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# PPF Telecom Group B.V.

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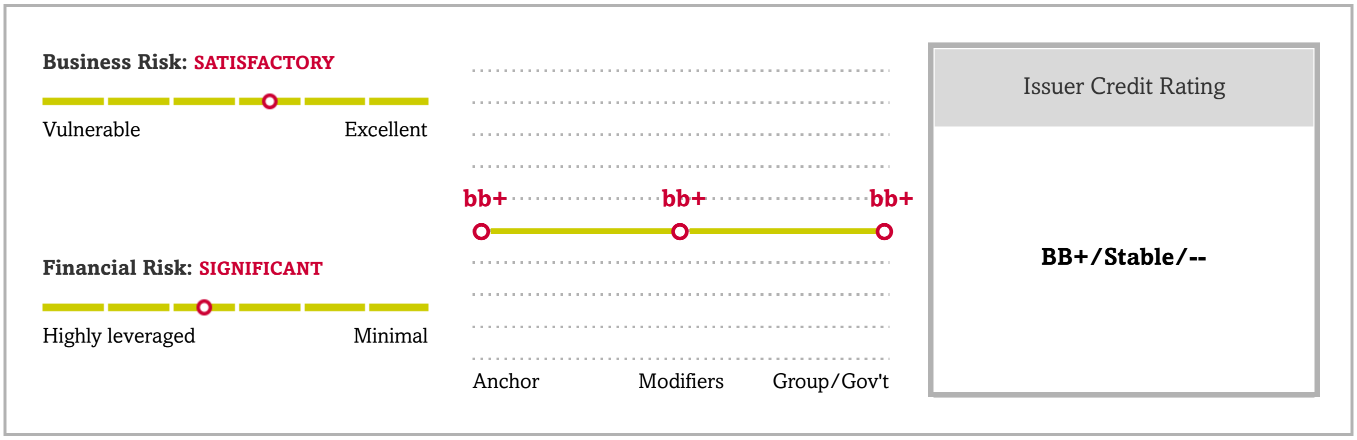
# PPF Telecom Group B.V.




## Credit Highlights

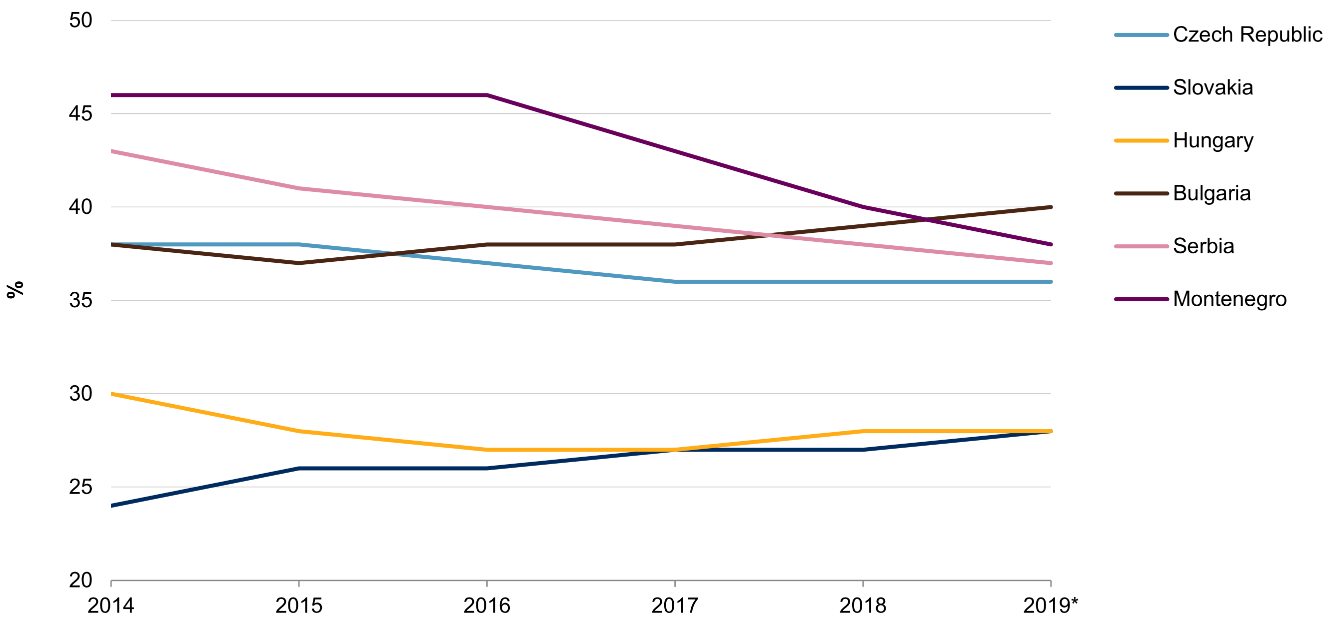
### Overview

| Key strengths | Key risks |
|---|---|
| Leading mobile position in the domestic retail market, and strong wholesale position supported by CETIN's fixed and mobile network. | Lack of convergence in five out of its six countries of operations, where the group provides mobile-only offers. |
| Ongoing upgrade of wholesale infrastructure provider CETIN's fixed network in Czech Republic, and monetization of the group's subscriber base thanks to its bundling and pricing strategy. | O2 Czech Republic (O2 Czech) has a lower market share in domestic fixed broadband compared with other European incumbents, reflecting a very fragmented broadband market. |
| Leading positions in most of the mobile markets in which the group operates, where the competitive environment has been relatively stable. | Ongoing investments to upgrade the fixed network, combined with dividend return to shareholders, will hamper discretionary cash flows (DCF) and deleveraging capacity |
| Above average profitability with an adjusted EBITDA margin exceeding 40%. | Significant debt leverage, between 3.4x-3.6x in 2020 and 2021. |

***Relatively stable competitive markets support PPF Telecom Group B.V.'s (PPF Telecom's) sound market position in mobile telecommunications.*** PPF Telecom became a midsize European mobile player following its acquisition of Telefonica O2 Czech--later split into O2 Czech and CETIN--in 2013, and Telenor CEE in 2018. PPF Telecom is No. 1 mobile operator in three of its markets: Bulgaria, Serbia, and Montenegro, with revenue market share of 35%-40% in 2019. The group is also co-leader--with T-Mobile--in the Czech Republic, at about 36% revenue market share each in 2019, as well as No. 3 in Slovakia (28%), and No. 2 in Hungary (28%). We believe the mobile markets in which PPF Telecom operates are moderately competitive, based on the presence of three mobile network operators (MNO) in each country. So far, these markets have been characterized by relatively low churn rates, with monthly postpaid churn rate in the Czech Republic below 1%, and broadly stable or slightly improving average revenue per user (ARPU). This has limited market share declines in Serbia, Montenegro, and Hungary, and improved PPF Telecom's positioning in the Czech Republic, Slovakia, and Bulgaria (see chart 1).

**Chart 1**

**Relatively Stable Market Environment Have Limited Market Share Decline In some Countries, Or Improved The Group's Position In Other Countries**




*First nine months of 2019. Source: Company's reporting



***O2 Czech has a lower fixed broadband market share than other European incumbents, but its fixed broadband and pay-TV subscriber base is growing as CETIN continues to invest to upgrade its network.*** O2 Czech's revenue market share was about 31% in 2019, significantly less than Telekom Austria's 55% fixed broadband market shares in Austria, and less than larger European peers' typically above 40% share, reflecting a less developed and more fragmented fixed market. The late and slow rollout of asymmetric digital subscriber line technology in the Czech Republic has favoured the emergence of multiple local Wi-Fi and fiber providers, resulting in a relatively fragmented fixed broadband market. This has been at the expense of O2 Czech, which registered subscriber net losses until third-quarter 2018. Similarly, until third-quarter 2018, CETIN's total digital subscriber lines (DSLs) declined, with subscriber market share contracting to about 28% in 2018, from about 37% in 2012, according to the Czech Telecommunications Office. However, the trend has started to reverse since 2018. During first-quarter 2020, CETIN's total DSLs grew by 4% year-on-year, and O2 Czech's fixed broadband subscriber base grew by about 3.5% year-on-year. This follows ongoing fixed network modernization--CETIN plans to provide next generation access speeds for the majority of households passed by 2021, from less than half in 2017—and new commercial partnerships with all main operators in Czech Republic, as well as the gaining of a better mix of higher-speed and higher-value fixed subscribers at O2 Czech. Therefore, we believe that CETIN's capacity to monetize its fixed network upgrade and O2 Czech's capacity to ramp-up its fixed broadband and pay-TV market share, if confirmed, could strengthen the group's business risk profile in the medium term. Although this in turn could be offset should the combination of Vodafone and UPC lead to fiercer competition.

***PPF Telecom successfully monetizes its network upgrades and TV-content investments thanks to its pricing and bundling strategy.***

- O2 Czech's revenues and reported EBITDA (excluding IFRS 16) grew by about 2.5% and 6.5% respectively in 2019. This was supported by the group's focus on bundling and household consolidation, monetizing its fixed broadband network upgrade, investing in exclusive TV content, and the introduction–-in line with its competitors–-of unlimited data plans at healthy ARPU.
- Telenor focuses on its current base, fostering ARPU growth through pre-paid to post-paid migration (contracted customers accounted for 68% of the base in 2019, compared with 66% in 2018), and bundling of digital services. As a consequence, Telenor increased its revenues by about 2.4% and its EBITDA by about 16% in 2019.

***We expect no material impacts from the COVID-19 pandemic.*** We expect companies like PPF Telecom to demonstrate relatively stable performance throughout the COVID-19 pandemic because the telecom sector's low cyclicality and utility-like demand characteristics limit the correlation of its performance to weak macroeconomic conditions. However, we will continue to monitor PPF Telecom's exposure to the situation. We cannot rule out revision to our forecast if:

- Our macroeconomic and GDP expectations further deteriorate, causing trading conditions to weaken, thus translating into depressed gross-adds or lower-then-initially-expected proportion of higher-priced packages within the offer mix;
- Revenue streams like roaming fees or equipment sales take a harsher hit, although having a neutral or marginally positive impact on profitability; or
- Accelerated supplier payables or slower customer receivables collection increase the need for working capital beyond our assumptions. This could be due to delayed cash payments from subscribers in mainly cash-based economies, or because of difficulties faced by business customers.

For more on how COVID-19 will affect the telecom sector, please see "COVID-19: EMEA Telecoms Will Prevail, But Not Completely Unscathed", published April 6, 2020.

***We forecast that reported leverage will be in the middle of the group's net consolidated leverage target of 2.8x-3.2x (or 3.25x-3.75x on an S&P Global Ratings-adjusted basis).*** Our rating factors in our expectation that PPF Telecom's pro rata adjusted debt to EBITDA will be about 3.4x-3.6x in 2020 and 2021. Growing capital expenditure (capex) for spectrum and the ongoing fixed network upgrade, combined with dividend payments, will hamper any material deleveraging prospects in the medium term, in our view. This forecasts the group's reported net leverage at about 2.8x-3.0x, which is within management's financial policy guidelines of net a consolidated leverage target of 2.8x-3.2x, with our adjustments adding about 0.5x. In our base case, we assume shareholder returns at the higher end of the expected range, although we understand the group's dividend policy is flexible. However, it remains to be seen if management can use dividend flexibility to sustainably drive reported leverage toward the lower end of its policy range. We haven't factored such an assumption into our base case at this stage.

**Outlook: Stable**

The stable outlook reflects our expectation that PPF Telecom will remain largely resilient to the currently depressed macro-economic environment with pro rata revenue declining by 0%-1% in 2020, and an adjusted EBITDA margin firmly above 40% over the same period. We expect the group to continue monetizing its network upgrade and TV-content investments, while maintaining its current mobile market shares and ARPU in all countries of operations. We also forecast adjusted pro rata leverage will remain below 3.75x, and FOCF to debt will approach 15%, when excluding spectrum payments.

### Downside scenario

Rating downside is currently remote given PPF Telecom's financial policy, but we could lower the rating if adjusted debt to EBITDA sustainably increases above 3.75x, together with FOCF to debt declining to less than 10%. This could result from a more competitive Czech mobile market, a push toward convergence in markets where PPF Telecom is a mobile-only operator, or unexpected loss from a more depressed economic environment.

### Upside scenario

We could raise the rating over the medium term if PPF Telecom builds a favourable track record of steady fixed broadband and pay-TV market share gains, maintains or further improves its mobile positioning, and sustains an adjusted EBITDA margin of more than 40%. We could also upgrade PPF Telecom if management aimed to maintain reported leverage at the very low end of its financial guideline, translating into adjusted debt to EBITDA sustained at less than 3.25x, with FOCF to debt at more than 15%, excluding spectrum.

## Our Base-Case Scenario

**Assumptions**

- A recession in the wake of the COVID-19 pandemic, with real GDP contracting in 2020 by 5.75% in Czech Republic, 6.5% in Slovakia, 4% in Hungary and Bulgaria, 3.5% in Serbia, and 7.8% in Montenegro.
- We envisage some, although not material, near-term adverse effects of the recession given the largely subscription-based business model of PPF Telecom and the recession-resistant nature of the telecommunications services.
- Consolidated pro rata revenue decline of about 0%-1% in 2020, recovering by 2%-3% in 2021. We expect the recession will somewhat slow down the revenue growth trajectory of PPF Telecom in 2020,

**Key Metrics**

| | 2019A | 2020E | 2021E |
|---|---|---|---|
| Pro rata revenues (bil. €) | 2.5 | 0-(1) | 2-3 |
| Pro rata adjusted EBITDA (bil. €) | 1.1 | 1.2 | 1.2 |
| Pro rata adjusted debt to EBITDA (x) | 3.2 | 3.4-3.5 | 3.5-3.6 |
| FFO to debt (%) | 26.2 | 22-24 | 22-24 |
| FOCF to debt (%)* | 20.9 | 14-16 | 15-17 |

A--Actual. E--Estimate. FFO--Funds from operations. FOCF--Free operating cash flows. *Excluding spectrum payments.

impacted by slower pre- to post-paid migration and ramp-up of higher-tariff plans, reduced roaming revenues and equipment sales, as well as delayed collections from some business-to-consumer and business-to-business subscribers. We expect consolidated pro rata revenue will recover from 2021, reflecting ARPU growth at Telenor CEE especially in Bulgaria (low level), and pre to post-paid migration. O2 Czech's "more for more strategy" and the conversion of part of its subscriber base to its unlimited data plans will support ARPU improvement and planned revenue growth, in our opinion. We forecast year-on-year revenue contraction at CETIN, due to its structurally declining transit business, which will offset the largely stable infrastructure business in 2021

- Adjusted pro rata EBITDA margin increasing to about 45%-48% in 2020 and 2021, from 45% in 2019. The cost benefits from renewal of IT systems, cost efficiency programs, and modest net synergies from the Telenor CEE acquisition support the reduction of PFF Telecom's cost base as proportion of revenues, and thus slightly increase its margins.
- Total capex increasing to around 28%-34% of pro-rata sales (22%-23% of consolidated revenues) over the period 2020-2021, from about 16% of pro rata sales (12% of consolidated revenues) in 2019. This growth will be mainly fuelled by spectrum and brand license payments, in addition to continued investments to upgrade CETIN's fixed network.
- Dividends of about €805 million in 2020, and about €590 million in 2021, including dividends to minority shareholders of O2 Czech and CETIN.

### Base-case projections

***Sound EBITDA margin supported by PPF Telecom's infrastructure activities and Telenor CEE.*** We factor in our assessment PPF Telecom's sound profitability, with an adjusted EBITDA margin significantly above 40%. This is supported by CETIN's high infrastructure margin of about 70% on a reported basis, when excluding low-margin international transit business, and the sound profitability at Telenor CEE, which we expect will continue to benefit from modest synergies in procurement.

***We expect negative DCF at least over the next two years, due to hefty capital outlays and dividend payments.*** We expect PPF Telecom's investments to upgrade the fixed network and acquire spectrum bands will account for about 28%-34% of the group's pro rata sales and limit FOCF generation at €320 million–€340 million in 2020 and 2021. This, combined with dividend returns to shareholders, will hamper DCF and limit deleveraging prospects over the next two years.

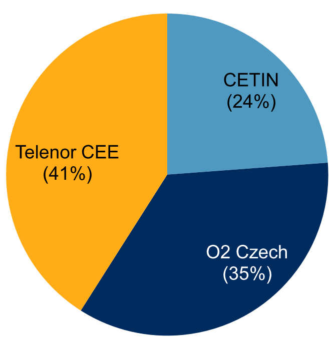
## Company Description

PPF Telecom Group B.V. is a European telecom group operating in six markets: the Czech Republic (through O2 for retail activities and CETIN as an independent wholesale fixed and mobile infrastructure provider), Slovakia (through the O2 brand), and Hungary, Bulgaria, Serbia, and Montenegro (through the Telenor brand). PPF Telecom offers mobile, fixed broadband, internet protocol television, and wholesale services in the Czech Republic, and mobile services only in its other five operating countries.

In 2019, PPF Telecom generated about €3.2 billion of pro forma consolidated revenue, 21% of which was contributed by CETIN, 42% by O2 Czech (including Slovakian operations), and 37% from Telenor CEE. In the same year, PPF Telecom had 17.2 million mobile customers--including 5.9 million in the Czech Republic, 3.0 million each in Hungary and Bulgaria, 2.8 million in Serbia, 2.1 million in Slovakia, and 400,000 in Montenegro.

**Chart 2**

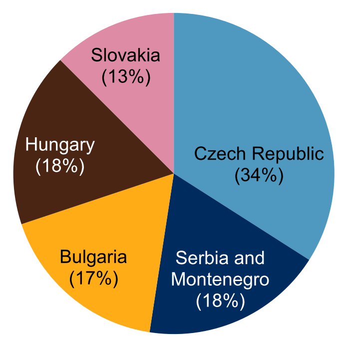
**A Midsize European Mobile Operator**
2019 EBITDA split by entity




Source: Company's reporting.


**Chart 3**

**A Midsize European Mobile Operator**
2019 mobile subscriber base split by country




Source: Company's reporting.


PPF Telecom is part of PPF Group N.V., an international investment conglomerate with three pillars: telecom, financial services, and real estate.

## Business Risk: Satisfactory

Our assessment of PPF Telecom's business risk is supported by its strong position in the mobile markets of most of the countries in which it operates. We also see the group's geographic diversification in six central and eastern European (CEE) countries, strong adjusted EBITDA margin exceeding 40%, sound mobile network capacity, and the ongoing upgrade of its fixed broadband network in the Czech Republic as business strengths.

Balancing these strengths are O2 Czech's lower market share in fixed broadband compared with other European incumbents. The operator's Czech revenue market share was about 31% in 2018, significantly less than Telekom Austria's 55% fixed broadband market share in Austria. PPF Telecom also lacks convergence in five of its six countries of operations. We believe that a push toward convergence from existing fixed-mobile local competitors in these countries would be detrimental to PPF Telecom, although we have not seen it to date because churn rates are relatively low in markets with three MNOs.

## Peer comparison

**Table 1**

### PPF Telecom Group B.V.--Peer Comparison

**Industry sector: Diversified telecom**

| | PPF Telecom Group B.V. | Telekom Austria AG | Koninklijke KPN N.V. | Telecom Italia SpA | Cyfrowy Polsat S.A. | Sunrise Communications Holdings S.A. |
|---|---|---|---|---|---|---|
| **Ratings as of May 12, 2020** | BB+/Stable/-- | BBB+/Stable/A-2 | BBB/Stable/A-2 | BB+/Stable/B | BB+/Positive/-- | BBB-/Stable/-- |
| | **--Fiscal year ended December 31--** | | | | | |
| | **2019** | **2019** | **2019** | **2018** | **2019** | **2018** |
| **(Mil. €)** | | | | | | |
| Revenue | 2,490.1 | 4,565.2 | 5,499.0 | 19,281.0 | 2,746.3 | 1,665.6 |
| EBITDA | 1,121.5 | 1,553.2 | 2,381.0 | 7,696.0 | 987.1 | 614.1 |
| Funds from operations (FFO) | 927.3 | 1,371.6 | 2,073.7 | 5,765.6 | 785.9 | 493.9 |
| Interest expense | 136.3 | 109.7 | 287.3 | 1,385.4 | 105.5 | 75.9 |
| Cash interest paid | 78.0 | 111.5 | 314.3 | 1,191.4 | 123.9 | 75.8 |
| Cash flow from operations | 1,143.0 | 1,346.5 | 2,019.7 | 4,668.6 | 721.9 | 442.8 |
| Capital expenditure | 402.0 | 870.7 | 1,114.0 | 4,494.0 | 318.6 | 262.1 |
| Free operating cash flow (FOCF) | 741.0 | 475.9 | 905.7 | 174.6 | 403.3 | 180.7 |
| Discretionary cash flow (DCF) | 185.0 | 335.8 | 379.0 | (81.4) | 263.4 | 20.6 |
| Cash and short-term investments | 795.0 | 140.3 | 1,041.0 | 3,383.0 | 174.9 | 373.6 |
| Debt | 3,544.3 | 3,781.7 | 6,453.5 | 30,927.5 | 3,046.7 | 1,753.5 |
| Equity | 2,261.0 | 2,595.9 | 2,490.5 | 21,747.0 | 3,402.2 | 1,314.8 |
| **Adjusted ratios** | | | | | | |
| EBITDA margin (%) | 45.0 | 34.0 | 43.3 | 39.9 | 35.9 | 36.9 |
| Return on capital (%) | 6.7 | 10.1 | 9.4 | 6.3 | 7.4 | 6.6 |
| EBITDA interest coverage (x) | 8.2 | 14.2 | 8.3 | 5.6 | 9.4 | 8.1 |
| FFO cash interest coverage (x) | 12.9 | 13.3 | 7.6 | 5.8 | 7.3 | 7.5 |
| Debt/EBITDA (x) | 3.2 | 2.4 | 2.7 | 4.0 | 3.1 | 2.9 |

**Table 1**

| PPF Telecom Group B.V.--Peer Comparison (cont.) | | | | | | |
|---|---|---|---|---|---|---|
| FFO/debt (%) | 26.2 | 36.3 | 32.1 | 18.6 | 25.8 | 28.2 |
| Cash flow from operations/debt (%) | 32.2 | 35.6 | 31.3 | 15.1 | 23.7 | 25.3 |
| FOCF/debt (%) | 20.9 | 12.6 | 14.0 | 0.6 | 13.2 | 10.3 |
| DCF/debt (%) | 5.2 | 8.9 | 5.9 | (0.3) | 8.6 | 1.2 |

Our business risk assessment for PPF Telecom is in the same category as that for Telekom Austria, KPN, and Telecom Italia because they all enjoy leading market positions in their respective home countries. However, PPF Telecom is not as dominant as Telekom Austria in its domestic market for fixed broadband. It also has less business diversification in its CEE markets where it is a mobile only operator, while Telekom Austria is mostly a convergent player. It is also a smaller player than, for instance, KPN or Telecom Italia.

Although in the same category for business risk, we believe PPF Telecom compares favourably with Cyfrowy Polsat and Sunrise as the group is larger in scale, is more diversified geographically, enjoys a stronger position than Cyfrowy Polsat in mobile, and is better positioned than Sunrise in fixed broadband.

## Financial Risk: Significant

Our view of PPF Telecom's financial risk profile is supported by our expectation that pro rata adjusted debt to EBITDA will be at 3.4x-3.6x in 2020 and 2021, and FOCF to debt will approach 15% in 2020 and 2021, excluding spectrum payments, and 7%-9% including these payments. Our assessment also factors in the group's dividend policy and net consolidated reported leverage target of 2.8x-3.2x (our adjustments add about 0.5x).

### Financial summary

**Table 2**

| PPF Telecom Group B.V.--Financial Summary | | |
|---|---|---|
| **Industry sector: Diversified telecom** | | |
| | **--Fiscal year ended Dec. 31--** | |
| | **2019** | **2018** |
| **(Mil. €)** | | |
| Revenue | 2,490.1 | 1,908.2 |
| EBITDA | 1,121.5 | 832.8 |
| Funds from operations (FFO) | 927.3 | 678.2 |
| Interest expense | 136.3 | 81.8 |
| Cash interest paid | 78.0 | 71.7 |
| Cash flow from operations | 1,143.0 | 761.3 |
| Capital expenditure | 402.0 | 309.0 |
| Free operating cash flow (FOCF) | 741.0 | 452.3 |
| Discretionary cash flow (DCF) | 185.0 | 39.3 |
| Cash and short-term investments | 795.0 | 435.0 |
| Gross available cash | 795.0 | 435.0 |

**Table 2**

| PPF Telecom Group B.V.--Financial Summary (cont.) | | |
|---|---|---|
| **Industry sector: Diversified telecom** | | |
| | **--Fiscal year ended Dec. 31--** | |
| | **2019** | **2018** |
| Debt | 3,544.3 | 3,806.1 |
| Equity | 2,261.0 | 2,163.0 |
| **Adjusted ratios** | | |
| EBITDA margin (%) | 45.0 | 43.6 |
| Return on capital (%) | 6.7 | 6.3 |
| EBITDA interest coverage (x) | 8.2 | 10.2 |
| FFO cash interest coverage (x) | 12.9 | 10.5 |
| Debt/EBITDA (x) | 3.2 | 4.6 |
| FFO/debt (%) | 26.2 | 17.8 |
| Cash flow from operations/debt (%) | 32.2 | 20.0 |
| FOCF/debt (%) | 20.9 | 11.9 |
| DCF/debt (%) | 5.2 | 1.0 |

## Liquidity: Adequate

We view PPF Telecom's liquidity as adequate, based on our expectation that the ratio of liquidity sources to uses will be around 1.3x in the 12 months from Jan. 1, 2020.

Although we expect uses of cash would slightly exceed sources of liquidity if EBITDA were to decline by 15% in 2020, we believe PPF Telecom has sufficient flexibility to reduce its dividend distributions and capex, and has access to undrawn long-term facilities. In addition, PPF Telecom has large headroom vis-à-vis its covenants, good relationships with banks, and a satisfactory standing in capital markets.

### Principal Liquidity Sources

As of Jan. 1, 2020, we estimate principal liquidity sources include:

- Cash and liquid investments of €795 million as of Dec. 31, 2019.
- An undrawn €200 million revolving credit facility (RCF) maturing in 2023.
- Sizable cash FFO of €1.1 billion-€1.2 billion.

### Principal Liquidity Uses

For the same period, we estimate that principal liquidity uses include:

- Working capital outflows of about €115 million.
- Capex of about €690 million-€700 million, including our assumptions for spectrum payments for the 5G auction in Slovakia, Hungary, and Czech Republic.
- Dividends of about €805 million, including dividends paid to PPF Telecom's shareholders and to minority shareholders at O2, CETIN, and Telenor Hungary level.

### Debt maturities

- 2020: €473 million
- 2021: €625 million
- 2022: €33 million
- 2023: €585 million
- 2024: €1.33 billion
- Thereafter: €1.19 billion

## Covenant Analysis

### Compliance expectations

We expect adequate headroom under PPF Telecom's net leverage ratio, set at 4.5x, and its interest coverage ratio of 3.0x from 2020. In addition, we expect the group will comply with its net proportionate leverage covenant of 2.5x at CETIN and O2, as well as its net proportionate leverage covenant of 1.0x at Telenor CEE, with comfortable headroom

## Issue Ratings - Recovery Analysis

### Key analytical factors

- The issue rating assigned to the secured bonds issued by PPF Telecom is 'BB+'. The recovery rating is '3', indicating our expectation of a meaningful recovery (rounded estimate: 50%) in an event of payment default. The recovery prospects are supported by our valuation of PPF Telecom as a going concern and the secured nature of the debt at PPF Telecom level. It is constrained, however, by the structural subordination of PPF Telecom's secured debt, to O2 and CETIN's unsecured debt.
- We view the security package as limited, comprising pledges over shares in PPF Telecom and in the holding companies owning 65.79% of O2 Czech, 89.73% of CETIN, and 100% of Telenor (except for Telenor Hungary, in which PPF Telecom now owns 75%), as well as pledges of bank accounts of the holding company. There are no direct pledges over CETIN and O2 Czech's shares, and we understand securities assigned to the proposed bond will be released once secured debt at PPF Telecom is extinguished.
- The debt documentation offers borrowers operational flexibility, as well as creditor's protection, in our opinion. For example, we note the presence of a net consolidated leverage ratio at 4.0x at group level. What's more, incurrence of debt at subsidiary level is limited by a 2.5x net proportionate maximum leverage at CETIN and O2 Czech and by a 1.0x net proportionate maximum leverage at Telenor.
- Our hypothetical default scenario envisions a combination of increased competition between telecom providers, and a push toward convergence, where the group operates as mobile-only, resulting in subscriber loss, lower profitability, and cash burn.
- We value PPF Telecom as a going concern, being a mid-size European telecom operator with strong mobile market positions, low churn, and established network asset base in several CEE countries.

### Simulated default assumptions

- Year of default : 2024
- Jurisdiction : Czech Republic
- Minimum capex (percentage of 2018 pro forma revenue): 6%
- Cyclicality adjustment factor: 0% (standard sector assumption for telecom and cable)
- Operational adjustment: 55% (reflecting our assumptions that on a hypothetical path to default, minimum capex will be in excess of 6%)
- Emergence EBITDA after recovery adjustments: about €590 million
- Implied enterprise value multiple: 6.0x

### Simplified waterfall

- Gross recovery value: about €3.5 billion
- Net recovery value for waterfall after administrative expenses: about €3.4 billion
- Estimated senior secured debt claims: about €3.2 billion
- Recovery expectation: 50%-70% (rounded estimate: 50%)

All debt amounts include six months of prepetition interest. RCF assumed 85% drawn. Recovery expectation is rounded down to the nearest 5%.

## Reconciliation

**Table 3**

**Reconciliation Of PPF Telecom Group B.V. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)**

| | --Fiscal year ended Dec. 31, 2019-- | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **PPF Telecom Group B.V. reported amounts** | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **Revenue** | **EBITDA** | **Operating income** | **Interest expense** | **S&P Global Ratings' adjusted EBITDA** | **Cash flow from operations** |
| Reported | 4,008.0 | 1,716.0 | 3,170.0 | 1,397.0 | 654.0 | 146.0 | 1,121.5 | 1,221.0 |
| **S&P Global Ratings' adjustments** | | | | | | | | |
| Cash taxes paid | -- | -- | -- | -- | -- | -- | (137.0) | -- |
| Cash taxes paid: Other | -- | -- | -- | -- | -- | -- | -- | -- |
| Cash interest paid | -- | -- | -- | -- | -- | -- | (78.0) | -- |
| Reported lease liabilities | 526.0 | -- | -- | -- | -- | -- | -- | -- |
| Accessible cash and liquid investments | (753.5) | -- | -- | -- | -- | -- | -- | -- |
| Asset retirement obligations | 31.5 | -- | -- | -- | -- | -- | -- | -- |

**Table 3**

| Reconciliation Of PPF Telecom Group B.V. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Nonoperating income (expense) | -- | -- | -- | -- | 18.0 | -- | -- | -- |
| Reclassification of interest and dividend cash flows | -- | -- | -- | -- | -- | -- | -- | (78.0) |
| Noncontrolling interest/minority interest | -- | 545.0 | -- | -- | -- | -- | -- | -- |
| Debt: Other | (267.7) | -- | -- | -- | -- | -- | -- | -- |
| Revenue: Other | -- | -- | (679.9) | (679.9) | (679.9) | -- | -- | -- |
| EBITDA: Gain/(loss) on disposals of PP&E | -- | -- | -- | (3.0) | (3.0) | -- | -- | -- |
| EBITDA: Other | -- | -- | -- | 407.4 | 407.4 | -- | -- | -- |
| Interest expense: Other | -- | -- | -- | -- | -- | (9.7) | -- | -- |
| Funds from operations: Other | -- | -- | -- | -- | -- | -- | 20.8 | -- |
| Total adjustments | (463.7) | 545.0 | (679.9) | (275.5) | (257.5) | (9.7) | (194.2) | (78.0) |
| **S&P Global Ratings' adjusted amounts** | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **Revenue** | **EBITDA** | **Operating income** | **Interest expense** | **S&P Global Ratings' adjusted EBITDA** | **Cash flow from operations** |
| Adjusted | 3,544.3 | 2,261.0 | 2,490.1 | 1,121.5 | 396.5 | 136.3 | 927.3 | 1,143.0 |

PP&E--Property, plant, and equipment.

We deconsolidate from reported figures, including debt, revenue, and EBITDA, 32.31% of O2's, 10.27% of CETIN's, and 25% of Telenor Hungary's corresponding figures, to reflect the existence of meaningful minority shareholders.

Our adjustments to debt also include the addition of operating leases of about €525 million, and asset-retirement obligations of about €31 million. We also exclude about €40 million of consolidated cash. We do not net €1.5 million of restricted cash at CETIN, and about €40 million of cash reserves maintained at Telecor CEE, for operating purposes because this may not be immediately accessible to PPF Telecom to repay debt.

## Ratings Score Snapshot

### Issuer Credit Rating

BB+/Stable/--

### Business risk: Satisfactory

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

### Financial risk: Significant

- **Cash flow/leverage:** Significant

**Anchor: bb+**

**Modifiers**

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

**Business And Financial Risk Matrix**

| | **Financial Risk Profile** | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | Minimal | Modest | Intermediate | **Significant** | Aggressive | Highly leveraged |
| Excellent | aaa/aa+ | aa | a+/a | a- | bbb | bbb-/bb+ |
| Strong | aa/aa- | a+/a | a-/bbb+ | bbb | bb+ | bb |
| **Satisfactory** | a/a- | bbb+ | bbb/bbb- | **bbb-/bb+** | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

| Ratings Detail (As Of May 26, 2020)* | |
|---|---|
| **PPF Telecom Group B.V.** | |
| Issuer Credit Rating | BB+/Stable/-- |
| Senior Secured | BB+ |
| **Issuer Credit Ratings History** | |
| 14-Mar-2019 | BB+/Stable/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.