

● 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, the 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 hereafter.

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.

€ million	2020	2019
Total revenues and other income	5,303	5,702
Cost of goods & services	1,284	1,301
Personnel expenses	892	1,027
Information technology/Technical infrastructure	328	353
Other operating expenses	335	443
Total operating expenses (excl. D&A)	2,839	3,124
EBITDA	2,464	2,578

Adjusted revenues and adjusted EBITDA after leases (Adjusted EBITDA AL)

Adjusted revenues are derived from revenues (including other income), adjusted for the impact of 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.

Adjusted EBITDA AL is derived from EBITDA, adjusted for the impact of restructuring costs and incidentals ('adjusted') and for lease-related expenses ('after leases' or 'AL'). Lease-related expenses in this definition are the depreciation and impairment expenses of right-of-use assets and interest on lease liabilities, as well as the gains or losses arising upon remeasurement or (early) termination of a lease.

Key items between reported and adjusted revenues

€ million	FY 2020 reported	Incidentals	FY 2020 adjusted	FY 2019 reported	Incidentals	FY 2019 adjusted	y-on-y reported	y-on-y adjusted
Consumer	2,863	-	2,863	2,916	-	2,916	-1.8%	-1.8%
Business	1,853	11	1,841	2,068	25	2,043	-10%	-9.9%
Wholesale	641	17	624	817	190	627	-22%	-0.5%
Network, Operations & IT	9	-	9	6	-	6	65%	65%
Other (incl. eliminations)	-63	-	-63	-105	-	-105	-40%	-40%
KPN Group	5,303	28	5,275	5,702	215	5,486	-7.0%	-3.9%

Revenue incidentals

€ million	Segment	2020	2019
Book gain on sale of NLDC	Wholesale	-	171
Book gain on sale of International Network Services	Business	-	25
Book gain on sale of KPN Consulting	Business	11	-
Change in revenue related provisions	Wholesale	17	20
Total revenue incidentals		28	215

Key items between reported and adjusted EBITDA AL

€ million	2020	2019	Y-on-Y
EBITDA	2,464	2,578	-4.4%
Incidentals	28	210	-87%
Restructuring	-36	-115	-69%
Lease-related expenses			
Depreciation right-of-use assets	-130	-138	-5.6%
Interest lease liabilities	-22	-28	-21%
Adjusted EBITDA after leases	2,320	2,317	0.1%

EBITDA AL incidentals

€ million	Account	2020	2019
Book gain on sale of NLDC	Revenue	-	171
Book gain on the sale of International Network Services	Revenue	-	25
Book gain on sale of KPN Consulting	Business	11	-
Change in revenue related provisions	Revenue	17	20
Addition to asset retirement obligation	Other operating expenses	-	-
Change of provisions	Other operating expenses	-	-6
KPN Group		28	210

Net opex reduction program

KPN's net opex reduction program is directed at reducing KPN's net indirect operating expenses after leases. The program is directed at the operating expense categories personnel, IT/TI, other operating expenses and lease-related expenses, excluding restructuring costs and incidentals. Through its nature, the program will also mean a reduction in FTEs. The baseline for measurement is the operating expense level at the end of 2018.

The baseline is adjusted for major changes in the composition of the group in the years 2019-2021 (acquisitions and disposals).

The program has generated net indirect opex savings of EUR 278m by the end of 2020.

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) and adjusted for repayments of lease liabilities.

€ million	2020	2019
Net cash flow provided by operating activities from continuing operations	2,043	2,005
Capex	-1,147	-1,115
Proceeds from real estate	4	1
Repayments of lease liabilities	-135	-141
Free cash flow from continuing operations (incl. TEFD dividend)	765	750
Free cash flow from continuing operations (excl. TEFD dividend)	765	726

Operational free cash flow

Operational free cash flow is defined as adjusted EBITDA AL minus capital expenditures (capex) being expenditures on property, plant and equipment (PP&E) and software.

€ million	2020	2019
Adjusted EBITDA AL	2,320	2,317
Capex	-1,147	-1,115
Operational free cash flow	1,172	1,202

Leverage ratio

KPN defines its leverage ratio as net debt (excl. lease liabilities) divided by the 12-month rolling adjusted EBITDA AL. The ratio is adjusted for major changes in the composition of the KPN Group (acquisitions and disposals) when applicable.

Net debt is defined as gross debt less net cash and short-term investments. Gross debt is defined as the nominal value of interest-bearing financial liabilities representing the net repayment obligations in euro, excluding derivatives, related collateral and leases, and taking into account 50% of the nominal value of the hybrid capital instruments.

For the calculation of KPN's leverage ratio, see Note 12.4 to the Consolidated Financial Statements.