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CREDIT OPINION
8 December 2017

Update

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RATINGS

Koninklijke KPN N.V.

Domicile	Netherlands
Long Term Rating	Baa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Koninklijke KPN N.V.

Update to credit analysis

Summary

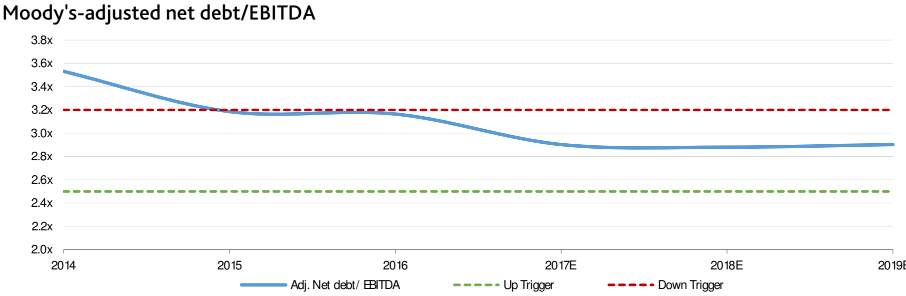
Koninklijke KPN N.V.'s (KPN) Baa3 senior unsecured rating is supported principally by (1) the company's leading position in the Dutch market; (2) its integrated business model, with a high-quality network following a significant investment effort; (3) the expected improvement in cash flow generation, supported by lower capital spending and modest EBITDA growth; (4) the company's strong commitment to an investment-grade rating; (5) its solid liquidity profile; and (6) its 9.5% stake in Telefónica Deutschland, which enhances the company's financial flexibility.

These considerations are balanced by (1) KPN's sustained revenue pressures owing to structural weakness in the business segment; (2) fierce competition in the mobile market as a result of the fragmented market structure with four mobile network operators; and (3) the company's high dividend payout ratio, which weakens its retained cash flow (RCF) to net debt ratio to a relatively weak 20%.

Exhibit 1

KPN's net debt/EBITDA is expected to remain well within the bands for its Baa3 rating

Moody's-adjusted net debt/EBITDA



Source: Moody's Financial Metrics™, Moody's Investors Service estimates

Credit strengths

» Leading positions in the fixed and mobile markets in the Netherlands

» Consistent growth in consumer segment despite fierce competition in mobile

» Strong commitment to an investment-grade rating

» Financial flexibility provided by the potential monetization of its 9.5% stake in Telefónica Deutschland

» Solid liquidity profile

Credit challenges

» Exposure to a very competitive mobile market in the Netherlands

» Substantial pressure on the business segment, despite some improvements in recent quarters

» High dividend payout ratio weighs on retained cash flow metrics

Rating outlook

The stable rating outlook reflects our expectation that management actions will protect the company's operating performance in a challenging operating environment. The outlook also factors in our expectation that KPN's management will preserve the company's financial profile within the ratio guidance for a Baa3 rating by using a material amount of proceeds from disposals for debt reduction.

Factors that could lead to an upgrade

We would consider a rating upgrade if KPN's debt protection ratios were to strengthen significantly as a result of improvements in its operational cash flow and a reduction in debt. The rating could come under positive pressure if the company achieves sustainable improvements in its debt protection ratios, such as adjusted RCF/net debt of at least 25% and adjusted net debt/EBITDA comfortably below 2.5x, while experiencing a significant improvement in the business environment.

Factors that could lead to a downgrade

Credit metrics that would lead to downward pressure on the rating include RCF/net adjusted debt falling below 20% or adjusted net debt/EBITDA exceeding 3.2x on an ongoing basis. In addition, a significant use of proceeds from disposals for shareholder remuneration could lead to downward rating pressure, given the sustained declines in top-line revenues and structural pressures in business segments which can challenge the sustainability of EBITDA over the medium term.

Key indicators

Exhibit 2

Koninklijke KPN N.V.

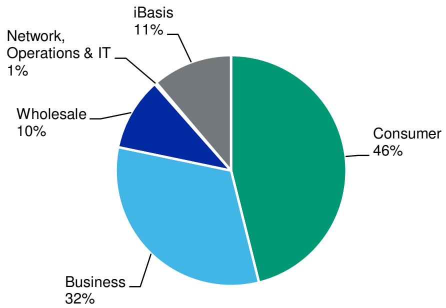
	Dec-14	Dec-15	Dec-16	2017-proj.	2018-proj.	2019-proj.
Revenue (USD Billion)	$9.7	$7.8	$7.5	$7.6	$7.4	$7.3
Debt / EBITDA	4.3x	3.9x	3.6x	3.2x	3.3x	3.3x
RCF / Debt	16.8%	18.8%	15.9%	18.0%	18.1%	18.3%
(EBITDA - CAPEX) / Interest Expense	1.8x	2.1x	2.8x	3.8x	3.8x	4.2x

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Profile

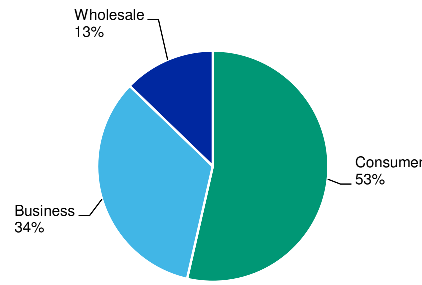
KPN is the leading integrated provider of telecom services in the Netherlands. The company offers fixed and mobile services, and fixed and mobile broadband internet and TV to retail consumers. The company also supplies wireline network and ICT services to business customers in the Netherlands. In addition, the company provides wholesale network services to third parties and operates an internet protocol (IP)-based infrastructure with a global scale in international wholesale through iBasis. KPN also owns a 9.5% stake in Telefónica Deutschland. In the 12 months ended September 2017, KPN generated adjusted revenue of €6.6 billion and EBITDA of €2.4 billion. The company's ordinary shares are listed on Euronext Amsterdam, with a market cap of €12.7 billion as of November 2017.

Exhibit 3
September 2017 LTM Revenue breakdown by segment



Source: Company reports

Exhibit 4
September 2017 LTM EBITDA breakdown by segment



Source: Company reports

Detailed credit considerations

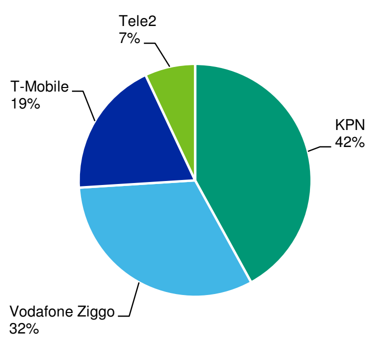
Leading converged player in the Netherlands

KPN operates an integrated business model and remains the leader in the domestic wireless segment, with a 42% market share in terms of service revenue as of June 2017. In retail broadband the company is the second largest player after Vodafone Ziggo, holding a 40% market share by revenue as of June 2017 (Vodafone Ziggo: 44%). Its residential TV business has grown solidly, achieving a 32% market share as of June 2017, although it remains behind Vodafone Ziggo with a market share of 54%.

KPN distributes content through Over-the-top media services (OTTs) and partnerships, which are a fundamental part of the upselling strategy in the consumer segment.

The company also benefits from a strong network quality, which enables the company to provide speeds greater than 100 mega-bits per second (Mbps) to around 80% of household coverage, with 30% coverage of Fiber to the Home (FTTH) and 50% Fiber to the Cabinet (FTTC) as of year-end 2016.

Exhibit 5
KPN is the leading mobile player in the Netherlands with a market share of 42%
Mobile market share by telecom operator



Total Dutch (Consumer and Business) mobile service revenue market share (Q4 2016)
Source: Company reports

Fierce competition in mobile and structural pressures on business are likely to continue

The Netherlands has been one of the most competitive markets in Europe for telecom operators. This is because of the significant presence of a nationwide cable operator in fixed broadband and a more fragmented market structure in mobile, with four mobile companies and a handful of mobile virtual network operators for a relatively modest population of 17 million.

We believe the joint venture between Vodafone and Ziggo would probably lead to greater rationality in the convergent market with a focus on value and rising ARPU given the need of the JV to delever. However, we believe KPN's net adds would probably slow down as VodafoneZiggo makes progress on its integration and accelerates its convergence strategy to regain part of the lost market share in recent years.

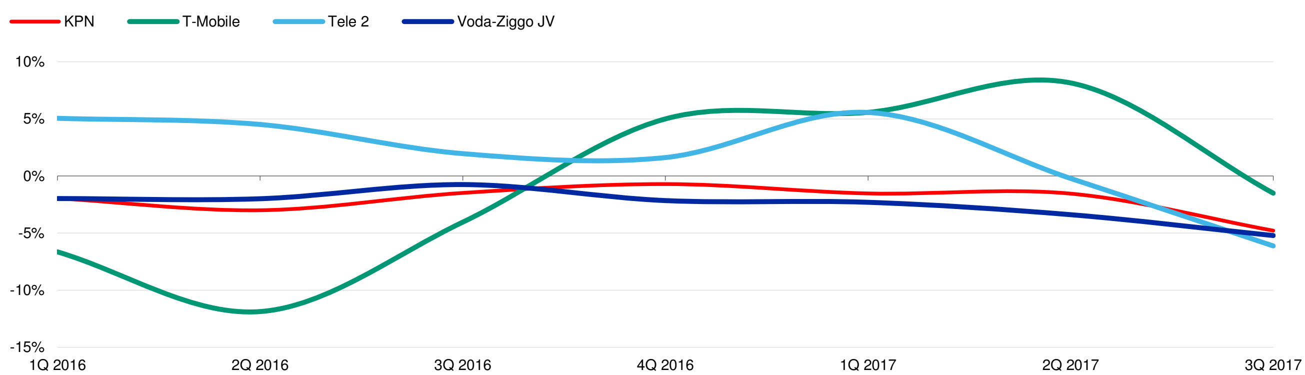
The competitive environment in consumer mobile and particularly in business mobile remains disruptive, with aggressive prices by Tele 2 and T-Mobile. Tele 2 has reported significant losses, which questions the sustainability of its strategy in the long term.

While mobile to mobile consolidation has been blocked in Europe in recent years, the nature of the Dutch market with a significant market share held between KPN and VodafoneZiggo could potentially allow for consolidation of Tele 2 and T- Mobile Netherlands in the next 12-18 months given that Tele 2's 800 Mhz band becomes tradeable from December 2017.

Exhibit 6

T-Mobile and Tele 2 have driven underlying revenue growth over recent quarters*

Revenue evolution of the main Dutch telecom operators



*Underlying revenue growth excluding roaming impact in Q3 2017

Source: Company Reports

Structural pressures on the business segment are likely to weigh on revenue, offsetting steady growth in consumer

KPN has been able to mitigate the mobile price pressure in consumer by accelerating convergence, upselling products and growing revenue regenerating units (40% fixed-mobile households and 2.19x revenue generating units per household) (see Exhibit 7).

As of YTD Q3 2017, consumer revenue grew just below 1% despite a roaming and mobile termination rates (MTR) impact and a greater proportion of SIM-only sales (growth of 1.4% excluding regulatory challenges; in line with growth of +2.1% in the previous quarter adjusting for roaming and the greater share of SIM-only). While SIM-only sales affect the topline, they will have a positive impact on EBITDA margin owing to a decline in low-margin handset subsidies.

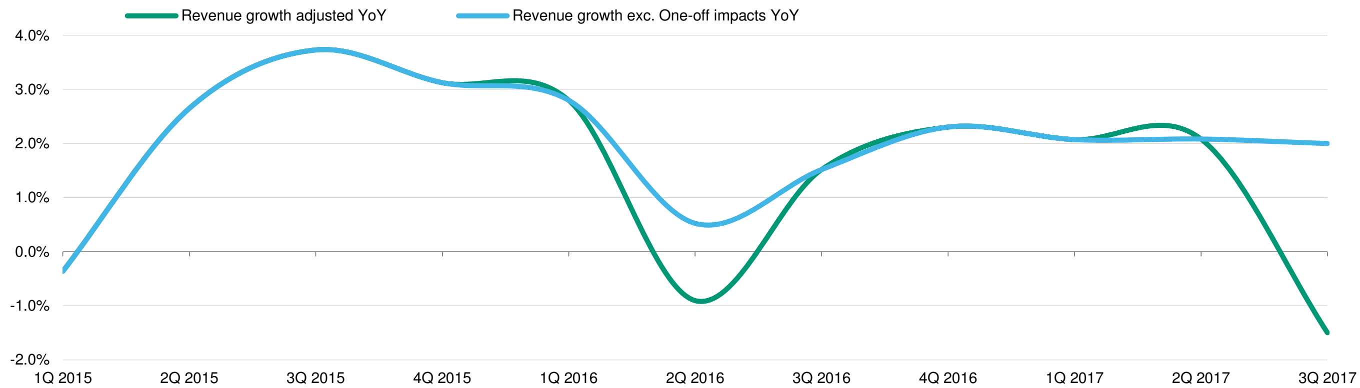
We expect KPN to continue to mitigate the competition in consumer mobile by continuing to accelerate convergence and growing triple and quad-play penetration, supporting ARPU and revenue growth in consumer, which we estimate at around 1%-1.5%.

We do not expect significant changes in KPN's strategy following the appointment of Maximo Ibarra to succeed Eelco Blok as CEO.

Exhibit 7

Turnaround in consumer revenue is clearly visible despite competition in mobile

Annual evolution of consumer revenue



Source: Company reports

However, the business segment will likely remain in the negative territory for the next three years, although we expect pressures to fade with a 2% compound annual decline over 2017-20 (6% year-on-year decline in the nine months to September 2017).

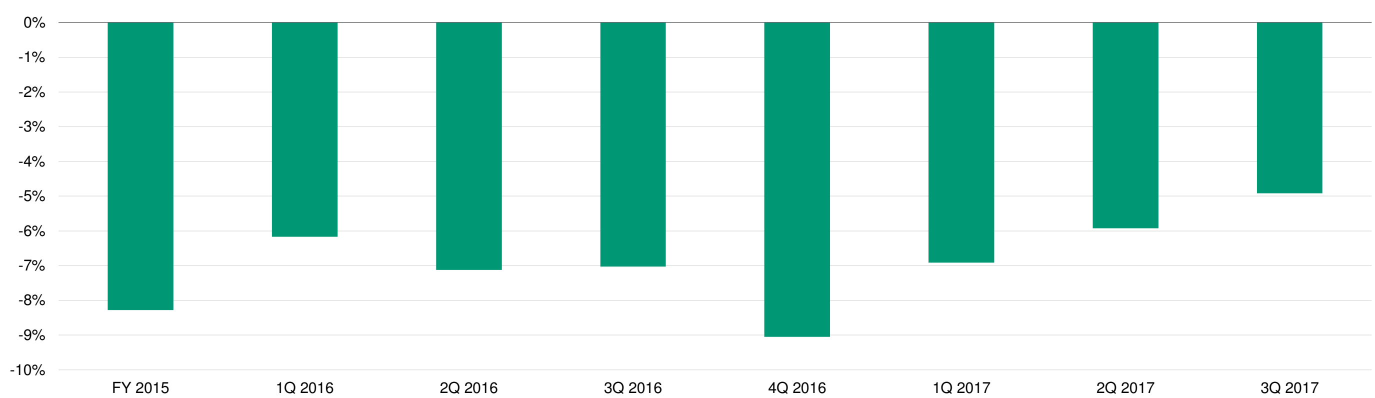
The drivers of the decline are price pressure in mobile owing to competition (ARPU in mobile small and medium enterprises is 20% higher than in consumer postpaid at Q3 2017) and the structural decline in voice, which is replaced by lower-margin IP packages.

While KPN has experienced declines in business for several years and has invested in IT capabilities to stabilize the segment, we believe execution risks to stabilise revenues remain significant.

Exhibit 8

Business revenue declines have slowed down, but likely to remain in negative territory in next three years

Evolution in adjusted business revenue



Source: Company Reports

Cost savings to offset revenue decline, but the sustainability of long-term EBITDA is contingent on revenue stabilization

We expect EBITDA to grow less than 1% in 2018 and 2019, driven by cost savings, which will offset the decline in revenue. The company's guidance for 2017 adjusted EBITDA is in line with 2016 owing to a roaming impact of €40 million-€50 million; excluding roaming, there will be 2% underlying growth.

KPN has a strong track record in cost cutting owing to more efficient fiber technologies and savings from IT transformation and network upgrades. However, we believe that the sustainability of EBITDA over the long term depends upon a stabilization in revenues.

The savings are primarily realized through the simplification and rationalization of IT processes and systems as part of the network transformation to achieve an all-IP virtualized network, and the launch of an improved billing system and simplified invoices, which will deliver improvements in churn and a reduction in marketing expenses.

The first wave of the program was finalized in Q4 2016, realizing operating spending and capital spending run-rate savings of around €460 million, well ahead of the original target of €300 million. The second wave started in early 2017 and is expected to yield over €300 million in annual run-rate savings by the end of 2019, of which €95 million run-rate savings have been realized year-to-date Q3 2017.

Improving leverage ratios supported by debt reduction from asset disposals

We expect KPN's adjusted net debt/EBITDA to improve to 2.9x in the next 18 months (year-end 2016: 3.2x), mainly driven by the €550 million debt reduction from the disposal of Telefónica Deutschland shares.

KPN's deleveraging demonstrates management's commitment to protect its investment-grade rating. This has been illustrated by the sizable €3 billion rights issue in 2013 and the use of proceeds from disposals for debt deleveraging purposes (for example, E-Plus and, to a lesser degree, BASE and TEFD).

KPN benefits from the financial flexibility provided by its existing 9.5% stake in Telefonica Deutschland, which is valued at €1.14 billion as of 27 November 2017 (around 18% of the company's net debt as of 31 September 2017).

KPN has gradually reduced its stake in the company, distributing part of the proceeds to its shareholders (e.g. EUR200 million share buy back completed in Q2 and Q3 of this year) and undertaking small acquisitions to strengthen its IT capabilities, while the remainder has been used to strengthen the balance sheet.

KPN's EUR 1.1 billion hybrid has a first call in September 2018. While it is still to be determined whether the instrument will be called and how it will be replaced, we do not expect a significant impact in our leverage metrics given KPN's growing cash flow generation and the flexibility provided by the investment stake in TEFD.

Underlying cash flow generation will grow thanks to lower capex, but high dividend will weigh on free cash flows

KPN's strong quality network and past investment effort (three-year average of Moody's adjusted capex to revenue of 20.3%) will lead to lower capex, thereby supporting an improvement in underlying cash flow generation (defined as Moody's adjusted CFO – capex) which we expect to grow by 3% in 2017 and double digit thereafter.

However, the high dividend payout ratio will weigh on free cash flow and RCF metrics. FCF forms the basis for KPN's dividend policy. The company intends to provide a sustainable and growing regular dividend in line with its FCF growth profile. In 2016, it distributed 54% of its reported FCF (defined as reported CFO – capex) excluding the pass through dividend from Telefónica Deutschland.

We expect RCF to net debt to slightly improve to 20% in the next 18 months, which is still somewhat weak for the rating level. However, this is offset by a relatively healthier free cash flow generation to net debt of 4% in 2018.

Liquidity analysis

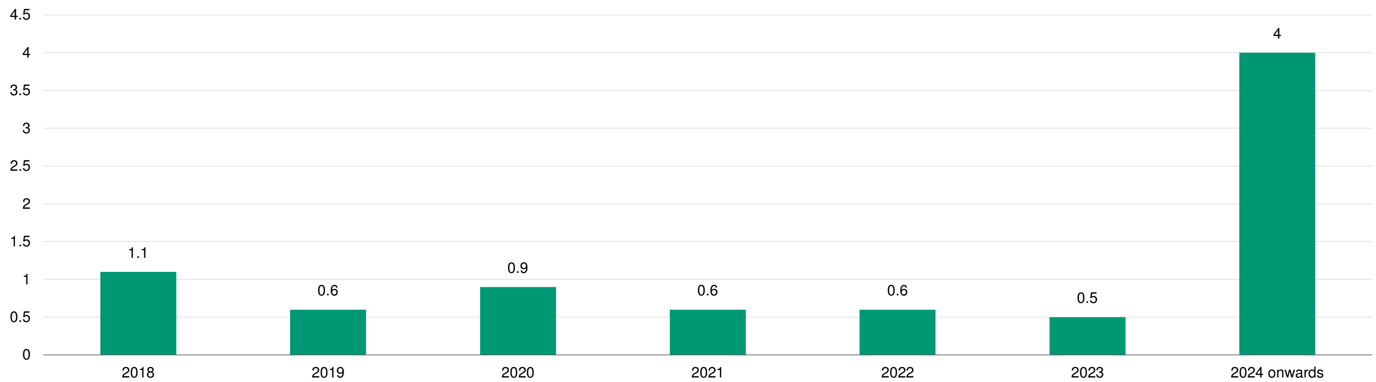
KPN's liquidity profile is excellent and benefits from (1) cash and cash equivalents including short-term investments of €1,023 million as of September 2017; (2) full availability under its €1.25 billion credit facility maturing in 2022, with no financial covenants; and (3) internally generated cash flow (defined as EBITDA net of cash interest, tax obligations and dividends received) of around €2 billion per year.

These internal sources compare favorably with cash requirements consisting of (1) annual capital spending of around €1.1 billion per year; (2) cash dividends of around €0.5 billion-€0.6 billion per year (including the pass-through of the dividend that KPN receives from Telefónica Deutschland); and (3) €1.7 billion in debt maturing over the next two years, including the €1.1 billion perpetual hybrid bond, with a call date in September 2018.

Exhibit 9

KPN's debt maturity profile over the next 12-18 months is well covered with existing liquidity sources

Debt maturity profile as of September 2017 (EUR billion)



Source: Company reports

Rating methodology and scorecard factors

The principal methodology used in rating KPN is our Telecommunications Service Providers rating methodology, published in January 2017. The methodology grid outcome for our 12-18 month forward view is Ba1, which is one notch below the Baa3 rating assigned, reflecting the value of the stake in TEFD, providing some cushion for underperformance, and KPN's adequate free cash flow to debt ratios, which are not included in the scorecard metrics.

We expect KPN's free cash flow (after dividends as per Moody's definition) to net debt to improve to a healthy 4% in the next 12-18 months .

Exhibit 10

Koninklijke KPN N.V.

Telecommunications Service Providers Industry Grid [1][2]	Current LTM 6/30/2017		Moody's 12-18 Month Forward View As of 11/14/2017 [3]	
Factor 1 : Scale (12.5%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$7.3	Ba	$7.3	Ba
Factor 2 : Business Profile (27.5%)				
a) Business Model, Competitive Environment and Technical Positioning	Baa	Baa	Baa	Baa
b) Regulatory Environment	Ba	Ba	Ba	Ba
c) Market Share	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Efficiency (10%)				
a) Revenue Trend and Margin Sustainability	Ba	Ba	Ba	Ba
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	3.3x	Ba	3.3x	Ba
b) RCF / Debt	18.0%	B	18% - 18.3%	B
c) (EBITDA - CAPEX) / Interest Expense	3.4x	Ba	3.8x - 4x	Baa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Outcome from Scorecard		Ba1		Ba1
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 06/30/2017.
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

APPENDIX

Exhibit 11

Peer snapshot: KPN, June 2017 (last 12 months)

	Koninklijke KPN N.V.	Telecom Italia S.p.A.	TDC A/S	Telekom Austria AG	Elisa Corporation	Telefonica S.A.
	Baa3 Stable	Ba1 Stable	Baa3 Stable	(P)Baa2 Positive	Baa2 Stable	Baa3 Stable
(in USD millions)	LTM Jun-17	LTM Jun-17	LTM Jun-17	LTM Jun-17	LTM Sep-17	LTM Jun-17
Revenue	$7,322	$21,478	$3,065	$4,602	$1,933	$57,665
EBITDA	$2,889	$10,093	$1,270	$1,694	$772	$19,833
Total Debt	$10,053	$42,865	$4,899	$4,021	$1,684	$86,033
EBITDA Margin	39.5%	47.0%	41.4%	36.8%	39.9%	34.4%
FFO + Int Exp / Int Exp	5.9x	6.2x	8.6x	8.9x	22.7x	6.6x
EBITDA - CAPEX/Int. Exp.	3.4x	2.4x	3.5x	3.8x	14.3x	3.2x
Debt / EBITDA	3.3x	4.1x	3.7x	2.3x	2.0x	4.1x
FCF / Debt	3.6%	2.7%	6.0%	4.2%	0.9%	4.1%
RCF / Debt	18.0%	18.1%	21.8%	32.6%	26.2%	17.5%

Source: Moody's Financial Metrics™

Exhibit 12

KPN's Moody's-adjusted EBITDA breakdown (USD million)

(in USD Millions)	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Jun-17
As Reported EBITDA	**3,228**	**2,879**	**2,842**	**2,739**	**2,662**	**2,623**
Pensions	5	(17)	(467)	1	(11)	(11)
Operating Leases	549	354	235	176	191	191
Unusual	11	(29)	44	(272)	(152)	(152)
Non-Standard Adjustments		7	6	(2)	1	(1)
Moody's Adjusted EBITDA	**3,793**	**3,194**	**2,660**	**2,642**	**2,691**	**2,650**

Source: Moody's Financial Metrics™

Exhibit 13

KPN's Moody's-adjusted Debt breakdown (USD million)

	FYE	FYE	FYE	FYE	FYE	LTM
(in USD Millions)	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Jun-17
As Reported Debt	13,896	13,663	10,441	9,700	8,632	7,713
Pensions	1,555	1,018	316	259	262	262
Operating Leases	2,138	1,062	705	601	674	674
Hybrid		92	45	1	30	30
Analyst	479	628	63	(178)	214	136
Moody's Adjusted Debt	18,068	16,463	11,570	10,382	9,811	8,814

Source: Moody's Financial Metrics™

Ratings

Exhibit 14

Category	Moody's Rating
KONINKLIJKE KPN N.V.	
Outlook	Stable
Senior Unsecured	Baa3
Subordinate MTN	(P)Ba1
Jr Subordinate	Ba2
ST Issuer Rating -Dom Curr	P-3

Source: Moody's Investors Service

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