

PPF Telecom Group B.V.

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB-	Stable	Affirmed 5 Mar 2020

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The rating for PPF Telecom Group B.V. (PPF TG) reflects the strong position of its incumbent telecoms assets in the Czech Republic (CR) and its leading mobile position in five central and eastern European (CEE) markets. Funds from operations (FFO) adjusted net leverage is likely to be just within our negative sensitivity of 4.0x for the next 12 to 24 months before potential deleveraging. This leaves limited headroom within the rating to absorb unforeseen financial and operational pressures.

The company, however, retains significant financial flexibility to manage its leverage profile as a result of sufficient cash flow generation and dividend flexibility. This flexibility, together with the management's willingness to adjust dividends if needed to manage and sustain the company's leverage profile, has been essential to the company's investment-grade rating.

Key Rating Drivers

Strong Czech Operations: PPF TG owns the incumbent Czech telecoms infrastructure, which includes the local-access network and the ability to deploy convergent product propositions. The company's Czech operations were 49% of total EBITDA (excluding the impact from IFRS16) in 2019 with the remainder from its other CEE assets. PPF TG has a solid position in the mobile market with a Fitch-estimated service revenue market share of about 36% (FY19). The mobile market is slightly growing, supported by increasing consumer spending and macroeconomic factors.

Czech Broadband Market Competitive: PPF TG's retail broadband revenue market share in the CR is lower than its mobile market share at a Fitch-estimated 31% (FY19) but broadly stable. This reflects a more competitive market structure as a result of alternative WiFi, and cable/fibre local access network infrastructures. The deployment of fibre by T-Mobile CR adds to the infrastructure duplication with possible medium-term pressures to wholesale revenue in the CR. Investment plans to increase PPF TG's fibre network's depth and breadth should support its market position.

Structural Separation, Increased Focus: PPF TG separated its fixed and mobile network infrastructure and retail operations into two companies in the CR. CETIN a.s. (BBB/Stable) focuses on infrastructure wholesale, while O2 CR provides retail services. The separation aims to increase operational focus, efficiency and scale in network investments while reducing regulatory overheads.

Mobile network-sharing with T-Mobile, which includes radio access equipment, improves the company's cost structure compared with other European mobile operators and is likely to provide an efficient platform for deploying 5G network services over the next three-to-four years.

Well-Positioned CEE Mobile Assets: PPF TG's CEE assets in Hungary, Bulgaria, Serbia and Montenegro acquired in 2018, add to international mobile operations in Slovakia and domestic operations in CR. The other CEE assets have number one or two market positions and operate in a three-operator mobile market structure that should support service revenue growth through data monetisation and pre- to post-paid migration.

Risks to the emergence of fourth mobile operator in Hungary are diminishing. A lack of fixed network ownership may create disadvantages compared with a convergent network strategy, but we see the risks as manageable through partnerships and mobile network infrastructure-sharing.

Applicable Criteria and Related Research

[Corporate Rating Criteria \(February 2019\)](#)

[Corporates Notching and Recovery Ratings Criteria \(October 2019\)](#)

[Parent and Subsidiary Rating Linkage \(September 2019\)](#)

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Limited Headroom but Proactively Managed: We expect PPF TG's FFO adjusted net leverage to increase to about 4.0x over the next two to three years from 3.5x at end-2019. The increase is primarily driven by a combination of higher capex, spectrum costs and a higher dividend payment rate in FY20, assuming the company manages its leverage at the higher end of its financial policy. This will leave the PPF TG with limited headroom in the rating for managing operational pressures in the short term and exploiting new investment opportunities.

Retained Financial Flexibility: PPF TG manages its leverage profile through a flexible dividend policy and with a targeted net debt-to-EBITDA of 2.8x-3.2x excluding the impact of IFRS16. This corresponds to 3.8x-4.2x on a FFO adjusted net leverage basis.

We forecast the company's underlying pre-dividend free cash flow (FCF) margin, excluding spectrum costs, to be about 14% over the next three years. This provides an organic deleveraging capacity of up to 0.3x-0.4x (FFO adjusted net leverage) a year, if no dividends are distributed and assuming our base case EBITDA growth. PPF TG's intention and ability to adjust dividend payments to maintain leverage within the thresholds of the rating is an essential driver of its investment-grade rating.

Domestic Downside Risks: There are a number of factors in the Czech market that could pose a downside to risk to Fitch's base case FCF forecasts for the company. These include the entry of a fourth mobile operator, regulatory fines from the EU due to network sharing and higher-than-expected impact from the deployment of duplicate fibre infrastructure by T-Mobile. Dividend flexibility should help the company manage the impact at financial level if the risks materialise.

Potential FX Risks to Leverage: At end-2019, PPF TG had about 90% of its total group debt denominated in euros and 25% of its EBITDA (assuming the peg between the euro and Bulgarian lev is maintained) denominated in euros. This creates foreign-exchange (FX) mismatch to leverage. The stability or appreciation of the Czech koruna to the euro over the past five years, however, reduces the real impact of the mismatch given 49% of total EBITDA is denominated in the local currency.

PPF TG is able to hedge the cash flows it receives in foreign currencies so as to largely mitigate fluctuations in relation to the debt servicing of its current borrowings. However, a lack of visibility on medium- to long-term FX fluctuations raises risks to leverage.

Consolidated Rating, No Subordination: PPF TG's rating assumes a fully consolidated business scope with no structural subordination as a result of existing subsidiary-level debt. The consolidated basis of the rating reflects the ownership structure and the existence of one-way cross default obligations for PPF TG on behalf of its operating subsidiaries in CR.

These factors, on balance, underpin our consolidated assessment as opposed to an approach that deconsolidates the Czech operating companies due to subsidiary-level covenants and financial policies that could restrict dividend upstreaming in extreme situations. The lack of structural subordination of parent-level debt reflects the low quantum of operating subsidiary-level debt.

Standalone Rating Profile: We rate PPF TG on a standalone basis with no influence from other parts of the PPF Group. The standalone profile reflects a lack of legal, financial and operational ties between PPF TG and other parts of the group. PPF Group has three main business divisions covering telecommunications, banking and financial services, and real estate. All three units are independently managed and financed.

Financial Summary

(EURm)	Dec 2017	Dec 2018	Dec 2019	Dec 2020F	Dec 2021F	Dec 2022F
Gross revenue	1,826	2,415	3,162	3,185	3,224	3,258
Operating EBITDAR margin (%)	41.1	42.9	44.0	43.7	44.3	45.0
FFO margin (%)	29.6	31.2	31.7	31.0	31.2	31.9
FFO fixed charge coverage (x)	8.2	5.7	6.4	6.1	5.9	6.1
FFO adjusted net leverage (x)	3.0	4.8	3.5	3.9	4.0	3.9

Source: Fitch Ratings, Fitch Solutions, PPFTG

Rating Derivation Relative to Peers

The consolidated operating and financial profiles of PPFTG benchmark well with its peer group of incumbent European operators such as Royal KPN N.V. (BBB/Stable) and BT Group plc (BBB/Stable). PPFTG's lower rating reflects a financial policy that is likely to sustain leverage at higher levels. The company's operating profile is rated stronger than predominantly mobile-only operators, such as Sunrise Communications Holdings S.A. (BB+/Stable) and P4 S.p. z o.o. (BB/Stable) and benefits from a greater leverage capacity.

PPFTG's geographic diversification benefits are tempered by lower cash flow, the complexity of group structure, some FX mismatch to leverage and three to four local access network infrastructures for broadband in the CR compared with two in most other European markets. Higher-rated peers such as Vodafone Group Plc (BBB/Stable) and Orange S.A. (BBB+/Stable) have greater diversification, scale or manage leverage at lower levels.

Navigator Peer Comparison

Issuer	Business profile								Financial profile			
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Competitive Position	Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Structure	Financial Flexibility		
BT Group plc	BBB/Sta	aa	a	bbb+	bbb	a-	bbb	bbb+	bbb-	a-		
CETIN a.s.	BBB/Sta	a+	bbb	bbb+	bbb-	bbb+	bbb	a	bb+	bbb+		
Deutsche Telekom AG	BBB+/Sta	aa	a-	bbb+	a	a	bbb	bbb+	bbb-	bbb+		
NOS, S.G.P.S., S.A.	BBB/Sta	a	bbb	bbb	bbb-	a	bbb	bbb+	bbb	a-		
P4 Sp. z o.o.	BB/Sta	a-	bbb+	bb	bb	bb+	bbb	bb+	bb+	bbb-		
PPF Telecom Group B.V.	BBB-/Sta	a+	bbb-	bbb+	bbb	bbb+	bbb	bbb+	bb+	bbb		
Royal KPN N.V.	BBB/Sta	aa	a-	bbb+	bbb	a	bbb	bbb+	bbb-	a-		
Sunrise Communications Holdings S.A.	BB+/Sta	aa-	bbb+	bb+	bb+	bbb	bbb	bbb	bbb-	a-		
Telefonica SA	BBB/Sta	aa-	a	a-	a	a	bbb	bbb	bbb-	bbb+		
Vodafone Group Plc	BBB/Sta	aa-	a-	bbb+	a	a	bbb	bbb	bb	bbb		

Source: Fitch Ratings.

Importance: ■ Higher ■ Moderate ■ Lower

Issuer	Business profile								Financial profile			
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Competitive Position	Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Structure	Financial Flexibility		
BT Group plc	BBB/Sta	6.0	3.0	1.0	0.0	2.0	0.0	1.0	-1.0	2.0		
CETIN a.s.	BBB/Sta	4.0	0.0	1.0	-1.0	1.0	0.0	3.0	-2.0	1.0		
Deutsche Telekom AG	BBB+/Sta	5.0	1.0	0.0	2.0	2.0	-1.0	0.0	-2.0	0.0		
NOS, S.G.P.S., S.A.	BBB/Sta	3.0	0.0	0.0	-1.0	3.0	0.0	1.0	0.0	2.0		
P4 Sp. z o.o.	BB/Sta	5.0	4.0	0.0	0.0	1.0	3.0	1.0	1.0	2.0		
PPF Telecom Group B.V.	BBB-/Sta	5.0	0.0	2.0	1.0	2.0	1.0	2.0	-1.0	1.0		
Royal KPN N.V.	BBB/Sta	6.0	2.0	1.0	0.0	3.0	0.0	1.0	0.0	2.0		
Sunrise Communications Holdings S.A.	BB+/Sta	7.0	3.0	0.0	0.0	2.0	2.0	2.0	1.0	4.0		
Telefonica SA	BBB/Sta	5.0	3.0	2.0	3.0	3.0	0.0	0.0	-1.0	1.0		
Vodafone Group Plc	BBB/Sta	5.0	2.0	1.0	3.0	3.0	0.0	0.0	-3.0	0.0		

Source: Fitch Ratings.

■ Worse positioned than IDR ■ In line with IDR ■ Better positioned than IDR

Rating Sensitivities

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

- Sustained growth in FCF leading to improved FCF margins and organic deleveraging capacity;
- FFO-adjusted net leverage falling below 3.5x on a sustained basis.

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

- A material and sustained decline in EBITDA or FCF driven by competitive or technology-driven pressure in core business segments;
- A change in the financial policy that results in reduced financial flexibility, higher long-term leverage targets, or contractual debt obligations to other parts of the PPF Group. Any substantive increase in PPF Group's dependency on PPF TG's dividends would put pressure on the rating;
- FFO-adjusted net leverage trending above 4.0x on a sustained basis.

Liquidity and Debt Structure

Comfortable Liquidity: PPF TG had cash and cash equivalents of EUR795 million and an undrawn five-year revolving credit facility of EUR200 million at 31 December 2019. PPF TG has no material debt maturities in 2020 and pre-dividend FCF provides a further source of liquidity if needed.

Upcoming maturities at PPF TG's subsidiaries include O2 Czech Republic's EUR276 million in term loans maturing 2020 and CETIN's EUR625 million bond maturing 2021.

ESG Considerations

The highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity Scenario with No Refinancing

Available liquidity (EURm)	2020F	2021F	2022F	2023F
Beginning cash balance	807	620	953	1,064
Rating case FCF after acquisitions and divestitures	-551	-291	78	99
Less: Cash collateral (treated as restricted)	-12			
Plus: Debt issued since balance sheet date	100			
Total available liquidity (A)	344	328	1,031	1,163
Liquidity uses				
Debt maturities	276	625	33	585
Total liquidity uses (B)	276	625	33	585
Liquidity calculation				
Ending cash balance (A+B)	620	953	1,064	1,748
Revolver availability	200	200	200	200
Ending liquidity	820	1,153	1,264	1,948
Liquidity score	86.3	-0.8	-37.3	-2.3

Scheduled debt maturities	Original
Statement date	31 December 2019
2020	276
2021	625
2022	33
2023	585
2024	1,326
Thereafter	1,215
Total	4,060

Source: Fitch Ratings, Fitch Solutions, PPFTG

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenue of about EUR3.2 billion in 2020, growing by about 1% per year over the next three years.
- EBITDA margin (excluding IFRS16) of 40.5% in 2020, gradually increasing to 42% over the next three years.
- Effective cash tax rate of 17.6% in 2020 with a broadly stable effective tax rate over the next three years.
- Capex-to-revenue ratio (excluding spectrum costs) of 14% to 15% between 2020 and 2023.
- Dividend payment of EUR650 million in 2020, and around EUR400 million over the next three years.
- Net debt-to-EBITDA maintained at the low-to-middle range of the company's target of 2.8x-3.2x.
- Adjusted debt calculated using a weighted average operating lease multiple of 7.6x, reflecting a multiple of 8x for liabilities in the CR and Slovakia and 7x for liabilities in Bulgaria, Hungary, and Serbia and Montenegro.

Summary of Financial Adjustments

- For 2019, readily available cash is adjusted to include EUR12 million of cash collateral for derivative instruments. Debt is adjusted to include net derivative liabilities of EUR52 million.

Financial Data

(EURm)	Historical			Forecast		
	Dec 2017	Dec 2018	Dec 2019	Dec 2020F	Dec 2021F	Dec 2022F
Summary income statement						
Gross revenue	1,826	2,415	3,162	3,185	3,224	3,258
Revenue growth (%)	4.7	32.3	30.9	1.0	1.0	1.0
Operating EBITDA (before income from associates)	693	932	1,284	1,290	1,329	1,365
Operating EBITDA margin (%)	38.0	38.6	40.6	40.5	41.2	41.9
Operating EBITDAR	750	1,037	1,390	1,393	1,428	1,465
Operating EBITDAR margin (%)	41.1	42.9	44.0	43.7	44.3	45.0
Operating EBIT	352	435	639	560	571	665
Operating EBIT margin (%)	19.3	18.0	20.2	17.6	17.7	20.4
Gross interest expense	-23	-65	-131	-92	-104	-104
Pretax income (including associate income/loss)	337	318	484	473	471	563
Summary balance sheet						
Readily available cash and equivalents	207	441	807	464	406	402
Total debt with equity credit	1,629	4,025	4,060	4,268	4,502	4,420
Total adjusted debt with equity credit	2,060	4,820	4,862	5,049	5,261	5,185
Net debt	1,422	3,584	3,253	3,804	4,096	4,018
Summary cash flow statement						
Operating EBITDA	693	932	1,284	1,290	1,329	1,365
Cash interest paid	-18	-53	-78	-92	-104	-104
Cash tax	-76	-100	-137	-126	-121	-122
Dividends received less dividends paid to minorities (inflow/(out)flow)	-55	-75	-89	-91	-102	-102
Other items before FFO	-3	44	10	0	0	0
Funds flow from operations	541	753	1,003	986	1,007	1,039
FFO margin (%)	29.6	31.2	31.7	31.0	31.2	31.9
Change in working capital	-20	-85	-55	-100	-50	-70
Cash flow from operations (Fitch defined)	521	668	948	886	957	969
Total non-operating/non-recurring cash flow	0	-27	0			
Capital expenditure	-322	-309	-402			
Capital intensity (capex/revenue) (%)	17.6	12.8	12.7			
Common dividends	-181	-135	-480			
Free cash flow	18	197	66			
Net acquisitions and divestitures	29	-2,659	7			
Other investing and financing cash flow items	30	156	298	0	0	0
Net debt proceeds	22	2,337	-6	208	234	-82
Net equity proceeds	-91	203	-5	0	0	0
Total change in cash	8	234	360	-343	-58	-4
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-474	-3,130	-875	-1,438	-1,249	-891
Free cash flow after acquisitions and divestitures	47	-2,462	73	-551	-291	78
Free cash flow margin (after net acquisitions) (%)	2.6	-102.0	2.3	-17.3	-9.0	2.4
Coverage ratios						
Ffo interest coverage (x)	31.1	15.1	13.7	11.7	10.6	11.0
Ffo fixed charge coverage (x)	8.2	5.7	6.4	6.1	5.9	6.1
Operating EBITDAR/interest paid + rents (x)	9.3	6.1	7.1	6.7	6.5	6.7
Operating EBITDA/interest paid (x)	35.4	16.2	15.3	13.0	11.8	12.1
Leverage ratios						
Total adjusted debt/operating EBITDAR (x)	3.0	5.0	3.7	3.9	4.0	3.8
Total adjusted net debt/operating EBITDAR (x)	2.7	4.6	3.1	3.5	3.7	3.5
Total debt with equity credit/operating EBITDA (x)	2.6	4.7	3.4	3.6	3.7	3.5
FFO adjusted leverage (x)	3.3	5.3	4.1	4.3	4.4	4.2
FFO adjusted net leverage (x)	3.0	4.8	3.5	3.9	4.0	3.9
Source: Fitch Ratings, Fitch Solutions						

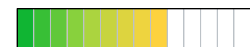
How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' 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 Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' 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 Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings 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 Ratings' own internal deliberations, where Fitch Ratings, 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 Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

PPF Telecom Group B.V.

ESG Relevance:



Corporates Ratings Navigator
Telecommunications

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

Operating Environment

aa-	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
a+	Financial Access	bbb	Average 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	a	Very strong and sustainable market share in primary markets (> 30%).
a-	Competition	bbb	Primary markets characterized by medium competitive intensity and/or moderate barriers to entry.
bbb+	Scale - EBITDAR	bbb	>\$1 billion
bbb			
bbb-			

Technology and Infrastructure

a	Ownership of Network	a	Ow ns almost all of its infrastructure.
a-	Network and Service Quality	bbb	Solid netw ork coverage and capacity, using some up-to-date technology, with average service quality.
bbb+			
bbb			
bbb-			

Profitability

a	Volatility of Cash Flow	bbb	Volatility and visibility of cash flow in line with industry average.
a-	EBITDAR Margin	a	35%
bbb+	FFO Margin	a	30%
bbb			
bbb-			

Financial Flexibility

a-	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
bbb+	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bbb	FFO Fixed Charge Cover	bbb	4.0x
bbb-	FX Exposure	bb	FX exposure on profitability and/or debt/cash flow match. Some hedging in place.
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.

Management and Corporate Governance

bbb+	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb-	Group Structure	bb	Complex group structure or non-transparent ownership structure. Related-party transactions exist but with reasonable economic rationale.
bb+	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb			

Diversification

a-	Service Platform Diversification	bbb	Operates several service platforms in primary markets but one is dominant.
bbb+	Geographic Diversification	bbb	Average geographic diversification.
bbb			
bbb-			
bb+			

Regulatory Environment

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

Financial Structure

bbb	Lease Adjusted FFO Gross Leverage	bb	4.3x
bbb-	Lease Adjusted FFO Net Leverage	bb	4.0x
bb+	Net Debt/(CFO - Capex)	bbb	8.0x
bb	Total Adjusted Debt/Operating EBITDAR	bb	4.0x
bb-			

Credit-Relevant ESG Derivation

				Overall ESG	
PPF Telecom Group B.V. has 8 ESG potential rating drivers				key driver	0 issues
➡	Energy and fuel use in networks and data centers			driver	0 issues
➡	Networks exposed to extreme weather events (e.g. hurricanes)			potential driver	8 issues
➡	Data security; service disruptions			not a rating driver	1 issues
➡	Impact of labor negotiations and employee (dis)satisfaction			5 issues	
➡	Governance is minimally relevant to the rating and is not currently a driver.				

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

PPF Telecom Group B.V. has 8 ESG potential rating drivers

- PPF Telecom Group B.V. has exposure to energy productivity risk but this has very low impact on the rating.
- PPF Telecom Group B.V. has exposure to extreme weather events but this has very low impact on the rating.
- PPF Telecom Group B.V. has exposure to customer accountability risk but this has very low impact on the rating.
- PPF Telecom Group B.V. has exposure to labor relations & practices risk but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

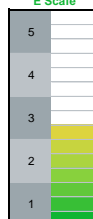
Overall ESG Scale

key driver	0	issues	5	
driver	0	issues	4	
potential driver	8	issues	3	
not a rating driver	1	issues	2	
	5	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	3	Energy and fuel use in networks and data centers	Profitability
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	3	Networks exposed to extreme weather events (e.g. hurricanes)	Profitability

E Scale



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The **Environmental (E), Social (S) and Governance (G)** tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

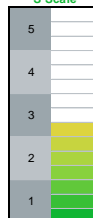
The **Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security; service disruptions	Competitive Position; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Competitive Position; Profitability
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Social attitudes toward network infrastructure	Diversification; Technology and Infrastructure; Profitability

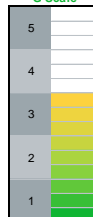
S Scale



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale

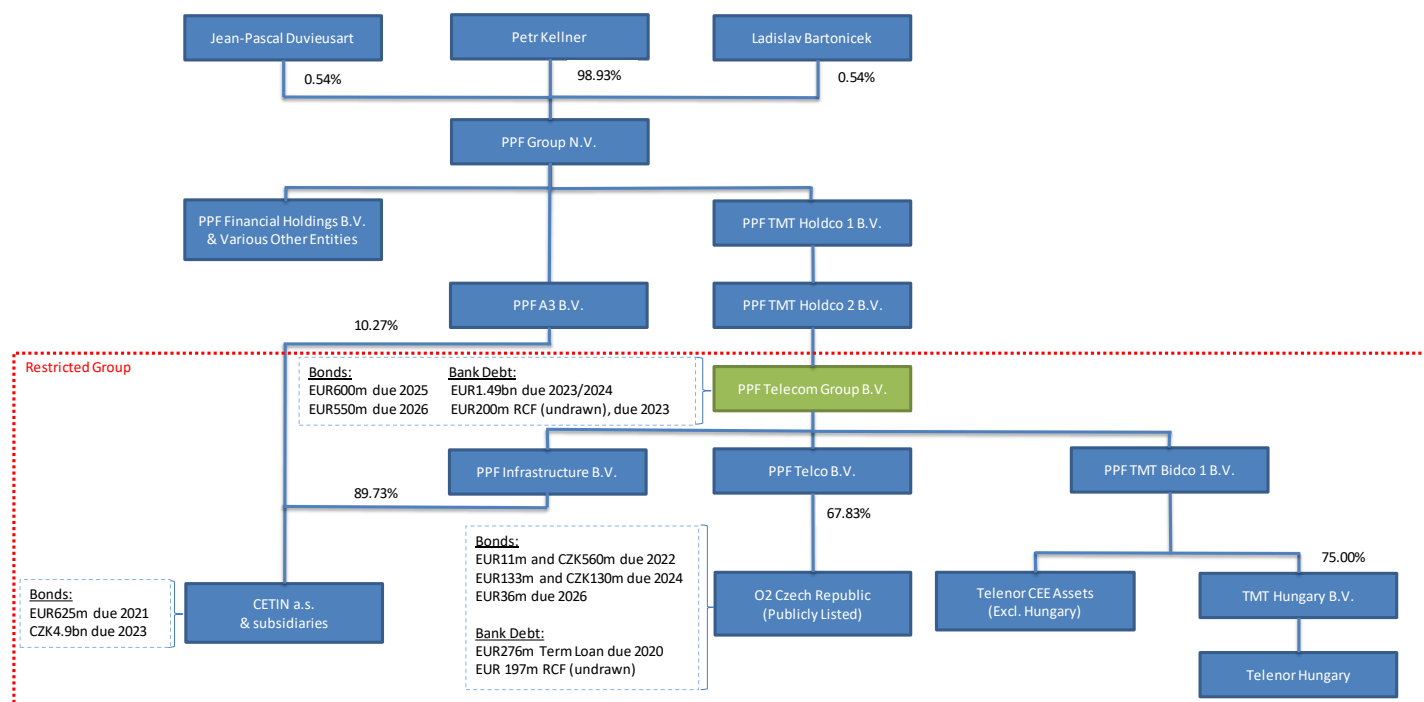


CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance w thin Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance w thin Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "low er" relative importance w thin Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Corporate Structure as at 31 December 2019.

The EUR600 million bonds due 2025 for PPFTG include EUR100 million tap in January 2020.

Ownership above is 100% unless the percentage is specifically stated.

Source: Fitch Ratings, Fitch Solutions, PPFTG

Peer Financial Summary

Company	IDR	Financial statement date	Gross revenue (EURm)	Operating EBITDAR margin (%)	FFO margin (%)	FFO fixed charge coverage (x)	FFO adjusted leverage (x)
PPF Telecom Group B.V.	BBB-						
	BBB-	2019	3,162	44.0	31.7	6.4	4.1
		2018	2,415	42.9	31.2	5.7	5.3
		2017	1,826	41.1	29.6	8.2	3.3
Deutsche Telekom AG	BBB+						
	BBB+	2018	75,070	33.2	25.5	3.6	3.6
	BBB+	2017	74,159	32.6	24.1	3.3	3.4
	BBB+	2016	71,856	30.2	22.2	3.2	4.0
Vodafone Group Plc	BBB						
	BBB+	2019	43,666	36.9	28.5	4.5	4.4
	BBB+	2018	46,571	36.6	28.5	4.7	3.7
	BBB+	2017	47,631	34.7	26.6	4.4	3.9
Royal KPN N.V.	BBB						
	BBB	2018	5,639	42.0	33.7	4.4	3.3
	BBB	2017	6,498	38.0	30.1	4.4	3.4
	BBB	2016	6,806	38.1	29.1	3.8	3.5
BT Group plc	BBB						
	BBB	2019	26,595	34.9	20.0	4.5	3.7
	BBB+	2018	26,910	34.7	20.3	4.7	3.1
	BBB+	2017	28,641	34.6	23.7	5.3	2.4
CETIN a.s.	BBB						
	BBB	2018	781	41.7	34.4	7.4	3.4
	BBB	2017	809	40.8	32.0	7.2	3.5
	BBB	2016	763	42.1	34.2	5.7	4.0
NOS, S.G.P.S., S.A.	BBB						
	BBB	2018	1,576	40.6	32.3	7.9	2.6
		2017	1,562	39.7	30.7	7.8	2.7
		2016	1,515	39.8	29.9	6.8	3.0
Telefonica SA	BBB						
	BBB	2018	48,693	33.8	24.0	4.2	4.2
	BBB	2017	52,008	33.6	23.9	4.1	4.0
	BBB	2016	52,036	33.6	23.3	3.6	4.1
Sunrise Communications Holdings S.A.	BB+						
	BB+	2018	1,625	38.3	27.3	4.5	4.0
	BB+	2017	1,666	37.8	28.1	4.5	3.6
	BB+	2016	1,740	36.8	27.1	4.4	4.2
P4 Sp. z o.o.	BB						
	BB-	2017	1,573	34.5	24.4	5.0	3.6
	B+	2016	1,403	33.3	25.6	7.0	2.9
	B+	2015	1,299	32.9	25.1	6.7	3.2

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(EUR Millions, As reported)	31 Dec 2019
Income Statement Summary	
Operating EBITDA	1284
+ Recurring Dividends Paid to Non-controlling Interest	-89
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	1195
+ Operating Lease Expense Treated as Capitalised (h)	106
= Operating EBITDAR after Associates and Minorities (j)	1301
Debt & Cash Summary	
Total Debt with Equity Credit (l)	4060
+ Lease-Equivalent Debt	802
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	4862
Readily Available Cash [Fitch-Defined]	807
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	807
Total Adjusted Net Debt (b)	4055
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	13
+ Interest (Paid) (d)	-78
= Net Finance Charge (e)	-65
Funds From Operations [FFO] (c)	1003
+ Change in Working Capital [Fitch-Defined]	-55
= Cash Flow from Operations [CFO] (n)	948
Capital Expenditures (m)	-402
Multiple applied to Capitalised Leases	7.6
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	3.7
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	4.1
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	3.4
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	3.1
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	3.5
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	6.0
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/(-d+h))	7.1
Op. EBITDA / Interest Paid* [x] (k/(-d))	15.3
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	6.4
(FFO + Net Finance Charge + Capit. Leases - Pref. Div. Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	13.7
(FFO + Net Finance Charge - Pref. Div. Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions, PPF TG

(EUR Millions)		31 Dec 2019	
Debt & Cash Summary			
Due to banks	as reported		2,139
Debt securities issued	as reported		1,869
plus: adjustment for derivatives	Fitch assumption		52
Total debt with equity credit			4,060
Total off-balance sheet debt	(h x 7.57)		802
Total lease-adjusted debt			4,862
Cash and cash equivalents	as reported		795
plus: Cash collateral for derivative instruments	as reported		1
Readily Available Cash	Fitch defined		807
Net debt with equity credit	(a)		3,253
Net lease-adjusted debt	(b)		4,055
Cash Flow Summary			
Revenue	as reported		3,162
EBITDA (reported)	as reported		1,397
less: lease adjustment	Fitch assumption		-106
of which: ROU depreciation	as reported		-91
of which: ROU interest	as reported		-15
less: Impairment loss	as reported		-7
EBITDA (Fitch defined)	Fitch defined	(c)	1,284
less: Interest paid	as reported	(d)	-78
plus: Interest received	as reported	(e)	13
less: Income tax paid	as reported		-137
less: Dividends paid to NCI	as reported	(f)	-76
plus/(less): Other items before FFO	Fitch assumption		-3
Funds flow from operations (FFO)	As below	(g)	1,003
Net cash from operating activities			
	as reported		1,221
Dividends paid to NCI	as reported		-76
Distributions to NCI	as reported		-13
Interest paid	as reported		-78
less: lease adjustment	Fitch assumption		-106
of which: ROU depreciation	as reported		-91
of which: ROU interest	as reported		-15
Non-Operating/Non-Recurring Cash Flow	Fitch assumption		0
Cash flow from operations (Fitch)	Calculated	(h)	948
Change in working capital	Fitch definition		55
Funds flow from operations (FFO)	Calculated		1,003
Long-term (LT) lease expense	Fitch assumption	(i)	106
CAPEX	as reported	(j)	402
FFO Interest Coverage (x)			
(FFO + net interest paid) / gross interest paid	Calculated	(g - d - e) / (-d)	13.7
FFO fixed charge cover (x)			
(FFO + net interest paid + LT leases) / (gross interest paid + LT leases)	Calculated	(g- d - e + i) / (-d + i)	6.4
Net debt / EBITDA (x)			
Net debt with equity credit / EBITDA after dividends paid to NCI	Calculated	a / (c + f)	2.7
FFO adjusted net leverage (x)			
Net lease-adjusted debt / (FFO + net interest paid + LT leases)	Calculated	b / (g - d - e + i)	3.5
Net debt / CFO less Capex (x)	Calculated	a / (h - j)	6.0
Source: Fitch Ratings, Fitch Solutions, PPF TG			

Fitch Adjustment Reconciliation

(EUR Millions, As reported)	Reported Values	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Debt Reclasification	Lease Treatment	Readily Available Cash	Adjusted Values
	31 Dec 19						
Income Statement Summary							
Revenue	3162	0					3162
Operating EBITDAR	1390	0					1390
Operating EBITDAR after Associates and Minorities	1390	-89	-89				1301
Operating Lease Expense	0	106			106		106
Operating EBITDA	1390	-106			-106		1284
Operating EBITDA after Associates and Minorities	1390	-195	-89		-106		1195
Operating EBIT	654	-15			-15		639
Debt & Cash Summary							
Total Debt With Equity Credit	4008	52		52			4060
Total Adjusted Debt With Equity Credit	4008	854		52	802		4862
Lease-Equivalent Debt	0	802			802		802
Other Off-Balance Sheet Debt	0	0					0
Readily Available Cash & Equivalents	795	12				12	807
Not Readily Available Cash & Equivalents	0	0					0
Cash-Flow Summary							
Preferred Dividends (Paid)	0	0					0
Interest Received	13	0					13
Interest (Paid)	-78	0					-78
Funds From Operations [FFO]	1198	-195	-89		-106		1003
Change in Working Capital [Fitch-Defined]	-55	0					-55
Cash Flow from Operations [CFO]	1143	-195	-89		-106		948
Non-Operating/Non-Recurring Cash Flow	0	0					0
Capital (Expenditures)	-402	0					-402
Common Dividends (Paid)	-480	0					-480
Free Cash Flow [FCF]	261	-195	-89		-106		66
Gross Leverage							
Total Adjusted Debt / Op. EBITDAR* [x]	2.9						3.7
FFO Adjusted Leverage [x]	3.2						4.1
Total Debt With Equity Credit / Op. EBITDA* [x]	2.9						3.4
Net Leverage							
Total Adjusted Net Debt / Op. EBITDAR* [x]	2.3						3.1
FFO Adjusted Net Leverage [x]	2.5						3.5
Total Net Debt / (CFO - Capex) [x]	4.3						6.0
Coverage							
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	17.8						7.1
Op. EBITDA / Interest Paid* [x]	17.8						15.3
FFO Fixed Charge Coverage [x]	16.2						6.4
FFO Interest Coverage [x]	16.2						13.7

*EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions, PPF TG

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