

## &gt; Appendices

**APPENDIX 1: ALTERNATIVE PERFORMANCE MEASURES**

In the discussion of KPN's financial results, a number of alternative performance measures (non-GAAP figures) are used to provide readers with additional financial information, that is regularly reviewed by management. These non-GAAP figures should not be viewed as a substitute for KPN's financial results as determined in accordance with IFRS, which are presented in KPN's Consolidated Financial Statements. Also, the additional information presented is not uniformly defined by all companies, including KPN's peers. Therefore, the non-GAAP figures presented may not be comparable with similarly named numbers and disclosures by other companies. In addition, readers should be aware that certain information presented is derived from amounts determined under IFRS, but is not in itself an expressly defined GAAP measure. Such non-GAAP measures should not be viewed in isolation or as an alternative to an equivalent GAAP measure.

KPN's management considers these non-GAAP figures, combined with GAAP performance measures and in conjunction with each other, most appropriate to measure the performance of the group and its segments. The non-GAAP figures are used by management for planning, reporting (internal and external) and incentive purposes.

All non-GAAP figures are based on continuing operations unless stated otherwise.

KPN's main non-GAAP figures are explained below.

**EBITDA**

KPN defines EBITDA as operating result before depreciation (including impairments) of PPE and amortization (including impairments) of intangible assets. Note that KPN's definition of EBITDA deviates from the literal definition of earnings before interest, taxes, depreciation and amortization and should not be considered in isolation or as a substitute for analyses of the results as reported under IFRS as adopted by the European Union.

	2018	2017 (Restated)
€ million		
<b>Total revenues and other income</b>	<b>5,639</b>	<b>5,742</b>
Cost of goods & services	1,302	1,365
Personnel expenses	1,141	1,121
Information technology/Technical infrastructure	442	493
Other operating expenses	569	595
Total operating expenses (excl. D&A)	3,453	3,573
<b>EBITDA</b>	<b>2,186</b>	<b>2,169</b>

**Adjusted revenues and adjusted EBITDA**

Adjusted revenues and adjusted EBITDA, together also referred to as the adjusted results, are derived from revenues (including other income) and EBITDA, respectively, and are adjusted for the impact of restructuring costs and incidentals. Incidentals are non-recurring transactions which are not directly related to day-to-day operational activities at or over EUR 5m, unless significant for the specific reportable segment.

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

€ million	FY 2018 reported	Incidentals	FY 2018 adjusted	FY 2017 reported restated	Incidentals	FY 2017 adjusted restated	y-on-y reported	y-on-y adjusted
Consumer	2,992	-	2,992	3,044	-	3,044	-17%	-17%
Business	2,143	-	2,143	2,183	-	2,183	-19%	-19%
Wholesale	618	-	618	665	-7	672	-70%	-8.0%
Network, Operations & IT	30	-	30	21	-	21	45%	45%
Other (incl. eliminations)	-145	-	-145	-171	-	-171	-15%	-15%
<b>The Netherlands</b>	<b>5,638</b>	<b>-</b>	<b>5,638</b>	<b>5,741</b>	<b>-7</b>	<b>5,749</b>	<b>-1.8%</b>	<b>-1.9%</b>
iBasis	528	-	528	705	-	705	-25%	-25%
Other activities	1	-	1	1	-	1	39%	39%
Intercompany revenues	-59	-	-59	-84	-	-84	-30%	-30%
<b>KPN Group</b>	<b>6,108</b>	<b>-</b>	<b>6,108</b>	<b>6,364</b>	<b>-7</b>	<b>6,371</b>	<b>-4.0%</b>	<b>-4.1%</b>
Of which discontinued operations	469	-	469	622	-	622	-25%	-25%
<b>KPN Group continuing operations</b>	<b>5,639</b>	<b>-</b>	<b>5,639</b>	<b>5,742</b>	<b>-7</b>	<b>5,749</b>	<b>-1.8%</b>	<b>-1.9%</b>

The following table specifies the revenue incidentals in more detail:

€ million	Segment	FY 2018	FY 2017
Change in revenue related provisions	Wholesale	-	-7
<b>KPN Group</b>		<b>-</b>	<b>-7</b>

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

€ million	FY 2018 reported	Incidentals	Restructuring	FY 2018 adjusted	FY 2017 reported restated	Incidentals	Restructuring	FY 2017 adjusted restated	y-on-y reported	y-on-y adjusted
The Netherlands	2,205	-11	-91	2,307	2,187	-29	-76	2,292	0.8%	0.6%
iBasis	23	-	-	23	24	-	-	24	-4.8%	-4.8%
Other activities	-19	-5	-11	-3	-18	-	-11	-8	2.3%	-65%
<b>KPN Group</b>	<b>2,209</b>	<b>-16</b>	<b>-102</b>	<b>2,327</b>	<b>2,193</b>	<b>-29</b>	<b>-86</b>	<b>2,309</b>	<b>0.7%</b>	<b>0.8%</b>
Of which discontinued operations	24	-	-	24	24	-	-	24	-2.3%	-2.3%
<b>KPN Group continuing operations</b>	<b>2,186</b>	<b>-16</b>	<b>-102</b>	<b>2,303</b>	<b>2,169</b>	<b>-29</b>	<b>-86</b>	<b>2,285</b>	<b>0.8%</b>	<b>0.8%</b>

The following table specifies the EBITDA incidentals in more detail:

€ million	Segment	FY 2018	FY 2017
Change in revenue related provisions	Revenue	-	-7
Addition to asset retirement obligation	Other operating expenses	-11	-7
Change of provisions	Other operating expenses	-5	-16
<b>KPN Group</b>		<b>-16</b>	<b>-29</b>

### Simplification savings or Simplification program

KPN's Simplification program is directed at realizing run-rate savings in both capital expenditure (capex) and operating expenses (opex). The Simplification program is aimed at innovation Capex and the operating expense categories Personnel expenses, Information Technology/ Technical Infrastructure expenses and Other operating expenses, excluding restructuring costs and incidentals. Through its nature the program will also mean a reduction in FTEs. The baseline for measurement of the second wave of Simplification savings is capex and operating expense levels at the end of 2016. The baseline is adjusted for major changes in the composition of the group in the years 2017-2019 (acquisitions and disposals). The second wave of the Simplification program has generated run-rate savings of approximately EUR 225m by the end of 2018.

### Free Cash Flow (FCF)

FCF is defined as cash flow from continuing operating activities plus proceeds from disposals of PPE minus Capex (investments in PPE and software).

€ million	2018	2017 (Restated)
<b>Net cash flow provided by operating activities from continuing operations</b>	<b>1,959</b>	<b>1,929</b>
Capex	-1,106	-1,131
Proceeds from real estate	5	2
<b>Free cash flow from continuing operations (incl. TEFD dividend)</b>	<b>858</b>	<b>800</b>
<b>Free cash flow from continuing operations (excl. TEFD dividend)</b>	<b>804</b>	<b>730</b>

### Net Debt/EBITDA ratio

In the net debt/EBITDA ratio, KPN defines net debt as the nominal value of interest bearing financial liabilities excluding derivatives and related collateral, representing the net repayment obligations in euro, taking into account 50% of the nominal value of the hybrid capital instruments, less net cash and short-term investments. The EBITDA in this context is normalized EBITDA, a 12-month rolling total EBITDA excluding restructuring costs, incidentals and major changes in the composition of the Group (acquisitions and disposals). The calculation of the net debt/EBITDA ratio is provided in Note 12.4 to the Financial Statements.