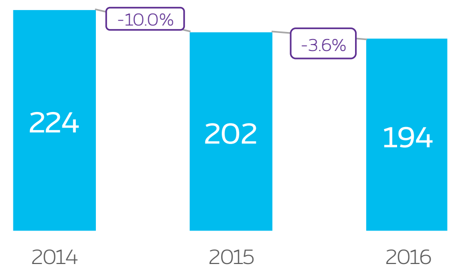
Direct Margin - 3-year view (underlying, M€)



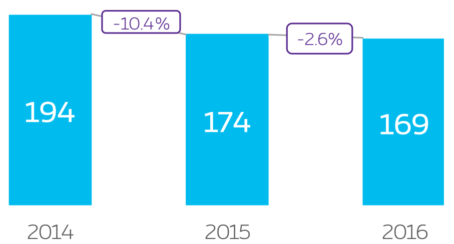
[5] Road User Charging is a project in which Proximus acts as a subcontractor for "Satellic", offering data center, M2M and Explore services to implement distance-based road charging in Flanders, Wallonia and Brussels for trucks as from April 2016.

5. Wholesale

Revenue - 3-year view (underlying, M€)



Direct Margin - 3-year view (underlying, M€)

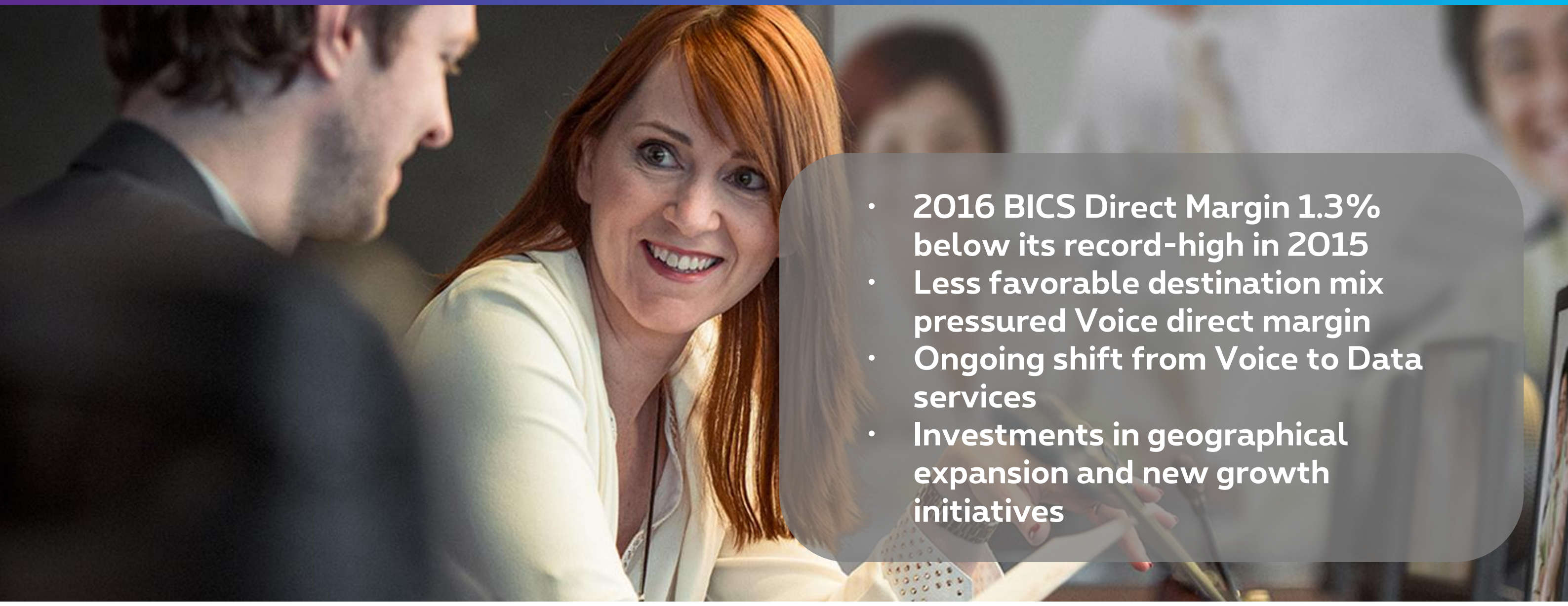


For 2016, Proximus' **Wholesale revenue totaled EUR 194 million, or 3.6% lower than for 2015.** This was largely due to a six-month impact from the ceased revenue stream from Snow (3-Play offer launched by BASE using the Proximus network through a commercial wholesale agreement). Snow customers were fully outphased by mid-2015, hence the year-on-year impact faded as of mid-2016. A large part of the Snow customers opted for Scarlet, Proximus' low-cost brand. The Snow-effect aside, the Wholesale revenues were impacted by the regulated lowering of Fixed Termination Rates as of November 2016.

This was partially compensated for by higher Roaming-in revenue. The revenue from visitor roaming was up due to a steep increase in data volumes which more than compensated for the heavy pressure on prices.

Wholesale posted a Direct Margin of EUR 169 million, or 2.6% lower than for 2015.

Loss in Wholesale access revenue partly compensated for by higher Roaming-in revenue



- 2016 BICS Direct Margin 1.3% below its record-high in 2015
- Less favorable destination mix pressured Voice direct margin
- Ongoing shift from Voice to Data services
- Investments in geographical expansion and new growth initiatives

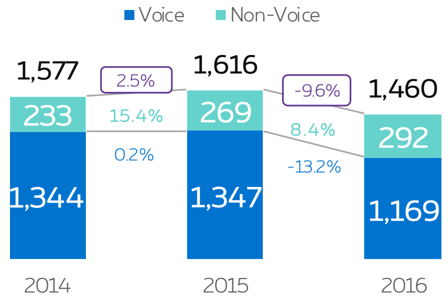
6. International Carrier Services – BICS

Revenue

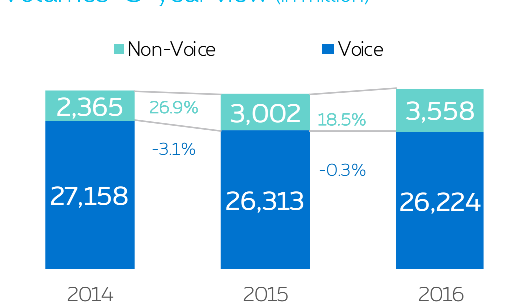
In a highly competitive international communications market, BICS defended its leadership position in 2016. BICS closed the year with a total revenue of EUR 1,460 million, i.e. 9.6% less than for the prior year. In a volatile Voice market, BICS maintained its Voice volumes fairly stable at 26.2 billion minutes, although with a less favorable destination mix than for 2015. This resulted in a 13.2% decline in Voice revenue.

Non-voice revenue however was up year-on-year by 8.4%, driven by a continued steep volume increase (+18.5%).

Revenue - 3-year view (underlying, M€)

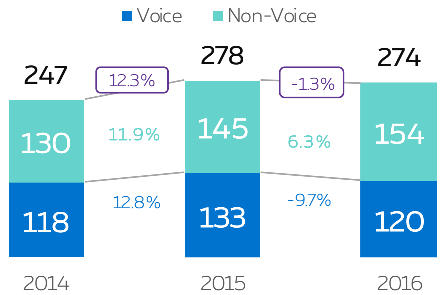


Volumes- 3-year view (in million)



Direct margin

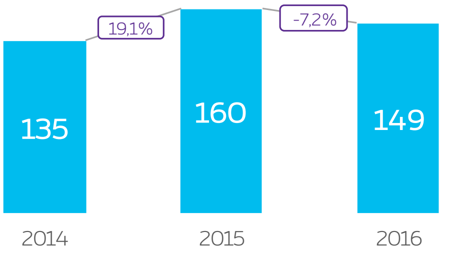
Direct margin - 3-year view (underlying, M€)



For the year 2016, **BICS' direct margin of EUR 274 million was 1.3% below the high comparable base of 2015**, during which BICS benefitted from favorable though temporary conditions on the Voice market. The volatility in the Voice market resulted in a 9.7% decline in Voice direct margin for 2016, in part offset by a growth in non-Voice direct margin.

Segment result

Segment result - 3-year view (underlying, M€)



The **segment result of BICS amounted to EUR 149 million, 7.2% lower than for 2015** due to a combination of lower direct margin and higher expenses, mainly related to geographical expansion and investments in new growth initiatives.

7. Quarterly results

Group – Financials

(EUR million)	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
REPORTED										
Revenues	1,482	1,511	1,509	1,509	**6,012**	1,433	1,463	1,488	1,490	**5,873**
EBITDA	425	456	344	421	**1,646**	417	428	441	447	**1,733**
UNDERLYING										
Revenues per Segment	**1,479**	**1,505**	**1,509**	**1,502**	**5,994**	**1,433**	**1,460**	**1,487**	**1,490**	**5,871**
Domestic	1,080	1,094	1,088	1,117	**4,379**	1,077	1,101	1,105	1,127	**4,410**
Consumer	712	727	720	733	**2,892**	710	718	734	742	**2,905**
Enterprise	328	326	331	350	**1,335**	329	345	334	352	**1,360**
Wholesale	51	53	51	48	**202**	48	49	51	46	**194**
Other (incl. eliminations)	-11	-12	-14	-13	**-50**	-10	-11	-14	-14	**-49**
International Carrier Services (BICS)	399	411	420	385	**1,616**	356	359	382	363	**1,460**
Costs of materials and charges to revenues (*)	-590	-590	-592	-605	**-2,377**	-531	-550	-569	-593	**-2,242**
Direct Margin	**890**	**915**	**917**	**896**	**3,617**	**902**	**911**	**918**	**897**	**3,628**
Direct Margin %	*60.1%*	*60.8%*	*60.8%*	*59.7%*	***60.3%***	*63.0%*	*62.4%*	*61.7%*	*60.2%*	***61.8%***
Total expenses before D&A	**-482**	**-460**	**-464**	**-478**	**-1,884**	**-484**	**-448**	**-444**	**-456**	**-1,832**
Workforce expenses	-302	-299	-311	-288	**-1,199**	-295	-293	-289	-282	**-1,159**
Non Workforce expenses	-180	-161	-153	-190	**-685**	-189	-155	-156	-174	**-673**
EBITDA	**408**	**455**	**453**	**418**	**1,733**	**418**	**463**	**474**	**441**	**1,796**
Segment EBITDA margin %	*27.6%*	*30.2%*	*30.0%*	*27.8%*	***28.9%***	*29.2%*	*31.7%*	*31.9%*	*29.6%*	***30.6%***

(*) referred to as "Cost of sales" in the document

Group – EBITDA

(EUR million)	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
REPORTED										
EBITDA	425	456	344	421	**1,646**	417	428	441	447	**1,733**
UNDERLYING										
EBITDA Group	**408**	**455**	**453**	**418**	**1,733**	**418**	**463**	**474**	**441**	**1,796**
Domestic	369	408	412	384	**1,573**	383	425	435	405	**1,647**
International Carrier Services (BICS)	39	47	41	34	**160**	35	38	40	36	**149**

Consumer – Financials

(EUR million)	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
REPORTED										
Revenues	712	727	720	733	**2,892**	710	718	734	742	**2,905**
UNDERLYING										
Revenues	712	727	720	733	**2,892**	710	718	734	742	**2,905**
From Fixed	365	368	375	377	**1,484**	379	381	383	384	**1,526**
Voice	139	137	138	137	**551**	134	131	131	128	**524**
Data (Internet & Data Connectivity)	135	137	142	144	**558**	147	151	150	151	**599**
TV	78	82	82	85	**327**	87	88	91	94	**360**
Terminals (excl. TV)	5	5	5	4	**19**	4	4	4	4	**15**
ICT	7	7	7	8	**29**	7	7	7	7	**29**
Mobile Services	246	254	255	250	**1,006**	248	250	251	246	**995**
Postpaid	200	208	213	210	**831**	210	213	216	213	**852**
Prepaid	46	47	42	40	**174**	38	38	35	33	**144**
MobileTerminals	40	40	28	36	**145**	25	30	37	53	**146**
Subsidiaries (Tango)	31	31	33	35	**130**	31	30	32	34	**127**
Other	30	33	30	34	**128**	28	27	30	26	**110**
Costs of materials & charges to revenues	-171	-174	-161	-187	**-692**	-160	-163	-172	-197	**-691**
Direct Margin	542	553	560	545	**2,200**	551	555	562	546	**2,214**
Direct Margin %	*76.0%*	*76.0%*	*77.7%*	*74.5%*	***76.1%***	*77.5%*	*77.3%*	*76.6%*	*73.5%*	***76.2%***

Consumer – Operationals

	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
From Fixed										
Number of access channels (thousands)	3,789	3,810	3,811	3,830	**3,830**	3,837	3,832	3,824	3,841	**3,841**
Voice	2,140	2,136	2,121	2,112	**2,112**	2,096	2,078	2,058	2,060	**2,060**
Broadband	1,649	1,674	1,690	1,718	**1,718**	1,741	1,754	1,767	1,781	**1,781**
TV (thousands)	1,657	1,692	1,716	1,759	**1,759**	1,795	1,816	1,834	1,848	**1,848**
Unique Customers	1,340	1,365	1,384	1,414	**1,414**	1,440	1,458	1,472	1,489	**1,489**
of which multiple settop boxes	317	327	332	345	**345**	354	357	361	359	**359**
ARPU (EUR)										
ARPU Voice	21.7	21.3	21.7	21.5	**21.6**	21.3	20.9	21.2	20.8	**21.0**
ARPU broadband	27.6	27.5	28.2	28.0	**27.9**	28.3	28.8	28.4	28.3	**28.4**
ARPU TV	19.8	20.1	20.0	20.1	**20.0**	20.2	20.2	20.7	21.1	**20.6**
From Mobile										
Number of active customers (thousands)	4,230	4,229	4,236	4,229	**4,229**	4,202	4,189	4,172	4,125	**4,125**
Prepaid	1,416	1,376	1,341	1,307	**1,307**	1,268	1,239	1,210	1,170	**1,170**
Postpaid	2,815	2,853	2,895	2,922	**2,922**	2,934	2,950	2,962	2,955	**2,955**
Among Which Paying cards	2,333	2,359	2,393	2,430	**2,430**	2,437	2,455	2,469	2,496	**2,496**
Among Which Internet Everywhere cards	482	494	502	492	**492**	496	495	494	459	**459**
Annualized churn rate (blended)										
Prepaid	33.7%	32.7%	35.0%	35.4%	**34.2%**	35.0%	35.0%	37.9%	37.2%	**36.3%**
Postpaid	15.4%	13.4%	13.8%	15.6%	**14.5%**	15.2%	14.0%	15.5%	16.4%	**15.2%**
Blended	22.7%	20.9%	21.9%	23.0%	**22.1%**	22.4%	21.5%	23.4%	23.5%	**22.7%**
Net ARPU (EUR)										
Prepaid	10.7	11.2	10.4	10.0	**10.5**	9.8	10.1	9.6	9.2	**9.7**
Postpaid	28.9	29.6	30.0	29.1	**29.4**	28.8	28.9	29.3	28.7	**28.9**
Blended	21.9	22.7	22.8	22.3	**22.4**	22.2	22.6	22.8	22.4	**22.5**
Average Mobile data usage user/month (Mb)										
4G	855	851	920	945		1,039	1,090	1,107	1,197	
Blended	474	511	581	627		725	790	842	945	

X-Play reporting

	Q115	Q215	Q315	Q415	**2015**	Q116	Q216	Q316	Q416	**2016**
Consumer X-Play Reporting										
Households/Small Offices per Play - Total (thousands)	2,928	2,939	2,942	2,951	**2,951**	2,951	2,950	2,945	2,943	**2,943**
4 - Play	510	521	531	547	**547**	555	564	571	601	**601**
3 - Play	722	738	744	755	**755**	768	771	775	763	**763**
2 - Play	472	468	462	455	**455**	451	449	446	438	**438**
1 - Play	1,224	1,212	1,204	1,194	**1,194**	1,177	1,166	1,153	1,141	**1,141**
Fixed Voice	458	444	430	415	**415**	398	384	372	358	**358**
Fixed Internet	112	115	117	119	**119**	122	123	125	127	**127**
TV	N/A	N/A	N/A	N/A	**N/A**	N/A	N/A	N/A	N/A	**N/A**
Mobile Postpaid	653	653	658	661	**661**	657	658	656	656	**656**
Average revenue x - play (in EUR)	63.4	64.1	65.5	65.0	**64.5**	65.5	65.7	66.8	66.2	**66.1**
4 - Play	115.0	115.4	116.6	115.1	**115.5**	114.9	114.9	116.1	115.1	**115.2**
3 - Play	80.6	79.9	80.7	79.6	**80.2**	79.6	79.3	80.0	78.5	**79.3**
2 - Play	57.8	57.7	59.0	58.7	**58.3**	58.9	58.5	59.1	58.3	**58.7**
1 - Play	35.0	35.4	36.4	35.8	**35.7**	36.0	36.0	36.9	36.2	**36.3**
Average #RGUs per househould/Small Office - Total	2.5	2.6	2.6	2.6	**2.6**	2.6	2.6	2.6	2.6	**2.6**
4 - Play	4.8	4.8	4.8	4.8	**4.8**	4.8	4.8	4.8	4.8	**4.8**
3 - Play	3.3	3.3	3.3	3.3	**3.3**	3.3	3.3	3.3	3.3	**3.3**
2 - Play	2.2	2.2	2.2	2.2	**2.2**	2.2	2.2	2.2	2.2	**2.2**
1 - Play	1.2	1.2	1.2	1.2	**1.2**	1.2	1.2	1.2	1.2	**1.2**
Annualized churn rate (blended)										
4 - Play	2.9%	2.5%	3.0%	2.9%	**2.8%**	2.8%	2.7%	2.4%	2.8%	**2.7%**
3 - Play	10.6%	9.6%	11.8%	11.2%	**10.8%**	10.4%	9.6%	9.6%	10.2%	**9.9%**
2 - Play	12.4%	10.7%	12.3%	11.3%	**11.7%**	12.1%	10.3%	10.9%	11.6%	**11.2%**
1 - Play	22.1%	18.1%	19.1%	20.3%	**19.9%**	20.8%	18.8%	20.5%	22.0%	**20.5%**
% Convergent HH / SO - Total										
4 - Play	100.0%	100.0%	100.0%	100.0%	**100.0%**	100.0%	100.0%	100.0%	100.0%	**100.0%**
3 - Play	36.2%	36.1%	36.5%	36.9%	**36.9%**	36.8%	37.0%	37.6%	36.6%	**36.6%**
2 - Play	23.3%	23.3%	23.5%	23.8%	**23.8%**	23.5%	23.4%	23.4%	23.5%	**23.5%**

Enterprise – Financials

(EUR million)	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
REPORTED										
Revenues	328	326	331	350	**1,335**	329	345	334	352	**1,360**
UNDERLYING										
Revenues	328	326	331	350	**1,335**	329	345	334	352	**1,360**
From Fixed	238	236	242	256	**971**	237	250	241	254	**982**
Voice	64	62	61	61	**248**	61	60	58	58	**237**
Data (Internet & Data Connectivity)	62	62	63	63	**250**	63	63	63	62	**251**
Terminals	5	5	5	5	**19**	5	5	5	5	**19**
ICT	107	107	113	127	**455**	108	123	115	129	**475**
Mobile Services	79	80	82	83	**324**	83	80	80	80	**323**
MobileTerminals	6	3	3	6	**18**	4	5	5	7	**21**
Other	6	6	4	5	**21**	5	9	8	11	**34**
Costs of materials & charges to revenues	-93	-91	-95	-109	**-388**	-91	-105	-99	-111	**-406**
Direct Margin	235	235	236	241	**947**	237	240	235	242	**954**
Direct Margin %	*71.7%*	*72.2%*	*71.4%*	*68.8%*	***71.0%***	*72.2%*	*69.6%*	*70.4%*	*68.5%*	***70.2%***

Enterprise – Operationals

	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
From Fixed										
Number of access channels (thousands)	825	815	808	798	**798**	784	774	768	758	**758**
Voice	686	677	670	660	**660**	647	637	630	620	**620**
Broadband	139	138	137	137	**137**	137	137	138	138	**138**
ARPU (EUR)										
ARPU Voice	30.8	30.1	30.3	30.7	**30.5**	31.1	31.1	30.7	30.8	**30.9**
ARPU Broadband	43.5	43.8	44.5	43.7	**43.9**	43.4	43.6	43.8	43.3	**43.5**

	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
From Mobile										
Number of active customers (thousands)	1,179	1,200	1,338	1,470	**1,470**	1,889	2,014	2,093	2,117	**2,117**
Among which voice and data cards	869	879	885	894	**894**	901	910	924	937	**937**
Among which M2M (including a limited number of Interne	311	321	453	576	**576**	988	1,105	1,169	1,179	**1,179**
Annualized churn rate (blended)	11.3%	10.0%	8.9%	10.3%	**10.1%**	10.8%	10.7%	8.9%	9.8%	**10.0%**
Net ARPU (EUR)										
Postpaid	29.3	29.7	30.0	30.0	**29.7**	29.8	28.6	28.1	27.6	**28.5**
Average Mobile data usage user/month (Mb)										
4G	718	752	811	862		973	1,045	1,074	1,170	
Blended	488	529	590	645		756	833	880	982	

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Wholesale – Financials

(EUR million)	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
REPORTED										
Revenues	51	53	51	48	**202**	48	49	51	46	**194**
UNDERLYING										
Revenues	51	53	51	48	**202**	48	49	51	46	**194**
Direct Margin	43	46	44	41	**174**	43	43	44	40	**169**
Direct Margin %	*85.5%*	*86.6%*	*86.3%*	*86.3%*	***86.2%***	*88.4%*	*88.4%*	*85.8%*	*86.0%*	***87.1%***

Wholesale – Operationals

	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q316	Q416	2016
From Fixed										
Number of access channels (thousands)										
Voice (1)	9	9	9	8	**8**	9	9	8	8	**8**
Broadband (1)	1	1	1	1	**1**	1	1	1	1	**1**
From Mobile										
Number of active Mobile customers (thousands)										
Retail (1)	11	10	10	10	**10**	10	10	9	9	**9**
MVNO	11	11	11	12	**12**	13	14	15	16	**16**

(1) i.e. Proximus retail products sold via Wholesale (OLO's own usage and reselling)

BICS – Financials

(EUR million)	Q115	Q215	Q315	Q415	2015	Q116	Q216	Q3216	Q416	2016
REPORTED										
Revenues	399	411	420	385	**1,616**	356	359	382	363	**1,460**
Segment Result	39	47	41	34	**160**	35	38	40	37	**149**
UNDERLYING										
Revenues	399	411	420	385	**1,616**	356	359	382	363	**1,460**
Revenues from Voice	335	347	347	318	**1,347**	286	288	303	291	**1,169**
Revenues from non-Voice	65	64	73	67	**269**	70	71	79	72	**292**
Costs of materials and charges to revenues	-335	-336	-348	-320	**-1,338**	-289	-292	-310	-296	**-1,186**
Direct Margin	65	75	73	65	**278**	67	67	73	68	**274**
Direct Margin %	*16.2%*	*18.3%*	*17.4%*	*16.9%*	***17.2%***	*18.8%*	*18.6%*	*19.1%*	*18.6%*	***18.8%***
Total expenses before D&A	-25	-29	-32	-32	**-118**	-32	-29	-33	-31	**-125**
Workforce expenses	-12	-14	-13	-15	**-53**	-13	-13	-14	-13	**-53**
Non Workforce expences	-14	-15	-19	-17	**-64**	-19	-16	-20	-18	**-72**
Segment result	39	47	41	34	**160**	35	38	40	36	**149**
Segment contribution margin %	*9.8%*	*11.3%*	*9.7%*	*8.7%*	***9.9%***	*9.9%*	*10.5%*	*10.3%*	*10.0%*	***10.2%***

Definitions

Annualized full churn rate of X-Play: a cancellation of a household is only taken into account when the household cancels all its Plays.

Annualized Mobile churn rate: the total annualized number of SIM cards disconnected from the Proximus Mobile network (including the total number of port-outs due to Mobile number portability) during the given period, divided by the average number of customers for that same period.

ARPH: Average underlying revenue per household (including Small Offices).

ARPU: Average Revenue per Unit

Blended Mobile ARPU : calculated on the basis of monthly averages for the period indicated. Blended monthly ARPU is equal to total Mobile voice and Mobile data revenues of both prepaid and postpaid customers, divided by the average number of active prepaid and postpaid customers for that period, divided by the number of months of that same period. This also includes MVNO's but excludes free data cards and M2M.

Broadband access channels: containing both ADSL and VDSL lines. For Consumer specifically, this also contains the Belgian residential lines of Scarlet.

Broadband ARPU: total Internet underlying revenue, excluding activation and installation fees, divided by the average number of Internet lines for the period considered, divided by the number of months in that same period.

BICS: the Proximus Group placed its international carrier activities under the brand BICS, a joint venture of Proximus, Swisscom and MTN in which Proximus owns 57.6% of BICS.

Business working capital: this corresponds to the working capital related to Trades Receivable, Inventory and Trades Payable

Capex: this corresponds to the acquisitions of intangible assets and property, plant and equipment

Consumer: segment addressing the residential and small businesses (less than 10 employees) market and including Proximus' Customer Operations Unit.

Cost of Sales: the costs of materials and charges related to revenues

Direct margin (reported): the result of cost of sales subtracted from the revenues (including non-recurring), expressed in absolute value or in % of revenues.

Direct margin (underlying): the result of underlying cost of sales subtracted from the underlying revenue, expressed in absolute value or in % of revenues.

Domestic: defined as the Proximus Group excluding BICS

EBITDA (reported): Earnings Before Interest, Taxes Depreciations and Amortization; corresponds to Revenue (including non-recurring) minus Cost of sales, workforce and non-workforce expenses and non-recurring expenses.

EBITDA (underlying): Earnings Before Interest, Taxes Depreciations and Amortization; corresponds to underlying revenue minus underlying Cost of sales, workforce and non-workforce expenses

EBIT: Earning Before Interest & Taxes, corresponds to EBITDA minus depreciations and amortizations

Enterprise: segment addressing the professional market including small businesses with more than 10 employees

Fixed Voice access channels: containing PSTN, ISDN and IP lines. For Enterprise specifically, this also contains the number of Business Trunking lines (solution for the integration of voice and data traffic on one single data network.)

Fixed Voice ARPU: total voice underlying revenue, excluding activation related revenue, divided by the average voice access channels for the period considered, divided by the number of months in that same period.

FCF : Free Cash Flow. This is Cash flow before financing activities.

General and Administrative expenses (G&A): remaining domestic expenses; excluding Marketing, Sales and Servicing and Network and IT expenses, i.e. mainly overhead.

ICT: Information and Communications Technology (ICT) is an extended term for information technology (IT) which stresses the role of unified communications and the integration of telecommunications (telephone lines and wireless signals), computers as well as necessary enterprise software, middleware, storage, and audio-visual systems, which enable users to access, store, transmit, and manipulate information. Proximus' ICT solutions cover, but are not limited to, Security, Cloud, "Network & Unified Communication", "Enterprise Mobility Management" and "Servicing and Sourcing".

Incidental: adjustments including non-recurring income and expenses (*) and other material(**) items that are out of usual business operations, such as: divestments of consolidated companies, gains and losses on disposal of buildings, M&A (acquisition, merger, divestment,…) related transaction costs, deferred M&A purchase price, pre-identified one shot projects (such as rebranding costs), changes of accounting treatments (such as the application of IFRIC 21), financial impacts of litigation files, fines and penalties, financial impact of law changes (one-off impact relative to previous years), recognition of previously unrecognized assets and impairment losses.

A detailed reconciliation from Reported to Underlying Revenue and EBITDA is presented in section 1. (number to update)

(*) Non-recurring income and non-recurring expenses include gains or losses on the disposal of consolidated companies exceeding individually EUR 5 million, fines and penalties imposed by competition authorities or by the regulator exceeding EUR 5 million, costs of employee restructuring programs and the effect of settlements of post-employment benefit plans with impacts for the beneficiaries.

(**) The materiality threshold is met when an impact exceeds EUR 5 million. No materiality threshold is defined for divestments of consolidated companies, gains and losses on disposal of buildings, M&A related transaction costs and deferred M&A purchase price. No threshold is used for adjustments in a subsequent quarter of the same year if the threshold was met in a previous quarter.

Marketing, Sales and Servicing expenses: all expenses related to Consumer, Enterprise and Wholesale customers, including remote servicing.

Mobile active customers: includes voice and data cards as well as Machine-to-Machine (Enterprise). Active customers are customers who have made or received at least one call and/or sent or received at least one SMS message in the last three months. A M2M card is considered active if at least one data connection has been made in the last month.

Mobile ARPU: calculated on the basis of monthly averages for the period indicated. Monthly ARPU is equal to total Mobile voice and Mobile data revenues, divided by the average number of active Mobile customers for that period, divided by the number of months of that same period. This also includes MVNO's but excludes free data cards and M2M.

Multi-Play household (including Small Offices): two or more Plays, not necessarily in a Pack.

Network and IT expenses: all IT and Network related expenses, including interventions at customer premises

Net debt: refers to the total interest bearing debt (short term + long term) minus cash and cash equivalents.

Non Workforce expenses: all operating expenses excluding workforce expenses, and excluding depreciation and amortization and non-recurring expenses.

Play: a subscription to either Fixed Voice, Fixed Internet, dTV or Mobile Postpaid (paying Mobile cards). A 4-Play customer subscribes to all four services.

Revenue-Generating Unit (RGU): For example, a household with Fixed Internet and 2 Mobile Postpaid cards is considered as a 2-Play household with 3 RGUs.

Reported Revenues: this corresponds to the TOTAL INCOME.

TV ARPU: includes only customer-related underlying revenue and takes into account promotional offers, excluding activation and installation fees, divided by the number of households with Proximus or Scarlet TV.

Underlying: refers to adjusted Revenue and EBITDA (Total Income and Operating Income before Depreciation and Amortisation) for incidentals in order to properly assess the ongoing business performance.

Wholesale: Proximus' unit addressing the telecom wholesale market incl. other telecom operators (incl. MVNO) and ISP's.

Workforce expenses: Workforce expenses are expenses related to own employees (personnel expenses and pensions) as well as to external employees. For subsidiaries, Workforce expenses include internal personnel expenses and pensions only.

X-Play: the sum of single Play (1-Play) and multi-Play (2-Play + 3-Play + 4-Play).

Risk Management

Taking risks is inherent to doing business and successfully managing risks delivers return to Proximus stakeholders. Proximus believes that risk management is fundamental to corporate governance and the development of sustainable business. The Group has adopted a risk philosophy that is aimed at maximizing business success and shareholder value by effectively balancing risk and reward. The objective of risk management is not only to safeguard the Group's assets and financial strength but also to protect Proximus' reputation. A structured risk management process allows management to take risks in a controlled manner. Financial risk management objectives and policies are reported in Note 33 of the consolidated financial statements, published on the Proximus website. Risks related to important ongoing claims and judicial procedures are reported in Note 35 of these statements. The enterprise and financial reporting risks are detailed below, together with the related mitigating factors and control measures. Note that this is not intended to be an exhaustive analysis of all potential risks Proximus might be facing.

Enterprise-wide risks

Proximus' Enterprise Risk Management (ERM) is a structured and consistent framework for assessing, responding to and reporting on risks that could affect the achievement of Proximus' strategic development objectives. The Group's ERM covers the spectrum of business risks ("potential adverse events") and uncertainties that Proximus could encounter. It seeks to maximize value for shareholders by aligning risk management with the corporate strategy, assessing the emerging risk from regulation, new technologies on the market, and developing risk tolerance and mitigating strategies. Proximus ERM has been reviewed and updated every year since 2006. This risk assessment and evaluation takes place as an integral part of Proximus' annual strategic planning cycle. All relevant risks and opportunities are prioritized in terms of impact and likelihood, considering quantitative and/or qualitative aspects. The bottom-up identification and prioritization process is supported by a self-assessment template and validation sessions. The resulting report on major risks and uncertainties is then reviewed by the Executive Committee, the CEO and the Audit and Compliance Committee. The main findings are communicated to the Board of Directors. Among the risks identified in the ERM exercise of 2016, the following risk categories were prioritized:

- Competitive market dynamics
- Human Resource cost flexibility
- Business model evolution
- Customer experience
- Innovation

Competitive market dynamics

Proximus' business is primarily focused on Belgium, a small country with a few large telecom players, among which Proximus is the incumbent. Proximus is operating in growing (e.g. smartphones, mobile data, M2M, IT), maturing (e.g. Fixed Internet, post-paid mobile), saturated (e.g. fixed voice) or even declining (e.g. prepaid mobile) markets.

The market is in constant evolution, with competitive dynamics at play that might impact market value going-forward. The Telenet-Base merger, the entry of Mobistar (renamed Orange Belgium as from May 2016) into cable, the transfer of Telenet MVNO customers to the BASE network freeing up capacity on the network of Orange Belgium, the acceleration of adoption of OTT applications disrupting the value of voice and messaging are important, non-exhaustive, factors that could lead to further pressure on the market.

Moreover, Proximus' main competitors Orange Belgium , BASE and Telenet, are subsidiaries of Orange and Liberty Global respectively, all large international operators able to leverage their larger organisation. Nethys and Brutélé (commercial name VOO) are important local cable competitors in the South of the country.

A stronger combined competition (e.g. Telenet-Base or a potential consolidation among cable operators), a new market entrant (e.g. Orange via cable wholesale) or radical price competition could cost Proximus market share or force the company to revise prices downwards, impacting negatively revenue and profit.

Substitution by OTT services of fixed line services (e.g. by apps and social media like Skype, Facebook, Whatsapp, etc.) and TV content could put further pressure on revenues and margins as these over-the-top services are further gaining ground.

Nevertheless, as a result of its long-term strategy and continued network investments (Fiber, VDSL/Vectoring, 4G/4G+, Mobile Coverage Extender, Wi-Fi Extender) Proximus has been consistently improving its multi-play value propositions by putting more customers on the latest technologies, keeping the lead in mobile innovation, structurally improving customer service, partnering with content and OTT players to offer a broad portfolio of content (Sports, Netflix, families & kids, …) , developing an omnichannel strategy and improving digital customer interfaces, … Proximus has build up an advantageous and solid competitive position providing the company with other levers than just price, reducing the risk to churn and price disruption exposure.

Cable operators have chosen to vertically integrate the value chain, by buying content or even participations in broadcast channels. Proximus is responding to these threats through a convergent and bundled approach and by offering new services (e.g. TV Replay, Proximus Cloud, Smart and Safe Living) and opting for an aggregator model, putting at disposal the best content to its customers (e.g. Netflix).

In 2016, Proximus continued to leverage and nurture its single convergent brand. The price-sensitive segment is still addressed via its subsidiary Scarlet. The latter offers attractively priced mobile and triple-play products.

In the SME market, besides the competitors also active in the Consumer market, we face competition from niche players in the different product markets. In the large-company market, Proximus faces competition from internationally oriented operators like Orange Business Services, Colt, Verizon Business and BT Belgium, and from integrators such as Dimension Data, Getronics, Cegeka and RealDolmen. The scattered competitive landscape drives price competition, which might further impact revenue and margins. Also Telenet's acquisition of Base could further drive price competition on the Enterprise mobile market. Cable operators are also making further inroads into the Fixed Enterprise market.

Here also, Proximus intends to respond to increasing competition by strengthening its voice-data-IT convergence strategy, leveraging unmatched sales reach, broad portfolio and expertise. Addressing customer business needs through solutions combining core assets with innovation like IoT, Cloud, Security and big data will help preserving the value.

The upcoming roaming regulation could also trigger new kinds of competition on the market as from mid-2017.

The international carrier services market continues to be characterized by high volatility within its voice segment. Unit margins for both the legacy voice and data segments continue to be under significant pressure as a result of price competition, consolidation of competitors and the ease with which customers are able to change providers. If these two elements (volatility and unit price pressure) should continue and/or if BICS does not offset price decreases with increased volume on new activities, BICS' growth rate, operating revenue and net profit could come under pressure. In addition, the competitive pressure on the mobile data market continues to increase and therefore affect the growth profile of the International Carrier Services.

Human resources cost flexibility

Even though Proximus is back on the path of growth since 2015, strong competition, the impact of regulation and fast market evolution require that we need to further reduce costs in order to remain competitive and preserve EBITDA. A significant part of Proximus' expenses is driven by the cost of the workforce (whether internal or outsourced, expensed or capitalized). Expressed as a ratio of turnover, Proximus total cost of workforce lies clearly above the average of international peers and main competitors.

Moreover, Belgium applies automatic inflation-based salary increases, leading to higher costs, not only of Proximus' own employees but also of the outsourced workforce, with the outsourcing companies being subject to the indexation as well.

At Proximus Group level, about one in three employees is statutory. The application of HR rules for statutory employees is quite strict and doesn't allow high flexibility. This may restrict Proximus' ability to improve efficiency and increase flexibility to levels comparable to those of its competitors.

Major efforts will be needed to increase flexibility and mobility within the organization. Business complexity is continuously increasing, creating a need for upgraded skills and up-staffing mainly in customer-facing functions.

In the digital era, knowledge workers are a competitive asset if they have the right skills and mindset. Proximus could face a shortage of skilled resources in very specific domains like security, digital front-ends, data science, agile IT, … This shortage could hamper the realization of our convergent and customer-centric strategy and delay some of our ambitions in innovation. This is why the company is putting so much attention on training programs, internal mobility, and selective hiring of young graduates from relevant fields of knowledge. Proximus' attractive employer brand is definitely helping to attract and retain the right talents.

In 2016, a voluntary early leave plan prior to retirement for employees above 60 years old was agreed by the unions (with implementation started and ongoing). However, the need remains to get unions approval on new measures to enhance employability, to obtain more flexibility to move employees within the organization, to adapt the workforce faster in line with the actual workload, and to align remuneration items with common market practices.

Proximus will continue to adapt and simplify the organizational structure in order to evolve towards a high-performance organization.

Different initiatives are ongoing to safeguard the balance between workforce and workload (both in numbers and competencies), to optimize in- and outsourcing, to stimulate (internal) mobility, and to drastically simplify and/or automate Proximus' products, services, processes and systems.

Business model evolution

Proximus' business model and financial performance have been and will be impacted by (disruptive) technologies, such as eSIM smartphones and OTT (over-the-top) services. Proximus' response to new technologies and market developments and its ability to introduce new competitive products or services, meaningful to its customers, will be essential to its performance and profitability in the long run.

The direct relationship with customers is a source of value and losing part or all of it to those new entrants could affect revenues, margins, the financial position and the outlook of Proximus classical telecommunications products & services.

Like other operators, Proximus will continue to experience a decline in traditional services (voice and access), partly offset by the increase in revenues from innovative services, but the margins delivered by these new services are, on average, lower than the ones from legacy activities.

In response to this competition, Proximus aims at providing an improved answer to the needs of its customers by offering them integrated solutions that are composed of convergent products, including fixed and mobile communications solutions, service level agreements and managed services. Adding meaningful innovation and embracing selected OTT partners will be instrumental to remain relevant to its customers .

Proximus will continue to increase collaboration with partners and open more and more assets to them, playing a new role of enabling company.

Customer experience

A lack of customer focus could negatively impact loyalty and growth ambition .
For Proximus , delivering a superior customer experience remains a daily challenge considering ;

- the fast evolution of market expectations
- the large & complex offer of product & services
- the process /legacy IT application complexity

To support Proximus ambition to deliver a superior customer experience an ambitious transformation program was set up to address these challenges, steer and monitor the transformation of Proximus organization into a customer centric one in line with the Proximus sense of purpose to connect everyone and everything so people live better and work smarter.

The following main achievements have been realised in 2016:

- Anticipating what matters for the customer, preventing as much as possible what might impact him negatively by visiting customer proactively so that they can benefit from a optimized in-home multi-screen experience
- Best Mobile Experience
- Improved Speed : 73,3% of digital homes have line speed >30Mb/s
- Improved business continuity also for small enterprise with same day repair
- Improved first time right
- Improved staff friendliness leading to a better customer satisfaction
- Improved Enterprise Service Team tailored to business customer need
- Simplified invitation to pay/invoice

Innovation

To succeed the Telco industry has to innovate, diversify and shorten their time to market
As the Telco ecosystem evolves and reshapes, getting to market first with new service propositions is a primary route to value. In a world being revolutionized by the digitalization of services and channels, innovation needs to be multi-facet: from technology to business models, from enhancements of core products to development of totally new revenue streams.

With the new technologies (incl. IoT, Cloud solutions, …) and devices with increased data capacity, data traffic volumes will continue to grow steadily.
Operators like Proximus need to ensure that they stand at the cutting edge of innovation rather than act as fast followers and that they respond by engaging and interacting in new ways with new ecosystems combining leading sector actors, the world of technology startups and other complementary service providers. The quest to attract the best in new talent and develop new skills will be key.

Operational risks

Operational risk relates to risks arising from systems, processes, people and external events that affect the operation of Proximus businesses. It includes product life cycle and execution; product safety and performance; information management, data protection and cyber security; business continuity; supply chain; and other risks, including human resources and reputation. Depending on the nature of the risk involved and the particular business or function affected, Proximus is using a wide variety of risk mitigation strategies, including adverse scenario stress tests, back up/business continuity plans, business process reviews, and insurance. Proximus' operational risk measurement and management relies on the AMA (Advanced Measurement Approach) methodology. A dedicated "as-if" adverse scenario risk register has been developed in order to make stress tests relevant.

Proximus is covered by extended general and professional liability, property damage and business interruption insurance as well as a dedicated cyber security insurance program. Nevertheless, those insurance programs may not provide indemnification if the traditional insurance exclusions (non-accidental event) should apply.

The most prominent examples of operational risk factors are stipulated below.

Business Continuity

Interruptions to our ICT infrastructure as well as to the infrastructure that supports our businesses (including those provided by third-party vendors such as power suppliers) could seriously impact our revenues, our liabilities and our brand reputation.

Therefore, building and improving resilience of our products and services is and remains a top priority. We are convinced that good business continuity plans will keep our company up and running through interruptions of any kind: power failures, IT system crashes, natural disasters, supply chain problems and more.

For each critical business function, business continuity plans have been developed in order to:
- identify and prevent risks where possible
- prepare for risks that we can't control
- respond and recover if an incident or crisis occurs

Proximus is closely following the Business Continuity

Institute (BCI) best practices guidelines. The level of preparedness (relevant KPIs and score cards) is submitted annually to the Audit & Compliance Committee. In case of a major adverse event, Proximus has put in place and is continuously testing a crisis management process called PERT (Proximus Emergency Response Team).

Cyber Security

Increased global cyber security vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to the security of Proximus as well as its customers', partners', suppliers' and third-party service providers' products, systems and networks. The confidentiality, availability and integrity of Proximus and its customers' data are also at risk.
We are taking the necessary actions & investments to mitigate those risks by employing a number of measures, including employee training, monitoring testing, and maintenance of protective systems and contingency plans.

Supply chain

Proximus depends on key suppliers and vendors to provide equipment needed to operate its business.

Supply chain risk management (SCRM) is defined as "the implementation of strategies to manage both every day and exceptional risks along the supply chain, based on continuous risk assessment with the objective of reducing vulnerability and ensuring continuity"

The following actions have been taken into account in order to keep an acceptable supply chain risk level:

- Top critical suppliers or their sub-suppliers under constant watch
- Stock management
- Consideration of alternative sourcing arrangements
- Business interruption / contingency plans
- Risk assessments and Audits
- Awareness campaigns and training programs
- Strict follow up of critical suppliers contractual liability & Service level Agreement (SLA) clauses

Data protection & privacy

Data protection laws exist to strike a balance between the rights of individuals to privacy and the ability of organizations to use data for business purposes.
General Data Protection Regulation 's (GDPR) unification of data protection standards across the European Union has raised the privacy bar on personal data by requiring organizations to locate, understand its purpose and appropriately secure it. Our objective is to ensure compliance with the EU General Data Protection Regulation (GDPR) without costly disruptions to Proximus data flow and business operations

Proximus is committed to protect personal data and privacy, and the company has taken the following actions :

- Appointment of a Data Protection Officer (DPO) for Proximus (& subsidiaries) who reports to EXCO & the Audit & Compliance Committee and who is responsible for privacy compliance & implementation of privacy laws, e.g. GDPR.

- Since end of 2015, a Proximus Privacy Committee (PPC) has been established, which reports to the Executive Committee and consists of C-level members from all business units. The Committee decides on the framework and conditions for new and privacy sensitive use cases ("privacy by design") and provides recommendations on all other pertinent aspects related to privacy.

- A Proximus Privacy Charter, adopted in 2016, describes the Proximus' approach to privacy and serves as an internal compass to assess use cases and to respect our stakeholders' privacy, ….
- In view of the EU General Data Protection Regulation, Proximus performed a GDPR readiness assesment and developed a compliance roadmap.

Risk Management & Compliance Committee

In 2016, the Risk Management & Compliance Committee (RMC) has held 4 sessions . The related decisions have been reported to EXCO & the Audit & Compliance Committee. RMC meetings give opportunity to review files where decisions have to be taken by finding the balance between risk taking and cost in line with the Group risk appetite. Proximus has general response strategies for managing risks, which categorize them according to whether the company will avoid, transfer, reduce or accept the risk. These response strategies are tailored to ensure that risks are within acceptable Proximus risk and compliance guidelines.

The RMC objectives are:

1. To oversee the company's most critical enterprise & operational risks and how management is monitoring and mitigating those risks.
2. To enhance pending/open internal Audit action points where significant resources have to be re allocated

A disciplined approach to risk is key in a fast-moving technological and competitive environment, in order to ensure that we only accept risk for which Proximus is adequately compensated (risk/return optimisation).

Financial reporting risks

In the area of financial reporting, in addition to the general enterprise risks also impacting the financial reporting (e.g. personnel), the major risks identified include: new transactions and evolving accounting standards, changes in tax law and regulations and the financial statement closing process.

New transactions and evolving accounting standards

New transactions could have a significant impact on the financial statements, either directly in the income statement or in the notes. An inappropriate accounting treatment could result in financial statements which do not provide a true and fair view any more. Changes in legislation (e.g. pension age, customer protection) could also significantly impact the reported financials. New accounting standards can require the gathering of new information and the adaptation of complex (billing) systems. If not timely and adequately foreseen, the timeliness and reliability of the financial reporting could be put at risk.

It is the responsibility of the Corporate Accounting department to follow the evolution in the area of evolving standards (both local General Accepted Accounting Principles (GAAP) and International

Financial Reporting Standards (IFRS)). Changes are identified and the impact on the Proximus financial reporting is proactively analyzed.

For every new type of transaction (e.g. new product, new employee benefit, business combination), an in depth analysis from a financial reporting, risk management, treasury and tax point of view is performed. In addition, the development requirements for the financial systems are timely defined and compliance with internal and external standards is systematically analyzed. Emphasis is on the development of preventive controls and setting up reporting tools that enable a posteriori controls.On a regular base, the Audit & Compliance Committee (A&CC) and the Executive Committee are informed about new upcoming financial reporting standards and their potential impact on the Proximus' financials.

Changes in tax law and regulations

Changes in tax laws and regulations (corporate income tax, VAT,...) or in their application by the tax authorities could significantly impact the financial statements. To ensure compliance, it is often required to set up, in a short timeframe, additional administrative processes to collect relevant information or to implement updates to existing IT systems (e.g. billing systems).

The tax department continuously follows potential changes in tax law and regulations as well as interpretations of existing tax laws by the tax authorities. Based on laws, doctrine, case law and political statements as well as draft laws available etc., an impact analysis is made from a financial perspective and from an operational point of view. The outcome of the analysis is reflected in the corresponding financial statements in accordance with the applicable framework.

Financial statement closing process

The delivery of timely and reliable financial statements remains dependent on an adequate financial statement closing process.

Clear roles and responsibilities in the closing process of the financial statements have been defined. During the monthly, quarterly, half-yearly and annual financial statement closing processes, there is a continuous monitoring on the different steps. In addition, different controls are performed to ensure quality and compliance with internal and external requirements and guidelines.

For Proximus and its major affiliates, a very detailed closing calendar is established, which includes in detail cross-divisional preparatory meetings, deadlines for ending of specific processes, exact dates and hours when IT sub-systems are locked, validation meetings and reporting deliverables.

For every process and sub-process, different controls are performed, including preventive controls, where information is tested before being processed, as well as detective controls, where the outcome of the processing is being analyzed and confirmed. Specific attention is given to reasonableness tests, where financial information is being analyzed against more underlying operational drivers and coherence tests, where financial information from different areas is brought together to confirm results or trends, etc. Tests on individual accounting entries are performed for material or non-recurrent transactions and on a sample basis for others. The combination of all these tests provides sufficient assurance on the reliability of the financials.

Internal control system

The Proximus Board of Directors is responsible for the assessment of the effectiveness of the systems for internal control and risk management.

Proximus has set up an internal control system based on the COSO model, i.e. the integrated internal control and enterprise risk management framework published by the Committee of Sponsoring Organisation of the Treadway Commission ("COSO") for the first time in 1992 and updated in May 2013. This COSO methodology is based on five areas: the control environment, risk analysis, control activities, information & communication and monitoring.

Proximus' internal control system is characterized by an organization with a clear definition of responsibilities, next to sufficient resources and expertise, and also appropriate information systems, procedures and practices. Proximus cannot guarantee that this internal control will be sufficient in all circumstances as risks of misuse of assets or misstatements can never be totally eliminated. However, Proximus organizes a continuous review and follow-up of all the components of its internal controls and risk management systems to ensure they remain adequate.

Proximus considers the timely delivery to all its internal and external stakeholders of complete, reliable and relevant financial information in conformity with International Financial Reporting Standards (IFRS) and with other additional Belgian disclosure requirements as an essential element of management and governance. Therefore, Proximus has organized its internal control and risk management systems over its financial reporting in order to ensure this objective is met.

Control environment

Organization of internal control

In accordance with the bylaws, Proximus has an Audit & Compliance Committee (A&CC) (see caption 'Independence and expertise in the accounting and audit domain of at least one member of the Audit and Compliance Committee'). Its role is to assist and advise the Board of Directors in its oversight on (i) the financial reporting process, (ii) the efficiency of the systems for internal control and risk management of Proximus, (iii) the Proximus' internal audit function and its efficiency, (iv) the quality, integrity and legal control of the Proximus statutory and the consolidated financial statements, including the follow up of questions and recommendations made by the auditors, (v) the relationship with the Group's auditors and the assessment and monitoring of the independence of the auditors, (vi) Proximus compliance with legal and regulatory requirements, (vii) the compliance within the organization with the Proximus' Code of Conduct and the Dealing Code.

The A&CC meets at least once every quarter.

Ethics

The Board of Directors has approved a Corporate Governance Charter and a Code of Conduct "A Socially Responsible Company". All employees must perform their daily activities and their business objectives according to the strictest ethical standards and principles, using the Group values (Collaboration, Agility and Accountability) as guiding principle.

The Code "A Socially Responsible Company", which is available on www.proximus.com, sets out the above-mentioned principles, and aims to inspire each employee in his or her daily behavior and attitudes. The ethical behaviour is not limited to the text of the Code. The Code is a summary of the main principles and is thus not exhaustive.

In addition, Proximus in general, and the Finance department in particular, has a tradition of a high importance to compliance and a strict adherence to a timely and qualitative reporting.

Policies and procedures

The principles and the rules in the Code "A Socially Responsible Company" are further elaborated in the different internal policies and procedures. These Group policies and procedures are available on the Proximus intranet-sites. Every policy has an owner, who regularly reviews and updates if necessary. Periodically, and at moment of an update, an appropriate communication is organized.

In the financial reporting domain, general and more detailed accounting principles, guidelines and instructions are summarized in the accounting manuals and other reference material available on the Proximus intranet-sites. In addition, the Corporate Accounting department regularly organizes internal accounting seminars to update finance and non-finance staff on accounting policies and procedures.

Roles & responsibilities

Proximus' internal control system benefits from the fact that throughout the whole organization, roles and responsibilities are clearly defined. Every business unit, division and department has its vision, mission and responsibilities, while on individual level everybody has a clear job description and objectives.

The main role of the Finance Division is to support the divisions and affiliates by providing accurate, reliable and timely financial information for decision making, to monitor the business profitability and to manage effectively corporate financial services.

The team of the Corporate Accounting department assumes this accounting responsibility for the mother company Proximus and the major Belgian companies. They also provide the support to the other affiliates. For this centralized support, the organization is structured according to the major (financial) processes. These major processes include capital expenditures and assets, inventories, contracts in progress & revenue recognition, financial accounting, operational expenditures, provisions & litigations, payroll, post-employment benefits and taxes. This centralized support, organized around specific processes and IFRS standards, allows for in depth accounting expertise and ensures compliance with group guidelines.

The consolidation of all different legal entities into the Consolidated Financial Statements of the Proximus Group is done centrally. The Consolidation department defines and distributes information relating to the implementation of accounting standards, procedures, principles and rules. It also monitors changes in regulations to ensure that the financial statements continue to be prepared in accordance with IFRS, as adopted by the European Union. The monthly instructions for consolidation set forth not only the schedules for preparing accounting information for reporting purposes, but also includes detailed deadlines and items requiring particular attention, such as complex issues or new internal guidelines.

Skills & expertise

Adequate staffing is a matter to which Proximus pays careful attention. This requires not only sufficient headcount, but also the adequate skills and expertise. These requirements are taken into account in the hiring process, and subsequently in the coaching and formation activities, facilitated and organized by the Proximus Corporate University.

For financial reporting purposes, a specific formation cycle was put in place, whereby junior as well as senior staff have to participate mandatory. These internally and externally organized accounting seminars cover not only IFRS but local accounting rules & regulations, Tax and Company law & regulations as well. In addition, the knowledge and expertise is also kept up to date and extended for more specific domains for which staff is responsible (revenue assurance, pension administration, financial products, etc.) through attendance to seminars and self-study. Furthermore, employees also attend general formations session on Proximus new business products & services.

Risk analysis

Major risks and uncertainties are reported in the caption 'Risk Management'.

Risk mitigating factors and control measures

Mitigating factors and control measures are reported in the caption 'Risk Management'.

Information and communication

Financial reporting IT systems

The accounting records of Proximus and most of its affiliates are kept on large integrated IT systems. Operational processes are often integrated in the same system (e.g. supply chain management, payroll). For the billing systems, which are not integrated, adequate interfaces and a monitoring system have been developed. For the consolidation purposes, a specific consolidation tool is used.

The organizational set-up and access management are designed to support an adequate segregation of duties, prevent unauthorized access to the sensitive information and prevent unauthorized changes. The set-up of the system is regularly subject to the review by the internal audit department or external auditors.

Effective Internal communication

Most of the accounting records today are kept under IFRS as well as local GAAP. In general, financial information delivered to management and used for budgeting, forecasting and controlling activities is established under IFRS. A common financial language used throughout the organization positively contributes to an effective and efficient communication.

Reporting and validation of the financial results

The financial results are internally reported and validated on different levels. On the level of processes, there are validation meetings with the business process owners. On the level of the major affiliates, a validation meeting is organized with the accounting and controlling responsible. On Proximus group level, the consolidated results are split per segment. For every segment, the analysis and validation usually includes comparison with historical figures, as well as budget-actual and forecast-actual analysis. Validation requires (absences of) variances to be analyzed and satisfactorily explained.

Afterwards, the financial information is reported and explained to the Executive Committee (monthly) and presented to the A&CC (quarterly).

Supervision and assessment of internal control

The effectiveness and efficiency of the internal control are regularly assessed in different ways and by different parties :

- Each owner is responsible for reviewing and improving its business activities on a regular basis: this includes a.o. the process documentation, reporting on indicators and monitoring of those.
- In order to have an objective review and evaluation of the activities of each organization department, Proximus' Internal Audit department conducts regular audits across the Group's operations. The independence of Internal Audit is ensured via its direct reporting line to the Chairman of the A&CC. Audit assignments performed may have a specific financial processes scope but will also assess the effectiveness and efficiency of the operations and the compliance towards the applicable laws or rules.
- The A&CC reviews the quarterly interim reporting and the specific accounting methods. The main disputes and risks facing the Group are considered; the recommendations of internal audit are followed-up; the compliance within the Group with the Code of Conduct and Dealing Code is regularly discussed.
- Except for some very small foreign affiliates, all legal entities of the Proximus Group are subject to an external audit. In general, this audit includes an assessment of the internal control, and leads to an opinion on the statutory financials and on the (half-yearly and annual) financials reported to Proximus for consolidation. In case the external audit reveals a weakness or identifies opportunities to further improve the internal control, recommendations are made to management. These recommendations, the related action plan and implementation status are at least annually reported to the A&CC.

Research and development activities

In 2016, the Research & Development of Proximus continued activities, started a number of new studies and introduced new technologies & services in numerous domains, in quite some cases in co-operation with other R&D actors.

Proximus makes sure to capture major trends in innovation & venturing linked to technology as well as the outcomes from standardization & industry policies bodies and continuously feeds innovation programs with relevant elements that fit our long term company strategy.

In 2016, an increased focus has been put on closer collaboration with start-ups to feed the R&D and innovation funnel. A partnership has been signed with co-station, a leading Belgian scale-up acceleration working space. Active participation in the organization of Hackathons led to close collaboration with early stage digital companies.

Study of potential new technologies

Fixed access network

- Proximus investigated the potential offered by the new ultra-Vectoring technology (VDSL2 35 MHz) to provide an evolution path for the copper network towards the delivery of higher speeds.
- Proximus studied the concept of a small VDSL distribution point that could be deployed deeper in the network to provide improved performance thanks to shorter distribution loop length.
- Activities continued with the start-up Tessares in which Proximus invested. The objective of these activities is to develop a solution for the bundling of available capacity on access networks by implementing the Multipath TCP standard to combine fixed and mobile networks using existing infrastructure. The customers' benefits are more bandwidth, higher reliability and greater security while combining multiple networks. In 2016 the project moved into a pilot phase with a deployment in the city of Frasnes-Lez-Anvaing.
- A pilot has been launched to investigate the potential of G.Fast for the re-use of the last meters of the existing copper pair or existing coax introduction cable for connecting the home to a fiber network.

Mobile access network

- Proximus continued investigations on how to further extend capacity in the mobile network on the long term. In this respect, a pilot with small cells was conducted in Antwerp. Proximus believes that small cells will be key for the introduction of 5G in some years.
- Proximus was the first operator in Belgium to demonstrate the capabilities of 4.5G, allowing download speeds of over 1 Gbps. Proximus also showed what 5G could bring by demonstrating a pre-5G technology achieving 70 Mbs download speed.

Service platforms

- Proximus started Proof of Concepts related to the introduction of new Function Virtualization (NFV) and Software Defined Networks (SDN). These concepts are aiming at creating network abstraction for automated and fast deployment of services. . In a Call-for-Innovation, in partnership with Swisscom and Telia, Proximus called for disruptive solutions for SDN/NFV within the startup scene leading to further collaboration in 2017.
- Together with some major Belgian broadcasters, Proximus is testing via a Proof of Concept how advertising on TV can be done in a smarter and more personalized way, with the aim to offer a better user experience and creating new business models for the advertising sector.

Launch of new technologies or further enhancements of existing technologies

Fixed access network

- At the end of 2016 Proximus announced an ambitious plan to roll-out Fiber-To-The-Home with the objective to cover 50% of the homes in the country within 15 years. A pilot deployment is in progress on the Brussels Anspach Boulevard. Preparation activities have also started in 5 other cities (Antwerp, Ghent, Charleroi, Namur and Roeselare). Proximus also continued to deploy FTTH in all new residential zonings.
- In addition to the ongoing roll-out of Point-to-Point fiber to corporate customers, Proximus has also begun rolling out GPON fiber to business customers to reach 85% of the companies within 10 years. Deployments have started in 6 cities in late 2016 with hundreds of companies already passed by the end of the year.
- In parallel, Proximus continued the deployment of VDSL vectoring technology. Vectoring is a technology that enables the cancellation of interferences between copper lines and thereby increases substantially the data throughput that can be offered. During the year Proximus made significant progress towards the objective of equipping all ROPs with vectoring technology, making the technology available for 63% of the homes at the end of the year. The implementation of the same concept on the upstream is also in progress and will deliver similar benefits as on the downstream.

Mobile access network

- As first operator in Belgium, Proximus rolled out 4G+ (or LTE-Advanced) technology in 20 cities. With a compatible smartphone, 4G+ enables mobile download speeds of up to 225 Mbps.
- Proximus continued the deployment of its commercial Internet of Things network based on the LoRa technology and expanded significantly LoRa coverage in Belgium and Luxemburg and added geo-localisation functionality.
- To evaluate the quality of our mobile network, Proximus put itself in the shoes of our customers and asked an independent company to test real smartphone usages (call, surf, watch video…) in different situations and locations. By defining this “experience dashboard” based on more than 100 use cases, Proximus shows how it delivers a very high Mobile Experience in Belgium.

Network simplification

- Proximus started the implementation of the future transport network architecture and supporting technologies, aiming to cope with disruptive traffic growth, higher resilience, as well as backbone network simplification.
- Proximus invests in simplifying its networks, ensuring that customers can be moved to a future-proof solution. For instance, the move of customers from legacy networks, such as PSTN and ATM, to IP-based technology enabled us to power off over 200 switches in the network.

Service platforms

- Proximus launched the Enabling Company (EnCo) market place aiming at the monetization of tailored final end-user products by using the modular assets of Proximus and third parties and engaging customers, partners and developers through the use of programmable interfaces (API).
- For its TV service, Proximus continued the roll-out of the re-designed TV user interface offering a common look and feel irrespective of the screen, be it TV, tablet or smartphone.

Open-innovation activities co-operating with other R&D actors

Next to these initiatives in the various phases of technology development, Proximus also has re-enforced its open-innovation activities co-operating with other R&D actors.

Proximus collaborates with leading universities, industrial partners and several other bodies, such as IMEC (Flanders' world-leading research and innovation hub in nanoelectronics and digital technologies). Collaborations either take the form of partnerships in R&D&I projects, as well as of sponsoring & advisory activities through Proximus' involvement in projects' Industrial Advisory Committees.

In 2016, Proximus continued the Shift-TV project, an R&D project realized in partnership with industrial partners and universities to investigate advanced solutions for video streaming, including 4K. The participation to this project is partly funded by Innoviris (The Brussels Institute for Research and Innovation) under the framework of ICON, the iMinds' Cooperative Research Program.

Through the Digital Tech Fund in Luxembourg, Proximus supports the financing and development of start-ups active in the field of ICT (such as, cyber security, FinTech, Big Data, Digital Health, media, and next-generation communication networks, digital learning, the Internet of Things, telecommunications, and satellite services).

As a reminder, Proximus also invests in Belgian start-ups active in the field of new technologies, such as Tessares, a spin-off created with the Catholic University of Louvain to optimize Internet connection capacity through fixed-mobile aggregation, or Awingu, which has developed a web platform that makes it possible to integrate a company's applications on any device. Proximus is also involved in Eggsplore, an incubator that works on smartfin technologies in order to promote them internationally.

Proximus has received confirmation from the Belgian Science Policy Office (BELSPO) that the company is engaged in recurring R&D activities.

Other information

Rights, commitments and contingencies as of 31 December 2016

Disclosures related to rights, commitments and contingencies are reported in note 35 of the consolidated financial statements.

Use of financial instruments

Disclosures related to the use of financial instruments are reported in note 33 of the consolidated financial statements.

Circumstances which may considerably impact the development of the Group

Circumstances which may considerably impact the development of the Group are reported in the sections " Risk Management " and " Internal Control " of this management report.

Treasury shares

Disclosures related to treasury shares are reported in note 17 of the consolidated financial statements.

Capital management

The purpose of the Group's capital management is to maintain net financial debt and equity ratios that allow for security of liquidity at all times via flexible access to capital markets, in order to be able to finance strategic projects and to offer an attractive remuneration to shareholders.

The latter was updated by the Proximus' Board of Directors of 25 February 2010 and Proximus now commits to return, in principle, most of its annual cash flow before financing activities (or "Free Cash Flow"), to its shareholders. The return of free cash flow either through dividends or share buybacks will be reviewed on an annual basis, in order to keep strategic financial flexibility for future growth, organically or via selective merger and acquisition projects, with a clear focus on value creation. This also includes confirming appropriate levels of distributable reserves.

Furthermore, as confirmed and approved by the Proximus' Board of Directors on December 15 2016, Proximus' Board of Directors intends to pay out a stable dividend of EUR 1.50 per share (interim dividend of EUR 0.50 and ordinary dividend of EUR 1.00) for the next 3 years to come (2017, 2018 & 2019), provided Proximus' financial performance delivery in line with the strategic plan.

Over the two years presented, the Group did not issue new shares or any other dilutive instruments.

Post-balance sheet events

Disclosures related to post-balance sheet events are reported in note 40 of the consolidated financial statements.

On behalf of the Board of Directors,

Brussels, February 23, 2017

Dominique Leroy

Chief Executive Officer

Stefaan De Clerck

Chairman of the Board of Directors