Madrid, May 14, 2019 -- Moody's Investors Service ("Moody's") has today affirmed the Baa3 senior unsecured rating of Koninklijke KPN N.V. ("KPN"). Concurrently, Moody's has affirmed the company's (P)Baa3 senior unsecured and (P)Ba1 subordinated MTN program rating, as well as the Ba2 rating on the company's hybrid securities and the Prime-3 (P-3) short-term issuer rating. The outlook is stable.

"The Baa3 rating reflects KPN's solid position as the leading integrated operator in the Netherlands with a strong quality network. KPN has a conservative financial policy with a target net leverage below 2.5x in the medium term, and the company's 3.5% stake in Telefónica Deutschland enhances its financial flexibility," says Laura Perez, Vice President-Senior Credit Officer and lead analyst for KPN.

"We expect EBITDA to grow by low single digits in the next two years, mainly driven by cost savings, offsetting revenue declines owing to high competitive pressures and structural pressures in its business segment. At the same time, we expect KPN's cash flow generation to improve from 2019 driven by modest EBITDA growth, lower restructuring costs and interest savings," adds Mrs. Perez.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

KPN's Baa3 senior unsecured rating is supported principally by the company's (1) leading position in the Dutch market; (2) integrated business model, with a strong quality network; (3) good free cash flow generation driven by its high margins and its significant investments in the network; (4) conservative financial policy with a target net leverage below 2.5x, which is equivalent to a Moody's adjusted net leverage ratio of approximately 2.8x (as defined by Moody's, including IFRS 16 and expected spectrum liabilities); (5) solid liquidity profile; and (6) ownership of a 3.5% stake in Telefónica Deutschland ("TEFD"), which provides some additional financial flexibility.

These considerations are balanced by (1) fierce competition in the Dutch telecom market; (2) Moody's expectations of continuing revenue declines mainly driven by competitive pressures and structural declines in its business segment, although trends are somewhat improving; (3) the company's lack of international diversification; and (4) a relatively high dividend payout, broadly aligned with industry average, which will weigh on its cash flow generation.

KPN operates an integrated business model and remains the leader in the domestic wireless segment, with an estimated 43% market share in terms of service revenue. In retail broadband, KPN is the second-largest operator in the country after VodafoneZiggo Group B.V. (B1 negative), holding an estimated 41% market share by revenue. KPN's residential TV business has grown solidly, achieving an estimated 32% market share, although it remains behind VodafoneZiggo.

The company benefits from a strong quality network, which would enable it to improve underlying revenue trends. KPN expects to increase its FTTH coverage by an additional 1 million homes by 2021, which would represent a coverage greater than 40%, up from 30% as of December 2018. Furthermore, it will continue to invest in fibre-to-the-cabinet to upgrade its capacity and broadband speeds. The company aims to deliver broadband speeds in excess of 1 Gbps and 200 Mbps to 45% and 70% of the households by 2021, respectively, compared to around 30% and 50% as of 2018.

Moody's expects competition and structural pressures in the business segment will continue to weigh on the company's top-line growth prospects, although to a lesser degree than in 2018. The rating agency expects KPN's revenue declines to slow to around 1%-1.5% over the next 24 months from an expected -3% in 2019, driven by easing competitive pressures in mobile and slower declines in the business segment.

Moody's expects underlying EBITDA (excluding the impact of IFRS 16) growth in the low single digit in the next two years, mainly driven by cost savings, offsetting fading declines in revenue.
Moody’s expects KPN's free cash flow (FCF) to decline in 2019 driven by higher restructuring costs, but to improve in 2020-2021 driven by modest underlying EBITDA growth and lower cash interest payments. The rating agency expects KPN's free cash flow generation/net debt will remain at around 4% over the next 24 months.

Moody’s expects KPN’s adjusted net debt/EBITDA (including IFRS 16 and IFRS 15) to improve slightly to around 3.0x over the next two years, down from 3.1x in 2018, mainly driven by improving cash flow generation and the monetization of its stake in TEFD, which will help to pay for acquisition of spectrum (700, 1400 and 2100MHz in 2020 and 3.5GHz in 2022).

KPN’s liquidity profile is adequate and benefits from (1) cash and cash equivalents excluding short-term investments of €392 million as of March 2019; (2) full availability as of March 2019 under its €1.25 billion credit facility maturing in 2023, with no financial covenants; (3) a €300 million EIB facility signed in April 2019 and (4) internally generated cash flow (defined as EBITDA net of cash interest, tax obligations and dividends received) of around €2 billion per year.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody’s expectation of modest underlying EBITDA growth and improving cash flow generation, which in combination with the monetization of the TEFD stake will lead to a net adjusted leverage of 3.0x and a retained cash flow (RCF) to net adjusted debt of around 21% in the next two years.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on the rating could arise if KPN sustainably improves its underlying revenue and operating performance with growing revenue and improving key performance indicator trends (e.g. ARPU, churn etc.), which would lead to stronger 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.

Negative pressure on the rating could arise if KPN’s underlying operating performance significantly weakens with a deterioration in credit metrics, including RCF/net adjusted debt falling below 20% or adjusted net debt/EBITDA exceeding 3.2x on an ongoing basis.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Koninklijke KPN N.V.
....ST Issuer Rating, Affirmed P-3
.....Junior Subordinate Regular Bond/Debenture, Affirmed Ba2
.....Subordinate Medium-Term Note Program, Affirmed (P)Ba1
.....Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa3
.....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3

Outlook Actions:

..Issuer: Koninklijke KPN N.V.
....Outlook, Remains Stable

PRINCIPAL METHODOLOGIES

The principal methodology used in these ratings was Telecommunications Service Providers published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY 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 mobile, wireline network and ICT services to business customers in the Netherlands. KPN generated adjusted revenue from continuing operations of €5.6 billion and adjusted EBITDA of €2.3 billion.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody’s rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider’s credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody’s legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Laura Perez Martinez
VP - Senior Credit Officer
Corporate Finance Group
Moody’s Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Ivan Palacios
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody’s Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454
To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS’s ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.