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CREDIT OPINION
20 July 2017

Update

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RATINGS

Ceska telekomunikacni infrastruktura a.s.

Domicile	Czech Republic
Long Term Rating	Baa2
Type	LT Issuer Rating
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.

Contacts

Carlos Winzer 34-91-768-8238
Senior Vice President
carlos.winzer@moodys.com

Luigi Bucci 44-2077-72-1961
Associate Analyst
luigi.bucci@moodys.com

Ivan Palacios 34-91-768-8229
Associate Managing Director
ivan.palacios@moodys.com

Česká Telekomunikační Infrastruktura a.s.

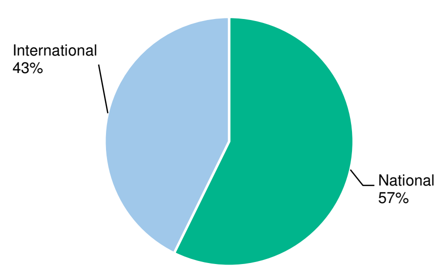
Update to discussion of key credit factors

Summary rating rationale

Česká Telekomunikační Infrastruktura a.s. (CETIN) Baa2 issuer rating reflects its differentiated business model as a telecom infrastructure operator. As the Czech Republic's only national fixed telecom infrastructure provider, it has a strong market position, with a resilient business model. Strong commercial agreements with O2 Czech Republic (driving around 80% EBITDA through 2022) and T-Mobile Czech Republic (a subsidiary of Deutsche Telekom AG, Baa1 stable) underpin this position. There are no comparable nationwide telecom infrastructure-based competitors.

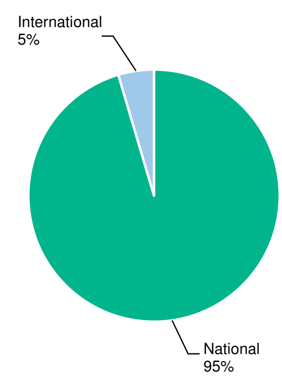
The rating also takes into consideration: (1) CETIN's de-leveraging objective, supported by a conservative financial strategy under which the dividend is subject to operating cash flow strength, capital spending funding and debt repayment as priority objectives; (2) CETIN's modest size but strong market position, with very strong EBITDA margins in its domestic business; (3) the Czech telecom market's strong growth prospects; (4) an expected supportive regulatory environment; (5) stable business risk, as CETIN benefits from operating leverage that contributes to high EBITDA margins in its domestic business (64% margin excluding the international transit business) and stable capital spending overall; (6) strong cash flow generation before dividends; and (7) an adequate liquidity profile over the next 12-24 months.

Exhibit 1
Czech Republic accounted for 57% of CETIN's revenue in 2016...
Revenue breakdown by geography



Source: Company data

Exhibit 2
...and 95% of EBITDA
EBITDA breakdown by geography



Source: Company data

Credit strengths

» Leading position in the Czech telecom market

» Long-term contracts with the largest Czech operators, providing predictable cash flow

» Sustained capital spending to enhance the quality of the network

» High visibility on future performance underpins steady deleveraging

Credit challenges

» Small scale and weaker margins than peers

» No precedent for structural separation in Europe

» High (though discretionary) dividend policy

Rating outlook

The stable outlook reflects our view that CETIN's credit metrics will remain well-positioned for the rating category. We expect CETIN to de-lever, and that its adjusted debt/EBITDA ratio will therefore improve over the next two years, while the company will continue to generate positive free cash flow. This includes a deleveraging path from Moody's-adjusted gross debt to EBITDA of 3.2x (equivalent to reported net debt to EBITDA of 3.1x) as of December 2016, to around 2.9x as of December 2018, trending towards 2.5x thereafter.

The stable outlook also assumes that CETIN will meet or exceed its deleveraging targets, and that it will distribute up to 100% of annual net income through dividends over the projected period only if the deleveraging plan is achieved. We note that PPF Group N.V. (PPF), CETIN's sole shareholder, has committed to adjusting the company's dividend to mitigate any future deviation in operating performance, and hence protect financial ratios within the current rating.

Factors that could lead to an upgrade

Upward pressure on the rating could develop if CETIN delivers on its business plan such that its adjusted debt/EBITDA ratio falls below 2.5x on a sustained basis. This reduction in leverage would be likely to depend on the company maintaining a conservative approach to any further acquisitions such that its deleveraging profile is not compromised.

Factors that could lead to a downgrade

Downward pressure could be exerted on the rating if CETIN's operating performance weakens as a result of pricing pressures or market share losses, reducing cash flow generation; or if the company's debt increases as a result of acquisitions or shareholder distributions, such that adjusted debt/EBITDA remains above 3.5x in 2017. A weakening liquidity profile could also put downward pressure on the rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 3
Ceska telekomunikacni infrastruktura a.s. [1]

	12/31/2016	12/31/2015
Scale & Financial Flexibility Based on Revenue (in $Bn)	$0.80	$0.80
FFO Margin %	37.90%	41.00%
EBIT Margin %	20.20%	14.60%
(FFO+Interest Expense) / Interest Expense	15.2x	20.6x
(EBITDA-CapEx) / Interest Expense	9.0x	14.1x
(RCF-CapEx) / Debt	-1.30%	13.50%
Debt / EBITDA	3.2x	3.7x

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

Detailed rating considerations

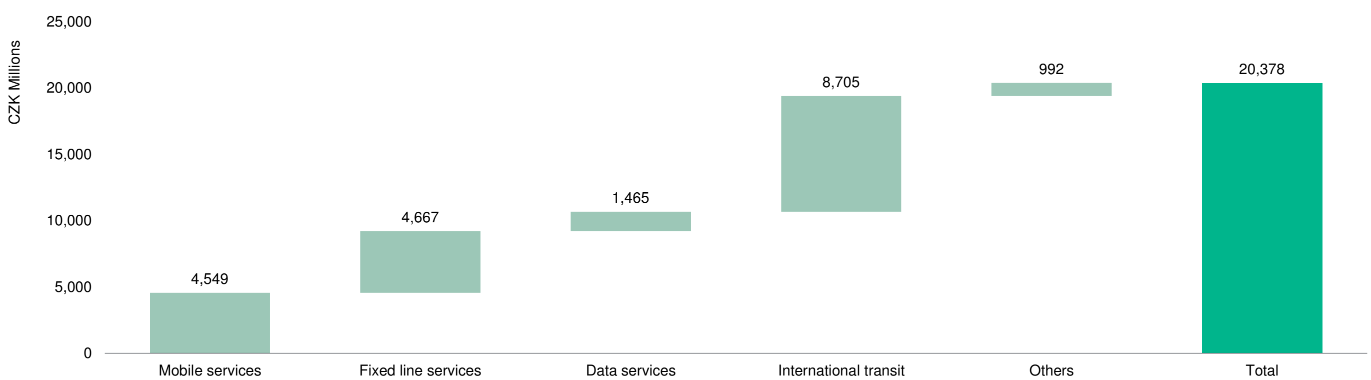
Leading position in the Czech telecom market

CETIN covers more than 50% of the Czech Republic's telecommunication infrastructure market, and there is no comparable nationwide infrastructure-based provider. Its closest competitors, UPC Holding B.V. (UPC, Ba3 stable) and Vodafone Group Plc (Vodafone, Baa1 stable), are smaller, with either lower coverage or a weaker market position. CETIN is also the only Czech operator with a copper network, covering approximately 85% of households. Despite the roll-out of fibre, this network will remain crucial for the last metres of access. In the mobile segment, CETIN's current 2G and 4G/LTE coverage extends to 99.6% and 98.0% of the Czech population respectively.

This strong position is underpinned by (1) the fact that CETIN provides mobile voice and data services to O2 and T-Mobile through the shared network; (2) CETIN's partnership with O2 in all downstream retail markets; (3) the fact that T-Mobile's fixed broadband services mostly represent a resale of CETIN's xDSL and voice; and (4) the delivery of a backbone transport network to numerous alternative network operators and retail service providers, including T-Mobile and Vodafone. CETIN's two key customers (O2 and T-Mobile) are the market leaders in mobile, with an estimated 38% market share each.

CETIN also provides wholesale international voice services to more than 160 customers worldwide and terminates more than half a billion minutes per month, with steady growth in volume and number of partners. This is a low-margin business (5% of 2016 EBITDA) with high revenue (43% of 2016 EBITDA) and high cost of sales, entailing minimum operating/capital spending and elevated cash conversion. Continued high-single-digit growth is expected over the next two years, with negative implications on CETIN's margins.

Exhibit 4
Mobile and fixed-line services represented nearly half of CETIN's 2016 revenue base
Revenue breakdown by segment, December 2016



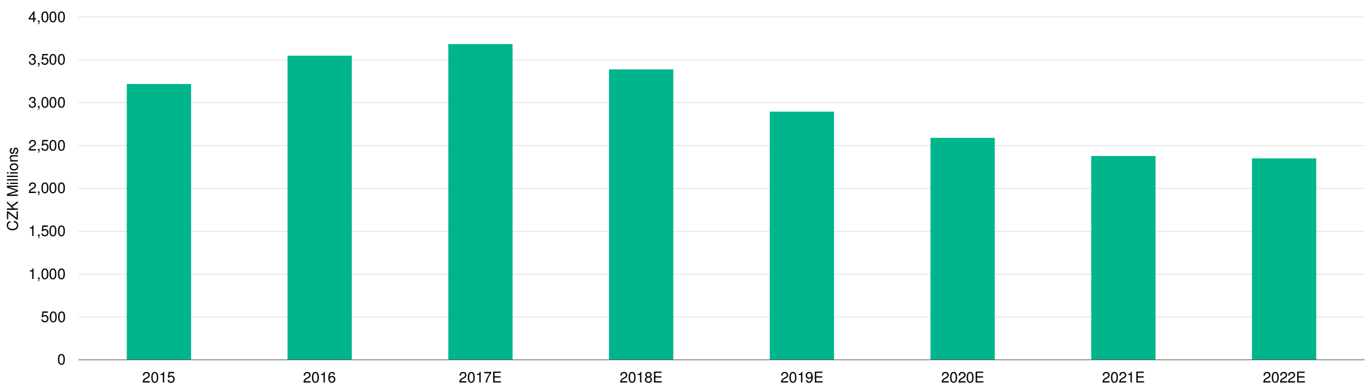
Source: Company data

Sustained capital spending to enhance network quality

Infrastructure development and specific customer projects drive CETIN's capital investment planning. CETIN aims to gradually upgrade its fixed network using a hybrid technology approach that combines fibre and enhanced copper technologies, which support an efficient investment.

CETIN is implementing a major capital spending plan that will provide a strong base for long-term growth. The plan entails capital investment of approximately CZK17 billion in 2017-22, predominantly driven by infrastructure development. We assume that around 50% of this investment is highly discretionary, and that it will only be executed if a minimum rate of return is achieved. Investments could also be postponed to enhance cash flow for debt reduction.

Exhibit 5
Capital investment is expected to peak in 2017, declining from 2018 onwards



Source: Moody's Financial Metrics™ & Moody's Estimates

The plan's key project entails upgrading the fixed network to fibre to the cabinet (FTTC). This project, which is expected to provide 41% of CETIN's fixed broadband connections with a speed of 100 mbps by 2020, is critical to the company's long-term position in the broadband market. Delivering premium speeds will enable CETIN to (1) improve its competitive position vis-à-vis wi-fi and cable operators, leveraging their limited speed and coverage; (2) reduce churn; (3) add approximately 200,000 units to its customer base (900,000 currently); and (4) increase its market share. Key to this will be the modernisation of the current copper network through the installation of 9,300 remote digital subscriber line access multiplexer (DSLAMs). FTTC investments are likely to begin to bear fruit in 2017.

CETIN has committed to developing its mobile infrastructure as part of its long-term agreement with O2. One of the key implementations entails 4G and has enabled O2 to achieve the licence requirements (95% coverage by 2018) ahead of the envisaged time frame. The project will be important for CETIN even from a 5G perspective, as it will help the company lay the foundations to implement the new technology.

High visibility on future performance underpins steady deleveraging

We expect CETIN to continue to pursue a deleveraging strategy to comply with conservative financial objectives. This includes a deleveraging path from its current Moody's-adjusted gross debt to EBITDA ratio of 3.2x (equivalent to reported net debt to EBITDA of 3.1x) as of December 2016, to around 2.9x as of December 2018, trending towards 2.5x-2.4x thereafter. Adjusted gross debt to EBITDA stood at 3.7x in 2015 indicating the accelerated deleveraging of the company.

We have factored into the rating high confidence in management's ability to deliver financial objectives on the basis of reliable and predictable revenues, based on existing contracts with O2 and T-Mobile. Operating costs are predictable, implying high certainty in respect of future EBITDA margins.

We take into consideration the high-margin component of domestic revenue, which becomes very diluted as a result of substantial transit traffic with a single-digit margin. As the domestic fixed and mobile business generates 95% of the company's EBITDA, we have given particular weight in our analysis to the domestic business's high margin.

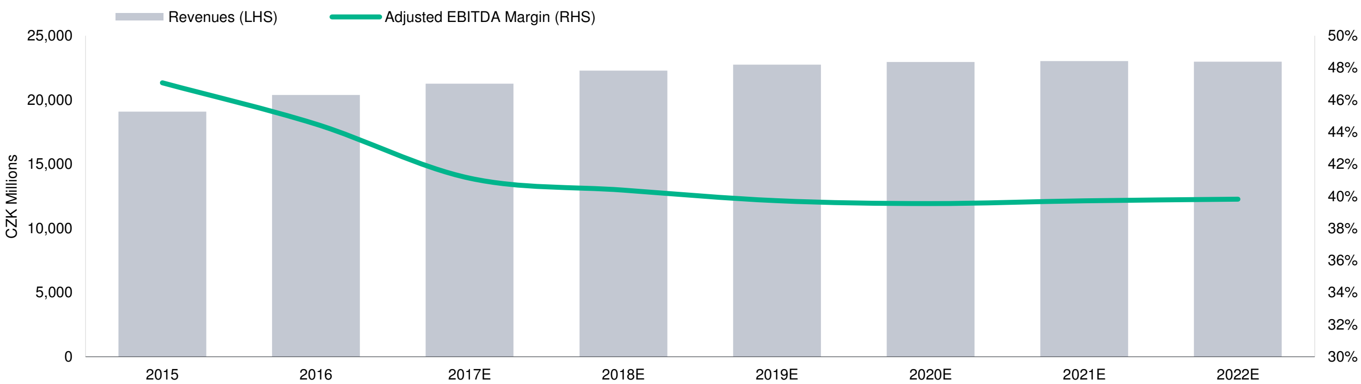
Slow revenue growth and high domestic margins underpin resilient cash flow

Under our assumptions, consolidated revenues will increase by 3%-4% in 2017 and by around 2% thereafter, mainly as a result of higher volumes in the transit traffic and mobile businesses.

Exhibit 6

Growth in international business is expected to drive EBITDA margins lower

Revenue and adjusted EBITDA margin evolution



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

For CETIN, 2016 was the true reference year in fixed following the company's spin-off from O2. This was due to two key factors: (1) a new reference offer was introduced in mid-2015 with the same pricing for all market players – in light of the higher prices applied to O2 in H1 2015, 2016 was the first year in which the new price point had a full impact; and (2) O2 introduced flat tariffs for fixed voice in 2016, driving a drop in accesses and revenues.

We note that CETIN's 2016 performance was impacted by (1) fixed customer base affected by O2 repricing and (2) delayed expansion of the international transit business in Asia. Nevertheless, growing demand for network capacity and robust data services performance helped to offset any impact at EBITDA level in 2016.

In 2017 and in future years, investments in the fixed network will accelerate net adds, mainly through IPTV and xDLS, while higher volumes in data services are likely to counterbalance the continued pricing decline. As a general rule, an increase in broadband and IPTV, driven by the network enhancement, will more than compensate for continued losses in voice customers. Moreover, unlike in mobile, traffic is key to revenue growth. Equal conditions for all operators will be key to driving growth in accesses.

The recent conclusion of the 3.7Ghz spectrum auction may also represent a growth opportunity for CETIN. Spectrum band was also granted to two new operators (Nordic Telecom 5G a.s. and PODA a.s.) that will need will need mobile infrastructure, backhaul and network capacity that CETIN will be able to provide.

We assume that PPF will not need extraordinary cash upstreams from CETIN to support other businesses

PPF, a Czech investment group with diverse business activities encompassing banking and financial services, telecommunications, biotechnology, insurance, retail, real estate, and agriculture in Europe, Russia, Asia and the US, is CETIN's sole shareholder. PPF is active in the telecom sector through its stakes in CETIN and O2 Czech Republic.

We factor into the rating a distribution of 100% of previous-year net income by 2018. However, PPF is willing to lower its dividend expectations to offset any operational weakness and preserve an investment-grade rating.

We assume that PPF, as CETIN's 100% owner, will not impose extraordinary cash upstreaming measures other than the ordinary dividend policy described above. We have treated PPF as a shareholder with adequate corporate governance and no extraordinary cash needs to fund other businesses within its conglomerate of different activities.

Liquidity

CETIN's liquidity risk profile is adequate. It is supported by (1) the company's strong operating cash flow generation; (2) cash and cash equivalents of CZK378 million as of December 2016; and (3) CZK500 million of undrawn committed credit lines expiring in June 2018.

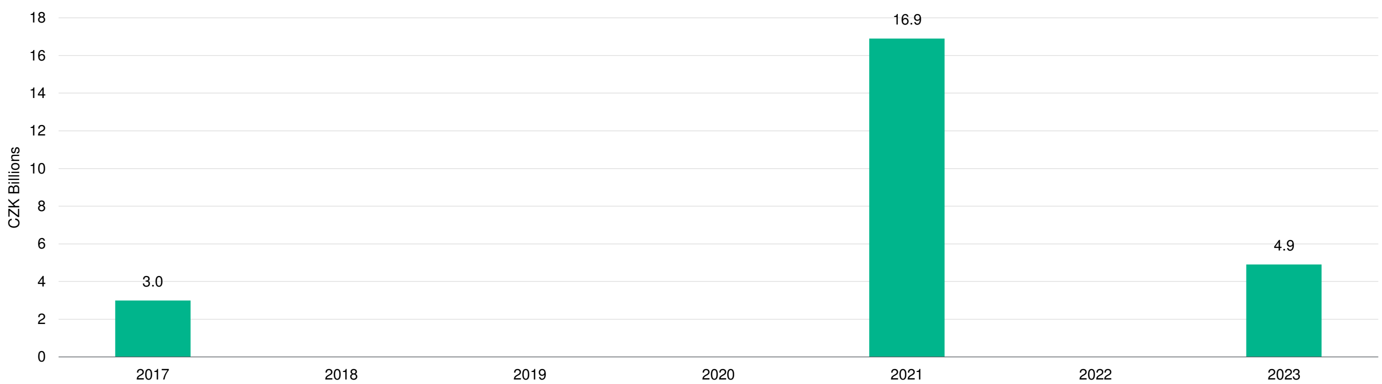
CETIN's liquidity profile is sufficient to cover its upcoming debt maturities as well as other cash demands. In this regard, we expect free cash flow generation (after capital spending and dividends) in 2017 to be CZK2.6-2.8 billion.

Upcoming debt maturities include the repayment of a one-year, CZK3 billion bond in December 2017; a five-year, €625 million bond in December 2021; and a seven-year, CZK4.9 billion bond in December 2023. We note that CETIN hedges its foreign currency bond exposure: at present 85% of its Euro denominated bonds are hedged.

Exhibit 7

Next bond maturity will occur in December 2017

CETIN debt maturity profile as of December 2016



Source: Company data

According to its liquidity policy, CETIN needs to hold a minimum technical cash reserve of CZK300 million. Additional funds may be used for capital investment, debt reduction and dividend distributions, unless net leverage is above 3.5x.

Corporate profile

Česká Telekomunikační Infrastruktura a.s. (CETIN), headquartered in Prague (Czech Republic), is the Czech Republic's sole national telecommunications infrastructure provider. It was incorporated in June 2015 following its spin-off from O2 Czech Republic.

CETIN operates and manages fixed and mobile infrastructure in the Czech Republic and transit infrastructure abroad, with a presence in Europe, Africa and Asia. In 2016, it generated revenue of CZK20.4 billion and EBITDA of CZK7.8 billion. As of December 2016, domestic fixed and mobile services segments represented 95% of EBITDA. CETIN's main customer is O2 Czech Republic, which accounts for almost 80% of the company's EBITDA.

CETIN's key shareholder, with a 100% stake, is PPF Group N.V.. PPF is a Czech investment group with diverse business activities encompassing banking and financial services, telecommunications, biotechnology, insurance, retail, real estate, and agriculture in Europe, Russia, Asia and the US.

Rating methodology and scorecard factors

The grid-indicated rating of Baa2 for full year 2016 is in line with CETIN's Baa2 rating. We expect CETIN's credit metrics to remain broadly stable over the next 12-18 months. (RCF-Capex)/Debt is expected to recover strongly from 2016 levels affected by the extraordinary dividend distribution related to the upstream loan repayment.

Exhibit 8

Rating factors

Global Communications Infrastructure Industry Grid [1][2]	Current FY 12/31/2016		Moody's 12-18 Month Forward View As of 7/11/2017 [3]	
Factor 1: Scale, Business Model, and Competitive Environment and Business Conditions (30%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale & Financial Flexibility Based on Revenue (in $Bn)	$0.8	B	$0.8 - $0.9	B
b) Business Model	A	A	A	A
c) Competitive Environment and Business Conditions	A	A	A	A
Factor 2: Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 3: Operating Performance (25%)				
a) FFO Margin %	37.9%	B	35% - 37%	B
b) EBIT Margin %	20.2%	Baa	18% - 20%	Ba
Factor 4: Financial Strength (35%)				
c) (FFO+Interest Expense) / Interest Expense	15.2x	Aaa	15.5x - 16.5x	Aaa
d) (EBITDA-CapEx) / Interest Expense	9.0x	Aa	8.5x - 9x	Aa
e) (RCF-CapEx) / Debt	-1.3%	Ca	2% - 4%	B
f) Debt / EBITDA	3.2x	Baa	2.8x - 3x	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2016.
[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™, Moody's Investors Service estimates

Ratings

Exhibit 9

Category	Moody's Rating
CESKA TELEKOMUNIKACNI INFRASTRUKTURA A.S.	
Outlook	Stable
Issuer Rating	Baa2
CETIN FINANCE B.V.	
Outlook	Stable
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

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