

Royal KPN N.V.

| Rating Type | Rating | Outlook | Last Rating Action |
|---|--------|---------|------------------------|
| Long-Term IDR | BBB | Stable | Affirmed 8 August 2017 |
| Click here for full list of ratings | | | |

Financial Summary

| (EURm) | Dec 2015 | Dec 2016 | Dec 2017F | Dec 2018F | Dec 2019F |
|--|----------|----------|-----------|-----------|-----------|
| Gross Revenue | 7,008 | 6,806 | 6,584 | 6,458 | 6,406 |
| Operating EBITDA (Before Income From Associates) | 2,419 | 2,428 | 2,421 | 2,444 | 2,453 |
| Operating EBITDA Margin (%) | 34.5 | 35.7 | 36.8 | 37.8 | 38.3 |
| Free Cash Flow Margin (%) | 5.0 | -15.4 | 2.7 | 3.6 | -4.5 |
| FFO Fixed Charge Coverage (x) | 3.6 | 3.8 | 4.3 | 4.5 | 4.5 |
| FFO Adjusted Net Leverage (x) | 3.1 | 3.0 | 2.9 | 2.8 | 2.9 |
| Source: Fitch | | | | | |

KPN's rating reflects its leading position in the Dutch telecoms market. Competitive dynamics in the mobile and business segments are likely to remain challenging over the medium-term, but the combination of cost savings and modest growth in the consumer segment are likely to offset declines and drive a sustainable stabilisation in EBITDA and free cash-flow growth. KPN has to date maintained financial flexibility through sizeable financial investments and using proceeds from asset sales to improve leverage as well as equity returns. The flexibility provides KPN with sufficient scope to manage operational risks and is a core element in its credit profile and rating.

Key Rating Drivers

Rational Fixed Market Structure: KPN generates about 30% of its revenues and probably a higher proportion of profits from the consumer fixed-line segment. We estimate that around 80% of the total Dutch market by revenues is generated broadly equally by KPN and VodafoneZiggo. This creates an effective duopoly in local fixed access and a structurally supportive environment. Given the maturity of the Dutch broadband market, we expect the market structure to instil rationality in the consumer broadband and fixed-line segments. KPN's early commercial agreements to allow wholesale access to its fibre (VULA) also limit the risk from increasing competition from virtual operators.

Sustainable Consumer Position: KPN's strategy to invest in broadband networks, value-added bundled products and service quality should enable the company to compete more effectively and sustainably in the consumer market. The strategy provides some points of differentiation in less price sensitive segments of the market and enables KPN to plough back savings from reduced churn into customer retention and product improvement. KPN's household penetration of fixed-mobile bundles has increased to 40% (1H17) from 33% (1H16), while mobile subscriber acquisition and retention costs have improved on per subscriber basis during 1H17.

Business Sector Decline to Persist: We expect KPN's revenue declines from the business segment to continue into the medium term, but expect the rate of annual decline (9% 2015, 7% 2016 and 6% 1H17) to continue improving. The declines are driven by a repricing of single-play mobile services, loss of traditional fixed-line voice revenues, migration to IP based products, and competition. Visibility on the point of inflection, when new services, multi-play growth and solutions offset the declines remains low. This is reflected in our base-case forecasts discussed below.

Mobile Market Pressure May Increase: The entry of Tele2 as a mobile network operator has so far had minimal impact on KPN as result of its segment focus and bundled strategy. This however may begin to change over the next 12 to 24 months as Tele2 seeks to increase scale and T-Mobile Netherlands looks to improve its financial performance. We are not confident about the long-term viability of Tele2's business model in its current form and are concerned that this may lead to less rational behaviour as the operator seeks to cover fixed costs and potentially an exit in its pursuit of a solution. These factors will continue to pose medium-term operational risks for KPN.

Stable EBITDA, Improving FCF: Our base-case forecasts for KPN indicate that the company will be able to improve its free cash flow (FCF) along with an expansion in pre-dividend FCF margin to around 12% within the next two to three years from 9% in 2016. The expansion reflects broadly stable EBITDA and improvements in cash interest costs and lower capex. Our base-case EBITDA forecasts reflect the company's ongoing cost improvement programme and potential operational risks that may preclude further growth. These include increases in content costs, pricing pressure, execution risks in cost reduction and delayed revenue inflection within the business market segment.

Maintaining Financial Flexibility: KPN's funds from operations (FFO) adjusted net leverage of 3.0x is comfortably within the 'BBB' rating level and provides about 0.5x of headroom. The headroom is partly driven by approximately EUR70 million of annual dividends received from its holding in Telefonica Deutschland and minimal tax payments due to sizeable tax assets. KPN's investment in Telefonica Deutschland (TEFD) is financial in nature and we expect KPN will continue to slowly reduce its stake. To date the company has used sale proceeds from asset disposals for both shareholder returns and to maintain its operational and financial flexibility. We believe KPN will continue to take this approach in the future.

Rating Derivation Relative to Peers

| Rating Derivation versus Peers | |
|--------------------------------|--|
| Peer Comparison | <p>KPN's rating reflects its leading position in the Dutch telecoms market. The company has strong in-market scale and share that spans both fixed and mobile segments enabling it to pursue an effective product bundling strategy. KPN's leverage metrics at the 'BBB' level compare favourably to other western European telecoms incumbents, but these are offset by greater operational risks relating to its domestic mobile market and business segment. KPN has to date effectively managed these risks through operational execution and maintaining financial flexibility.</p> <p>KPN's rating is anchored in the middle of its western European telecoms peer group. Telecoms operators with a similar domestic focus such as TDC A/S (BBB-/Stable), Telecom Italia S.p.A and BT Group Plc (BBB+/Stable) have a lower rating due to higher leverage and lower financial flexibility or a higher rating due to better competitive dynamics in the domestic market with similarly strong leverage metrics. Higher-rated peers such as Orange S.A. (BBB+/Stable), Deutsche Telekom AG (BBB+/Stable) and Telefonica SA (BBB/Stable) have similar strong domestic profiles but also benefit from greater geographic diversification and scale.</p> |
| Parent/Subsidiary Linkage | No Parent/Subsidiary Linkage is applicable. |
| Country Ceiling | No Country Ceiling constraint was in effect for these ratings. |
| Operating Environment | No Operating Environment influence was in effect for these ratings. |
| Other Factors | n.a. |
| Source: Fitch | |

Rating Sensitivities

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Revenue and EBITDA growth across all divisions combined with strengthened operating profile and competitive capability
- Expectations of FFO adjusted net leverage sustainably below 3.0x
- Reduced competitive risks in the mobile segment which we currently see as unlikely in the short to medium term

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

- A deterioration in KPN's domestic operations that result in declining EBITDA.
- Expectations of FFO adjusted net leverage remaining above 3.5x on a sustained basis
- Aggressive shareholder remuneration policy that is perceived by Fitch not be in line with company's operating risk profile

Liquidity and Debt Structure

Comfortable Liquidity: KPN has a strong liquidity position as a result of existing cash resources, free cash-flow generation and committed available credit facilities. At end-1H17 KPN had cash and cash equivalents amounting to EUR916 million and a revolving credit facility of EUR1.25 billion that is available until July 2022. Apart from the first call date of its euro-denominated hybrids in 2018, KPN has no bond maturities over the next 12 months.

Debt Maturities and Liquidity at FY16

| Debt Maturities | (EURbn) |
|---|----------------|
| 2017 | 0.7 |
| 2018 | 0 |
| 2019 | 0.6 |
| 2020 | 0.5 |
| 2021 | 0.6 |
| After 2021 | 4.6 |
| Total debt | 6.9 |
| Liquidity Analysis | |
| | (EURbn) |
| Unrestricted cash | 1.3 |
| Committed banking facilities | 1.3 |
| Available undrawn portion | 1.3 |
| Total Liquidity | 2.6 |
| Fitch Forecasted 2017 FCF (post dividend) | 0.2 |
| Short-term debt | 0.7 |
| Liquidity score [x] | 4.0 |
| Source: Fitch | |

Trends and Forecasts



Note: Including Fitch expectations
Source: Fitch

Definitions

FFO Adjusted Leverage: Total Adjusted Debt with Equity Credit divided by Funds From Operations [FFO] + Gross Interest (Paid) - Interest Received + Preferred Dividends (Paid) + Operating Lease Expense for Capitalised Leased Assets.
 FFO Interest Cover: FFO + Gross Interest paid minus interest received + Preferred Dividends paid divided by Gross Interest Paid + Preferred Dividends Paid.
 Revenue Growth: Percentage growth in revenues since previous reporting period.
 FFO Margin: FFO divided by Revenues.

Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- revenue decline of -3% in 2017 improving to -1% by 2019;
- broadly stable EBITDA around EUR2.4 billion , driven by a 2.5 percentage point improvement in EBITDA margin between 2016 and 2019;
- stable capex-to-sales ratio of 17.5% (excluding spectrum);
- a dividend payout ratio between 60% - 70% of pre-dividend FCF (excluding any dividend proceeds from TEFD);
- all TEFD dividends received are passed through to shareholders.

Financial Data

| (EURm) | Historical | | Forecast | | |
|---|------------|----------|-----------|-----------|-----------|
| | Dec 2015 | Dec 2016 | Dec 2017F | Dec 2018F | Dec 2019F |
| SUMMARY INCOME STATEMENT | | | | | |
| Gross Revenue | 7,008 | 6,806 | 6,584 | 6,458 | 6,406 |
| Revenue Growth (%) | -5.4 | -2.9 | -3.3 | -1.9 | -0.8 |
| Operating EBITDA (Before Income From Associates) | 2,419 | 2,428 | 2,421 | 2,444 | 2,453 |
| Operating EBITDA Margin (%) | 34.5 | 35.7 | 36.8 | 37.8 | 38.3 |
| Operating EBITDAR | 2,605 | 2,594 | 2,581 | 2,602 | 2,610 |
| Operating EBITDAR Margin (%) | 37.2 | 38.1 | 39.2 | 40.3 | 40.7 |
| Operating EBIT | 708 | 884 | 897 | 1,004 | 985 |
| Operating EBIT Margin (%) | 10.1 | 13.0 | 13.6 | 15.5 | 15.4 |
| Gross Interest Expense | -483 | -402 | -426 | -405 | -407 |
| Pretax Income (Including Associate Income/Loss) | 605 | 466 | 472 | 601 | 580 |
| SUMMARY BALANCE SHEET | | | | | |
| Readily Available Cash and Equivalents | 2,087 | 1,277 | 1,255 | 1,386 | 1,258 |
| Total Debt With Equity Credit | 8,670 | 8,078 | 7,358 | 7,258 | 7,420 |
| Total Adjusted Debt with Equity Credit | 10,156 | 9,406 | 8,643 | 8,518 | 8,670 |
| Net Debt | 6,584 | 6,801 | 6,103 | 5,872 | 6,162 |
| SUMMARY CASH FLOW STATEMENT | | | | | |
| Operating EBITDA | 2,419 | 2,428 | 2,421 | 2,444 | 2,453 |
| Cash Interest Paid | -556 | -529 | -426 | -405 | -407 |
| Cash Tax | 18 | 50 | -30 | -45 | -45 |
| Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow) | 147 | 110 | 70 | 70 | 70 |
| Other Items Before FFO | -133 | -83 | -100 | -100 | -100 |
| Funds Flow From Operations | 1,899 | 1,978 | 1,936 | 1,966 | 1,974 |
| Change in Working Capital | 30 | -121 | -90 | -50 | -100 |
| Cash Flow From Operations (Fitch Defined) | 1,929 | 1,857 | 1,846 | 1,916 | 1,874 |
| Total Non-Operating/Non-Recurring Cash Flow | 222 | -7 | | | |
| Capital Expenditure | -1,304 | -1,219 | | | |
| Capital Intensity (Capex/Revenue) | 18.6 | 17.9 | | | |
| Common Dividends | -495 | -1,680 | | | |

| | | | | | |
|---|--------|--------|------|--------|--------|
| Net Acquisitions and Divestitures | -73 | -37 | | | |
| Other Investing and Financing Cash Flow Items | 280 | 1,591 | 0 | 0 | 0 |
| Net Debt Proceeds | -929 | -902 | -720 | -100 | 162 |
| Net Equity Proceeds | 0 | 0 | -200 | 0 | 0 |
| Total Change in Cash | -370 | -397 | -22 | 131 | -129 |
| DETAIL CASH FLOW STATEMENT | | | | | |
| FFO Margin (%) | 27.1 | 29.1 | 29.4 | 30.4 | 30.8 |
| Calculations for Forecast Publication | | | | | |
| Capex, Dividends, Acquisitions and Other Items Before FCF | -1,650 | -2,943 | -948 | -1,685 | -2,164 |
| Free Cash Flow After Acquisitions and Divestitures | 279 | -1,086 | 898 | 231 | -291 |
| Free Cash Flow Margin (After Net Acquisitions) (%) | 4.0 | -16.0 | 13.6 | 3.6 | -4.5 |
| COVERAGE RATIOS | | | | | |
| FFO Interest Coverage (x) | 4.4 | 4.7 | 5.5 | 5.8 | 5.8 |
| FFO Fixed Charge Coverage (x) | 3.6 | 3.8 | 4.3 | 4.5 | 4.5 |
| Operating EBITDAR/Interest Paid + Rents (x) | 3.7 | 3.9 | 4.5 | 4.7 | 4.8 |
| Operating EBITDA/Interest Paid (x) | 4.6 | 4.8 | 5.8 | 6.2 | 6.2 |
| LEVERAGES RATIOS | | | | | |
| Total Adjusted Debt/Operating EBITDAR (x) | 3.7 | 3.5 | 3.3 | 3.2 | 3.2 |
| Total Adjusted Net Debt/Operating EBITDAR (x) | 2.9 | 3.0 | 2.8 | 2.7 | 2.8 |
| Total Debt with Equity Credit/Operating EBITDA (x) | 3.4 | 3.2 | 3.0 | 2.9 | 2.9 |
| FFO Adjusted Leverage (x) | 3.9 | 3.5 | 3.4 | 3.4 | 3.4 |
| FFO Adjusted Net Leverage (x) | 3.1 | 3.0 | 2.9 | 2.8 | 2.9 |

How to Interpret the Forecast Presented

The forecast presented is based on the agency's internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch's rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch's forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch's own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch's own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch's own internal deliberations, where Fitch, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch may update the forecast in future reports but assumes no responsibility to do so.

Rating Navigator

Royal KPN N.V.

Corporates Ratings Navigator Telecommunications

| Factor Levels | Sector Risk Profile | Operating Environment | Business Profile | | | | | Financial Profile | | | Issuer Default Rating |
|---------------|---------------------|-----------------------|-------------------------------------|----------------------|-----------------|-------------------------------|------------------------|-------------------|---------------------|-----------------------|-----------------------|
| | | | Management and Corporate Governance | Competitive Position | Diversification | Technology and Infrastructure | Regulatory Environment | Profitability | Financial Structure | Financial Flexibility | |
| aaa | | | | | | | | | | | AAA |
| aa+ | | | | | | | | | | | AA+ |
| aa | | | | | | | | | | | AA |
| aa- | | | | | | | | | | | AA- |
| a+ | | | | | | | | | | | A+ |
| a | | | | | | | | | | | A |
| a- | | | | | | | | | | | A- |
| bbb+ | | | | | | | | | | | BBB+ |
| bbb | | | | | | | | | | | BBB Stable |
| bbb- | | | | | | | | | | | BBB- |
| bb+ | | | | | | | | | | | BB+ |
| bb | | | | | | | | | | | BB |
| bb- | | | | | | | | | | | BB- |
| b+ | | | | | | | | | | | B+ |
| b | | | | | | | | | | | B |
| b- | | | | | | | | | | | B- |
| ccc | | | | | | | | | | | CCC |
| cc | | | | | | | | | | | CC |
| c | | | | | | | | | | | C |
| d or rd | | | | | | | | | | | D or RD |

Operating Environment

| | | | |
|-----|----------------------|----|---|
| aa+ | Economic Environment | aa | Very strong combination of countries where economic value is created and where assets are located. |
| aa | Financial Access | aa | Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market. |
| | Systemic Governance | aa | Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'aa'. |
| b- | | | |
| ccc | | | |

Competitive Position

| | | | |
|------|--------------------|-----|--|
| a- | Market Position | bbb | Strong and sustainable market share in primary markets (>20%). |
| bbb+ | Competition | bbb | Primary markets characterized by medium competitive intensity and/or moderate barriers to entry. |
| bbb | Scale - \$ EBITDAR | bbb | >1 billion |
| bbb- | | | |
| bb+ | | | |

Technology and Infrastructure

| | | | |
|------|-----------------------------|---|--|
| aa- | Ownership of Network | a | Owns almost all of its infrastructure. |
| a+ | Network and Service Quality | a | Market leading network in terms of coverage and technology deployment, with good quality of service. |
| a | | | |
| a- | | | |
| bbb+ | | | |

Profitability

| | | | |
|------|-------------------------|----|---|
| a- | Volatility of Cash Flow | bb | Higher volatility and weaker visibility of cash flow than industry average. |
| bbb+ | EBITDAR Margin | | 0.35 |
| bbb | FFO Margin | | 0.24 |
| bbb- | | | |
| bb+ | | | |

Financial Flexibility

| | | | |
|------|------------------------|-----|---|
| a | Financial Discipline | a | Clear commitment to maintain a conservative policy with only modest deviations allowed. |
| a- | Liquidity | a | Very comfortable liquidity. Well-spread debt maturity schedule. Diversified sources of funding. |
| bbb+ | FFO Fixed Charge Cover | bbb | 4.0x |
| bbb | FX Exposure | aa | No material FX mismatch. |
| bbb- | | | |

Management and Corporate Governance

| | | | |
|------|------------------------|-----|--|
| a+ | Management Strategy | bbb | Strategy may include opportunistic elements but soundly implemented. |
| a | Governance Structure | aa | No record of governance failing. Experienced board exercising effective check and balance to management. No ownership concentration. |
| a- | Group Structure | a | Group structure shows some complexity but mitigated by transparent reporting. |
| bbb+ | Financial Transparency | bbb | Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges. |
| bbb | | | |

Diversification

| | | | |
|------|----------------------------------|----|--|
| a- | Service Platform Diversification | a | Operates several service platforms in primary markets. |
| bbb+ | Geographic Diversification | bb | Limited geographic diversification. |
| bbb | | | |
| bbb- | | | |
| bb+ | | | |

Regulatory Environment

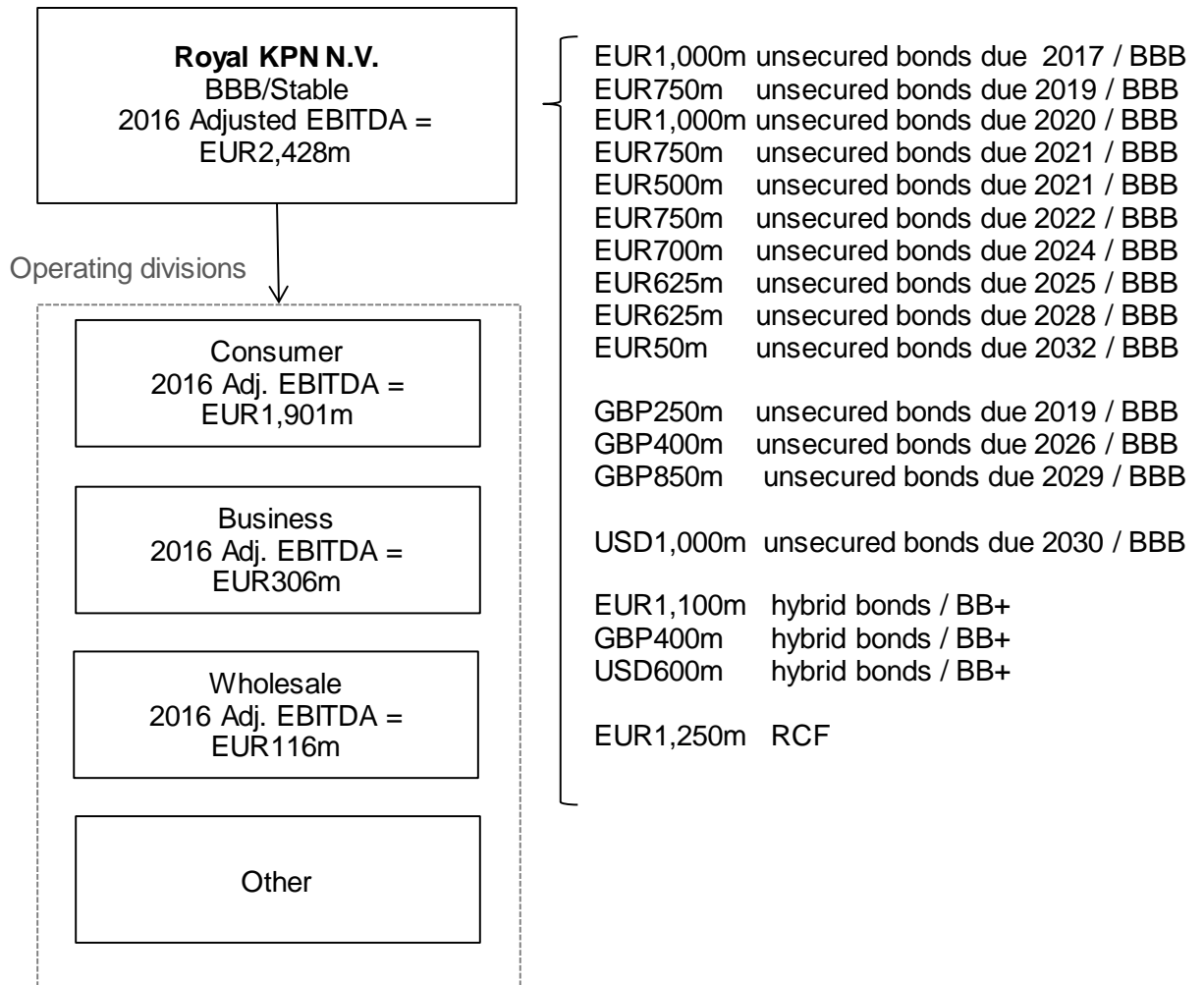
| | | | |
|------|-----------------|-----|-----------|
| a- | Regulatory Risk | bbb | Moderate. |
| bbb+ | | | |
| bbb | | | |
| bbb- | | | |
| bb+ | | | |

Financial Structure

| | | | |
|------|-----------------------------------|-----|------|
| a- | Lease Adjusted FFO Gross Leverage | bbb | 3.3x |
| bbb+ | Lease Adjusted FFO Net Leverage | bbb | 3.0x |
| bbb | Net Debt/(CFO - Capex) | bbb | 8.0x |
| bbb- | Total Adjusted Debt/Operating | bb | 4.0x |
| bb+ | | | |

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Simplified Group Structure Diagram



Source: Fitch, Company data, as of end-4Q16

Peer Financial Summary

| Company | Date | Rating | Gross Revenue (EURm) | Operating EBITDA Margin (%) | FFO Margin (%) | FFO Fixed Charge Coverage (x) | FFO Adjusted Net Leverage (x) |
|-----------------------------------|------|--------|----------------------|-----------------------------|----------------|-------------------------------|-------------------------------|
| Royal KPN N.V. | 2016 | BBB | 6,806 | 35.7 | 29.1 | 3.8 | 3.0 |
| | 2015 | BBB- | 7,008 | 34.5 | 27.1 | 3.6 | 3.1 |
| BT Group plc | 2017 | BBB+ | 24,082 | 32.0 | 23.7 | 5.3 | 2.1 |
| | 2016 | BBB+ | 18,879 | 34.2 | 24.1 | 5.5 | 2.4 |
| TDC A/S | 2016 | BBB- | 21,031 | 40.4 | 30.9 | 4.3 | 3.7 |
| | 2015 | BBB- | 24,366 | 40.3 | 31.4 | 5.0 | 3.9 |
| Telecom Italia SpA | 2016 | BBB- | 19,025 | 42.1 | 30.5 | 2.4 | 0.7 |
| | 2015 | BBB- | 19,718 | 41.0 | 29.0 | 3.2 | 4.3 |
| Deutsche Telekom AG | 2015 | BBB+ | 69,024 | 25.3 | 21.9 | 3.3 | 3.4 |
| | 2014 | BBB+ | 62,658 | 25.1 | 20.7 | 2.9 | 3.7 |
| Orange S.A. | 2015 | BBB+ | 40,236 | 30.9 | 21.6 | 3.8 | 3.3 |
| | 2014 | BBB+ | 39,445 | 30.9 | 22.2 | 4.0 | 3.2 |
| Telefonica Deutschland Holding AG | 2016 | BBB | 7,503 | 24.1 | 23.8 | 4.0 | 2.0 |
| | 2015 | BBB | 7,888 | 22.3 | 21.9 | 3.7 | 2.4 |
| Telefonica SA | 2016 | BBB | 52,036 | 31.6 | 23.3 | 3.6 | 3.9 |
| | 2015 | BBB+ | 54,916 | 29.6 | 20.3 | 3.0 | 4.0 |

Source: Fitch

Reconciliation of Key Financial Metrics

| (EUR Millions, Last Twelve Months) | 31 Dec 2016 |
|--|----------------|
| Income Statement Summary | |
| Operating EBITDA | 2,428 |
| + Recurring Dividends Paid to Non-controlling Interest | 0 |
| + Recurring Dividends Received from Associates | 110 |
| + Additional Analyst Adjustment for Recurring IS Minorities and Associates | 0 |
| = Operating EBITDA After Associates and Minorities (k) | 2,538 |
| + Operating Lease Expense Treated as Capitalised (h) | 166 |
| = Operating EBITDAR after Associates and Minorities (j) | 2,704 |
| Debt & Cash Summary | |
| Total Debt with Equity Credit (l) | 8,078 |
| + Lease-Equivalent Debt | 1,328 |
| + Other Off-Balance-Sheet Debt | 0 |
| = Total Adjusted Debt with Equity Credit (a) | 9,406 |
| Readily Available Cash [Fitch-Defined] | 1,179 |
| + Readily Available Marketable Securities [Fitch-Defined] | 98 |
| = Readily Available Cash & Equivalents (o) | 1,277 |
| Total Adjusted Net Debt (b) | 8,129 |
| Cash-Flow Summary | |
| Preferred Dividends (Paid) (f) | 0 |
| Interest Received | 2 |
| + Interest (Paid) (d) | (529) |
| = Net Finance Charge (e) | (527) |
| Funds From Operations [FFO] (c) | 1,978 |
| + Change in Working Capital [Fitch-Defined] | (121) |
| = Cash Flow from Operations [CFO] (n) | 1,857 |
| Capital Expenditures (m) | (1,219) |
| Multiple applied to Capitalised Leases | 8.0 |
| Gross Leverage | |
| Total Adjusted Debt / Op. EBITDAR* [x] (a/j) | 3.5 |
| FFO Adjusted Gross Leverage [x] (a/(c-e+h-f)) | 3.5 |
| <i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i> | |
| Total Debt With Equity Credit / Op. EBITDA* [x] (l/k) | 3.2 |
| Net Leverage | |
| Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j) | 3.0 |
| FFO Adjusted Net Leverage [x] (b/(c-e+h-f)) | 3.0 |
| <i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i> | |
| Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m)) | 10.7 |
| Coverage | |
| Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h) | 3.9 |
| Op. EBITDA / Interest Paid* [x] (k/(-d)) | 4.8 |
| FFO Fixed Charge Cover [x] ((c-e+h-f)/(-d+h-f)) | 3.8 |
| <i>(FFO - Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i> | |
| FFO Gross Interest Coverage [x] ((c-e-f)/(-d-f)) | 4.7 |
| <i>(FFO - Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i> | |

* EBITDA/R after Dividends to Associates and Minorities

Source: Fitch based on company reports

Fitch Adjustment Reconciliation

| | Reported Values 31 Dec 16 | Sum of Fitch Adjustments | Preferred Dividends, Associates and Minorities Cash Adjustments | Hybrid Adjustment | Cash Adjustment | Other Adjustment | Adjusted Values |
|--|---------------------------------|-----------------------------|---|----------------------|--------------------|---------------------|--------------------|
| Income Statement Summary | | | | | | | |
| Revenue | 6,806 | 0 | | | | | 6,806 |
| Operating EBITDAR | 2,594 | 0 | | | | | 2,594 |
| Operating EBITDAR after Associates and Minorities | 2,594 | 110 | 110 | | | | 2,704 |
| Operating Lease Expense | 166 | 0 | | | | | 166 |
| Operating EBITDA | 2,428 | 0 | | | | | 2,428 |
| Operating EBITDA after Associates and Minorities | 2,428 | 110 | 110 | | | | 2,538 |
| Operating EBIT | 884 | 0 | | | | | 884 |
| Debt & Cash Summary | | | | | | | |
| Total Debt With Equity Credit | 8,632 | (554) | | (554) | | | 8,078 |
| Total Adjusted Debt With Equity Credit | 8,632 | 774 | | (554) | | 1,328 | 9,406 |
| Lease-Equivalent Debt | 0 | 1,328 | | | | 1,328 | 1,328 |
| Other Off-Balance Sheet Debt | 0 | 0 | | | | | 0 |
| Readily Available Cash & Equivalents | 1,319 | (42) | | | (42) | | 1,277 |
| Not Readily Available Cash & Equivalents | 0 | 42 | | | 42 | | 42 |
| Cash-Flow Summary | | | | | | | |
| Preferred Dividends (Paid) | 0 | 0 | | | | | 0 |
| Interest Received | 2 | 0 | | | | | 2 |
| Interest (Paid) | (529) | 0 | | | | | (529) |
| Funds From Operations [FFO] | 1,868 | 110 | 110 | | | | 1,978 |
| Change in Working Capital [Fitch-Defined] | (121) | 0 | | | | | (121) |
| Cash Flow from Operations [CFO] | 1,747 | 110 | 110 | | | | 1,857 |
| Non-Operating/Non-Recurring Cash Flow | (7) | 0 | | | | | (7) |
| Capital (Expenditures) | (1,219) | 0 | | | | | (1,219) |
| Common Dividends (Paid) | (1,680) | 0 | | | | | (1,680) |
| Free Cash Flow [FCF] | (1,159) | 110 | 110 | | | | (1,049) |
| Gross Leverage | | | | | | | |
| Total Adjusted Debt / Op. EBITDAR* [x] | 3.3 | | | | | | 3.5 |
| FFO Adjusted Leverage [x] | 3.4 | | | | | | 3.5 |
| Total Debt With Equity Credit / Op. EBITDA* [x] | 3.6 | | | | | | 3.2 |
| Net Leverage | | | | | | | |
| Total Adjusted Net Debt / Op. EBITDAR* [x] | 2.8 | | | | | | 3.0 |
| FFO Adjusted Net Leverage [x] | 2.9 | | | | | | 3.0 |
| Total Net Debt / (CFO - Capex) [x] | 13.9 | | | | | | 10.7 |
| Coverage | | | | | | | |
| Op. EBITDAR / (Interest Paid + Lease Expense)* [x] | 3.7 | | | | | | 3.9 |
| Op. EBITDA / Interest Paid* [x] | 4.6 | | | | | | 4.8 |
| FFO Fixed Charge Coverage [x] | 3.7 | | | | | | 3.8 |
| FFO Interest Coverage [x] | 4.5 | | | | | | 4.7 |

*EBITDA/R after Dividends to Associates and Minorities

Summary of Financial Statement Adjustments

Fitch has taken a 30% discount on EUR140 million of other financial assets as reported by KPN in its definition of net debt in 2016. The adjustment is in line with Fitch policy on fixed-income funds and has a minor impact on KPN's credit metrics.

Fitch has treated coupon payments related to KPN's EUR1.1 billion hybrids as regular bond coupons and thus included within FFO and cash flow from operations. KPN's financial reporting treats the coupon payments as equity distributions.

Full List of Ratings

| | Rating | Outlook | Last Rating Action |
|---------------------------------|--------|---------|------------------------|
| Royal KPN N.V. | | | |
| Long-Term IDR | BBB | Stable | Affirmed 8 August 2017 |
| Senior unsecured debt | BBB | | Affirmed 8 August 2017 |
| Subordinated capital securities | BB+ | | Affirmed 8 August 2017 |

Related Research & Criteria

[Corporate Rating Criteria \(August 2017\)](#)

[Non-Financial Corporates Notching and Recovery Ratings Criteria \(June 2017\)](#)

[Non-Financial Corporates Hybrids Treatment and Notching Criteria \(April 2017\)](#)

Analysts

Tajesh Tailor

+44 20 3530 1726

tajesh.tailor@fitchratings.com

Alexander Cherepovitsyn, CFA

+44 20 3530 1755

alexander.cherepovitsyn@fitchratings.com

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