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CREDIT OPINION
29 November 2016

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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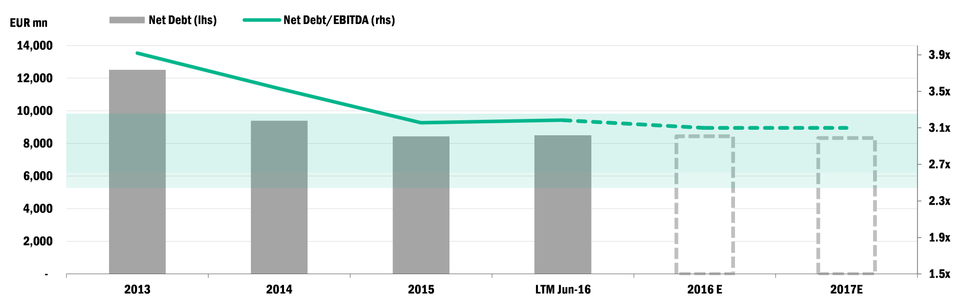
Koninklijke KPN N.V.

Update to Discussion of Key Credit Factors

Summary Rating Rationale

Koninklijke KPN N.V.'s (KPN) Baa3 senior unsecured rating is supported principally by its leading position in the Dutch market, integrated business model, and solid liquidity profile. These considerations are balanced by (1) KPN's sustained weak operating performance, although there are initial signs of stabilisation in operating trends; (2) competitive pressures likely to heighten further following the completion of Ziggo's joint venture (JV), which will become the second largest integrated player in the Dutch market; (3) its relatively high leverage metrics for the rating category, notwithstanding the improvement in ratios over recent years; (4) limited financial flexibility, other than via the monetisation of its 15.5% stake in Telefónica Deutschland; and (5) the company´s strong commitment to an investment grade rating proven by actions taken to strengthen its balance sheet.

Exhibit 1
Management actions have led to an improvement in credit metrics, but leverage expected to remain relatively high for the rating category
Net debt (EUR million) and Net debt/EBITDA [1]



[1] Shaded green band refers to the Baa3 rating range for KPN's net debt/EBITDA
Source: Moody's Investors Service, Moody's Adjusted Ratios

Credit Strengths

» Leading position in fixed and mobile in the Netherlands

» Key performance indicators are showing signs of recovery, although business segment remains under substantial pressure

» Strong commitment to an investment grade rating and track record of actions in favor of creditors e.g. sizeable capital increase and use of part of proceeds from disposals for debt reduction

» Solid liquidity profile

Credit Challenges

» Challenging operating environment, with competitive pressures likely to heighten following completion of Ziggo's JV with Vodafone

» Business segment remains under substantial pressure

» Net debt/EBITDA is at the high-end for the rating category, notwithstanding the improvement in leverage in recent years

» Limited financial flexibility, other than via the monetisation of its 15.5% stake in Telefonica Deutschland

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 flows and a reduction in debt. The rating could come under positive pressure if the company achieved 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 to below 20% or adjusted net debt/EBITDA exceeding 3.2x on an ongoing basis. We expect KPN's net debt/EBITDA to improve gradually to 3.0x-3.1x in the next 12-18 months, which is at the high-end for the Baa3 rating category. Nonetheless, KPN's financial profile is enhanced by the value of KPN's stake in Telefónica Deutschland, together with the company's commitment and track record in defending its investment-grade rating. Although we expect KPN's leverage to gradually improve over time, an aggressive use of proceeds from disposals with a large distribution of these proceeds to shareholders, could lead to downward rating pressure given the modest headroom in credit metrics and expectations of increased competitive pressures.

Key Indicators

Exhibit 2

Koninklijke KPN N.V.

	6/30/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Scale (USD Billion)	$7.6	$7.8	$9.7	$11.2	$12.0
EBITDA Margin	38.8%	38.2%	36.3%	37.8%	40.7%
Debt / EBITDA	3.6x	3.9x	4.3x	5.2x	4.8x
FCF / Debt	1.4%	3.7%	3.9%	7.1%	5.4%
RCF / Debt	18.4%	19.1%	16.8%	19.8%	19.3%
(FFO + Interest Expense) / Interest Expense	5.7x	5.4x	4.0x	5.0x	6.3x
(EBITDA - Capex) / Interest Expense	2.3x	2.1x	1.8x	1.4x	2.0x

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

Detailed Rating Considerations

Leading integrated position in the Dutch market

KPN has an integrated business model with fixed, mobile operations and a growing pay-TV offering. So far, KPN has been the only integrated access provider in the Netherlands. However, the new joint venture between Ziggo Group Holding B.V. (Ziggo, Ba3 negative) and the Dutch operations of Vodafone Group Plc (Baa1 stable) will change the competitive landscape creating the second-largest integrated player in the Netherlands (see next section).

KPN holds a leading position in its traditional domestic fixed-line market. In retail broadband the company reported a 41% revenue market share and its residential TV business has grown solidly and achieved a 30% market share as of June 2016. In addition, KPN remains the leader in the domestic wireless segment, with a 42% market share in terms of service revenues, ahead of T-Mobile and Vodafone, as of June 2016. However, KPN's domestic market is relatively small (total population in the Netherlands is 16.8 million), limiting its growth potential.

Competitive pressures likely to heighten following JV between Ziggo and Vodafone

The Netherlands has been one of the most competitive markets in Europe for telecom operators. This is because of the significant presence of cable operators in fixed broadband and a more fragmented market structure in mobile, with four mobile players and a handful of MVNOs. Going forward, we expect competitive pressures to heighten as a result of the new JV between Ziggo and Vodafone, which will become the second largest integrated player in the country. The joint venture is expected to close around year-end 2016.

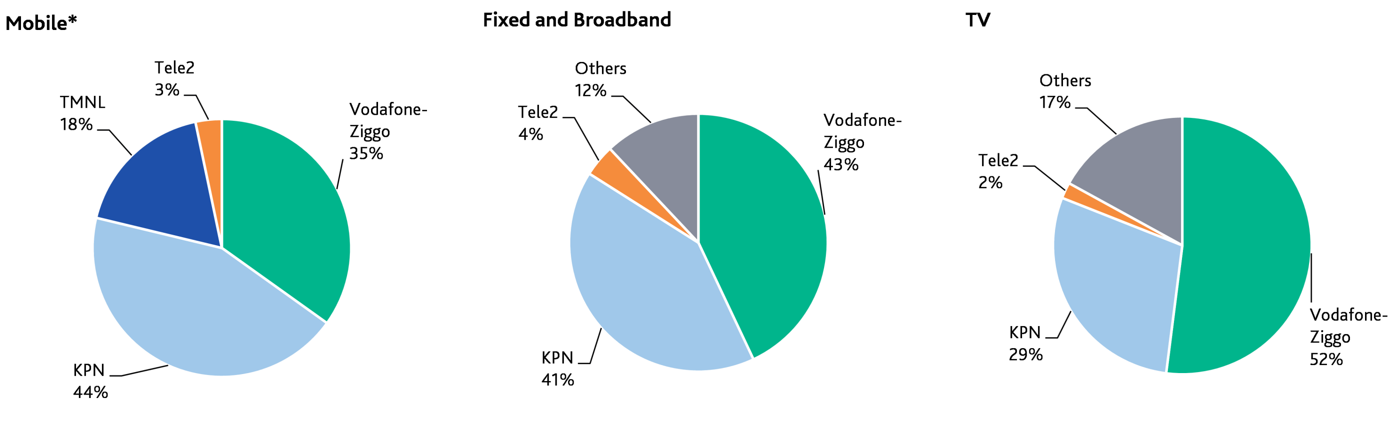
In order to defend its market position, KPN has leveraged its unique integrated product offering and has invested in enhancing its fixed broadband offering through the deployment of fibre to the home (FTTH) and fibre to the cabinet (FTTC), coupled with technologies (such as vectoring) that optimise its copper network. These actions enabled the company to stabilise its profitability in the consumer segment with modest growth in top line and marginal growth in average revenue per user by growing triple play and quad play offerings.

The Dutch mobile market is also challenging, with strong price-driven competition and the recent entry of Tele 2. Nevertheless, KPN has been relatively resilient to competitive pressures in consumer mobile thanks to its competitive integrated offering.

Exhibit 3

KPN will remain the leading integrated operator, but JV between Ziggo and Vodafone will increase competitive pressures

Market share in terms of revenues



*Estimated mobile market share for consumer and business

Source: Moody's estimates based on Company reports

Key performance indicators show initial signs of recovery, but there is uncertainty over the medium term due to the changing competitive landscape

KPN's operating performance has shown signs of initial recovery over recent quarters despite continued pressure on revenues. For the first time in several years, the company reported good growth rates of 3% in adjusted EBITDA driven by cost savings. However, revenues have remained under pressure (down by 3%) in Q3 2016.

KPN has made strong progress in delivering cost savings in a context of declining top-line revenues. KPN targets cost savings of EUR450 million at year-end 2016 (vs cost base in 2013), most of which have been delivered by September 2016. A significant part of these operational efficiencies included most of the 2,000-2,500 FTE reductions targeted for year end 2016.

In fixed-line, KPN's domestic business has stabilised its revenues and market share ultimately driven by IPTV growth, which has in turn been helped by the deployment of its hybrid copper/fibre strategy. A material proportion of KPN's sites are connected with fibre and it can currently offer 100Mbps to 74% of the Dutch population and expects to reach around 80% by 2016. These investments in quality networks should translate over time into pricing power and revenue growth. KPN is at the end of the capex upgrade cycle, and therefore, the management team expects to reduce capex levels to approximately EUR1.2 billion in 2016.

The company's Consumer division has recovered, reporting improving key performance indicators after years of substantial pressures. Adjusted revenues and EBITDA were up by 1.1% and 1.7% respectively at year to date Q3 2016, in spite of roaming rate cuts and lower tax benefits.

However, operating performance in Business segment remains challenging. The Business segment continues to suffer from severe contraction on revenues (adjusted revenues down by 7% at year-to-date Q3 2016). In response to these challenges, the company will need to remain focused on delivering cost savings.

We believe EBITDA will be marginally up in the next 12-18 months supported by a more efficient cost structure and lower pressure on revenues. However, we believe that the visibility around the company's operating performance over the medium term is somewhat limited as we expect increased competition arising from the new Ziggo JV.

Credit metrics have improved but remain at the high-end for the rating category; strong commitment to investment-grade rating

KPN's management has made a substantial effort in recent years to protect the company's financial profile. This is evidenced by the sizeable EUR3 billion right issue in 2013 and the conservative use of proceeds from disposals for debt deleveraging purposes (e.g. E-Plus and, to a lesser degree, BASE).

Net debt/EBITDA has improved in recent years, although it remains at the high-end of the Baa3 rating range. We expect net debt/EBITDA, as adjusted by Moody's, to reduce modestly to 3.0x-3.1x in the next 12-18 months, down from 3.2x at June 2016.

The improvement in expected leverage will reflect both a marginal reduction in debt supported by growing cash flow generation and modest growth in EBITDA. The group's cash generation will likely benefit from expected lower levels of capex, lower funding costs and modestly improving EBITDA. Nevertheless, we note that the visibility in operating performance over the medium term remains somewhat limited given changing the competitive landscape.

The company retains flexibility derived from its remaining 15.5% stake in the Telefonica Deutschland

The company retains flexibility on the use of the remaining 15.5% stake on Telefonica Deutschland (TEFD), which is valued at approximately EUR1.7 billion, as of November 2016, approximately a fifth of its net debt. KPN has clearly stated that proceeds from a potential sale of this stake would be used to (1) maintain a solid credit profile, (2) provide flexibility for strategic investments and/or small in-country M&A, and (3) increase shareholder remuneration. Telefonica Deutschland's dividends are passed through to shareholders, including the EUR110 million received in 2016.

KPN has used part of the proceeds from disposals for debt reduction in the past. For example, KPN completed the sale of BASE Company for EUR1.3 billion in February 2016. This followed the sale of a 5% stake in TEFD for EUR0.8 billion. The company has used EUR0.9 billion of the total proceeds for debt reduction, which has improved leverage ratios by approximately 0.3x.

Leverage metrics are expected to remain at the higher-end of the rating level with limited headroom for deterioration in an increasingly difficult operating environment. Therefore, an aggressive use of proceeds from future asset sales could lead to downward rating pressure.

Liquidity Analysis

KPN has a very solid liquidity profile. As of September 2016, KPN had around EUR1 billion in cash and short-term investments, and full availability under its new EUR1.25 billion syndicated credit facility. This facility is due in 2021 and is not subject to MAC clauses or financial covenants.

The cash balance plus the credit facility are enough to cover bond maturities in 2017 (EUR0.8 billion) and 2018 (EUR1.1 billion). The company periodically optimises its cash position as demonstrated by the recent EUR1 billion bond tender. We estimate that this bond tender will lead to interest expense savings of approximately EUR50 million in 2017.

Profile

KPN is the leading integrated provider of telecommunication services in the Netherlands. The company also owns a 15.5% stake in Telefonica Deutschland. Its core business supplies wireline and wireless telephony, Internet and TV to consumers, and end-to-end telecommunications and ICT services to business customers. In addition, the company provides wholesale network services to third parties and operates an IP-based infrastructure with global scale in international wholesale through iBasis.

For the last 12 months ended September 2016, KPN generated revenues of EUR6.8 billion and EBITDA of EUR2,4 billion.

In February 2016, KPN sold BASE Company (BASE), its mobile operator in Belgium, to Telenet for a cash consideration of EUR 1,325 million, equivalent to 8.9x full-year 2015 EBITDA. Belgium contributed 9% of group revenues and 5% of EBITDA in 2014.

Rating Methodology and Scorecard Factors

The principal methodology used in rating KPN is “Moody's Global Telecommunications Industry Rating Methodology”, published in 2010. The methodology grid outcome for KPN, based on the group's results for the last twelve months ended June 2016, is Ba1. The methodology grid outcome for our 12-18 months forward view is Baa3, which is in line with the current rating and reflects improved interest coverage ratios driven by lower funding costs.

Exhibit 4

Global Telecommunications Industry Grid [1][2]	Current LTM 6/30/2016		Moody's 12-18 Month Forward View As of 10/31/2016 [3]	
Factor 1: Scale And Business Model, Competitive Environment And Technical Positioning (27%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	$7.6	Baa	$7.6	Baa
b) Business Model, Competitive Environment and Technical Positioning	Baa	Baa	Baa	Baa
Factor 2: Operation Environment (16%)				
a) Regulatory and Political	Baa	Baa	Baa	Baa
b) Market Share	A	A	A	A
Factor 3: Financial Policy (5%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4:Operating Performance (5%)				
a) EBITDA Margin	38.8%	Baa	37% - 38%	Baa
Factor 5: Financial Strength (47%)				
a) Debt / EBITDA	3.6x	Ba	3.0x-3.1x	Ba
b) FCF / Debt	1.4%	Caa	1%-4%	Caa
c) RCF / Debt	18.4%	B	17% - 18%	B
d) (FFO + Interest Expense) / Interest Expense	5.7x	Baa	6.8x-7.3x	A
e) (EBITDA - Capex) / Interest Expense	2.3x	Ba	2.9x-3.6x	Ba
Rating:				
a) Indicated Rating from Grid		Ba1		Baa3
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 06/30/2016
[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™

Ratings

Exhibit 5

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

Source: Moody's Investors Service

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