MOODY'S INVESTORS SERVICE

CREDIT OPINION
18 March 2019

New Issue

Rate this Research

RATINGS

PPF Arena 1 B.V.

Domicile	Netherlands
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
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.

Analyst Contacts

Carlos Winzer +34.91.768.8238
Senior Vice President
carlos.winzer@moodys.com

Ivan Palacios +34.91.768.8229
Associate Managing Director
ivan.palacios@moodys.com

Pilar Anduiza +34.91.768.8220
Associate Analyst
pilar.anduiza@moodys.com

PPF Arena 1 B.V.

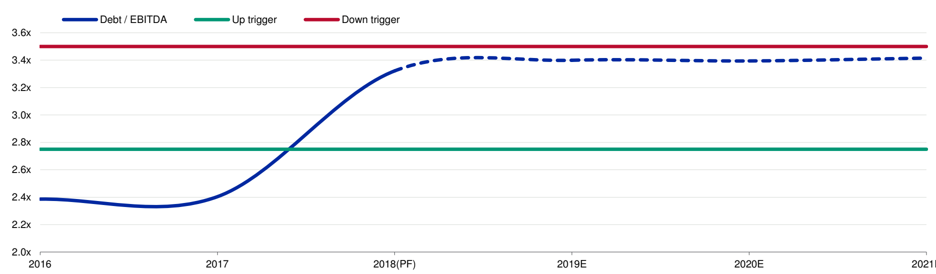
New Issuer

Summary

PPF Arena 1 B.V.'s (PPF Arena 1) Ba1 corporate family rating (CFR) reflects (1) the company's leading position as the integrated incumbent in the Czech Republic with a corporate structure that separates the service provision from the infrastructure management; (2) the group's good geographical diversification in the Central and Eastern European (CEE) region; (3) the higher revenue growth potential in PPF Arena 1's footprint relative to the European average; (4) its financial policy and commitment to manage leverage within management's public guidance; and (5) its good margins and resilient operating cash flow generation.

The rating also reflects (1) the group's moderate scale; (2) the mobile-centric position of the recently acquired assets in CEE in an environment with growing convergence trends; (3) potentially heightened competition in the retail market in the Czech Republic resulting from market consolidation; (4) low moody's adjusted retained cash flow metrics as a result of high dividend payments in line with financial policy; and (5) PPF Arena 1's structurally subordinated position relative to debt raised at operating companies, as the parent relies on dividends from the operating companies to service its debt.

Exhibit 1
We expect PPF Arena 1's leverage to remain at around 3.4x for the next three years
Moody's-adjusted debt/EBITDA (2016-21E)



Source: Moody's Investors Service

Credit strengths

» Leading position in both fixed and mobile markets in the Czech Republic

» Structural separation of infrastructure management and service provision

» Good geographical diversification in the Central and Eastern Europe (CEE) region

» Expected solid operating performance in the next 12-18 months

» Solid standalone financial profiles of CETIN and O2

» Financial policy and commitment to maximum leverage tolerance

Credit challenges

» Moderate scale

» Mobile-only operations in CEE

» Potentially heightened competition in the retail market in the Czech Republic resulting from its recent consolidation

» Low retained cash flow metrics as a result of high dividend payments

» Presence of material amounts of external debt at operating companies leads to structural subordination for PPF Arena 1's debtholders

Rating outlook

The stable outlook reflects our expectation that the group will achieve gradual organic deleveraging based on the strength of the cash flow generated at the operating subsidiaries and subject to the group's financial policy of sustaining net reported leverage between 2.8x and 3.2x.

Factors that could lead to an upgrade

Because of PPF Arena 1's complex group structure, upward rating pressure is unlikely until there is a simplification in the debt allocation within the broader group structure and a clearer policy on the debt distribution between PPF Arena 1 and the operating subsidiaries to minimize structural subordination.

Over the long term, we could consider a rating upgrade if PPF Arena 1's operating performance improves beyond our current expectation, such that adjusted debt/EBITDA remains comfortably below 2.75x and retained cash flow (RCF)/debt remains above 20% on a sustained basis.

Factors that could lead to a downgrade

We could consider a rating downgrade if PPF Arena 1's operating performance materially deteriorates, such that adjusted debt/ EBITDA increases above 3.5x and retained cash flow (RCF)/debt declines below 10% on a sustained basis. Additionally, negative pressure could be exerted if PPF Arena 1's financial policies become more aggressive or if it needs to support entities of lower credit quality within the broader PPF Group.

Key indicators

Exhibit 2
PPF Arena 1 B.V.

PPF Arena 1 B.V.

EUR Millions	Dec-16	Dec-17	Dec-18	Dec-19 (proj)	Dec-20 (proj)
Revenue	1.7	1.8	2.4	3.2	3.3
Debt / EBITDA	2.4x	2.4x	4.4x	3.4x	3.4x
RCF / Debt	30.0%	22.2%	15.7%	8.7%	13.3%
(EBITDA - CAPEX) / Interest Expense	12.1x	12.0x	6.5x	6.0x	6.3x

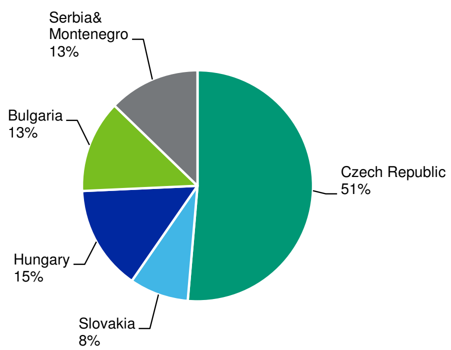
Audited FY2018 figures include Telenor Central and Eastern European assets since August 2018
Source: Moody's Financial Metrics™ and Moody's Investors Service estimates

Profile

PPF Arena 1 B.V. (PPF Arena 1) is a European telecommunications group with shareholdings in CETIN (89.73%), a Czech telecom infrastructure operator, O2 (67.69%), an integrated telecommunications operator in the Czech Republic, and four mobile operators in Hungary, Bulgaria, Serbia and Montenegro (100%). The company completed the acquisition of Telenor CEE's assets in Hungary, Bulgaria, Serbia and Montenegro in July 2018 for €2.7 billion. With this acquisition, PPF Arena 1 emerged as a key telecommunications operator in the CEE region with 16.4 million subscribers in six countries and EBITDA of €1.2 billion in 2018.

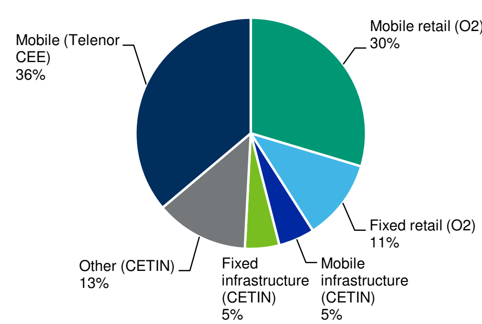
The company is ultimately 100% owned by PPF Group NV, an investment company focused on activities mainly in telecommunications, real estate, banking and financial services. The group seeks investment opportunities in the developing markets in CEE, Russia, Western Europe and the US. The PPF Group was founded by Petr Kellner (share of voting rights: 98.93%) in 1991.

Exhibit 3
The Czech Republic is PPF Arena 1's main country of operations
2018 EBITDA split by geography



Source: Company reports

Exhibit 4
Mobile retail represents around 66% of PPF Arena 1's revenue
FY 2018 revenue split by business segment



Before eliminations
Source: Company reports

Detailed credit considerations

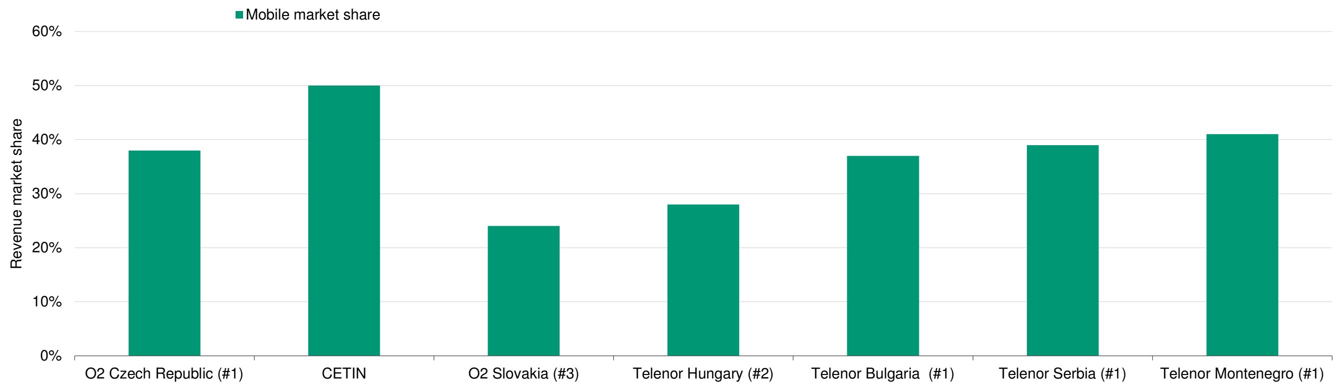
Leading integrated position in the Czech Republic and broad geographical diversification in CEE

PPF Arena 1's rating reflects its leading position as the incumbent operator in the Czech Republic, with a 37% retail mobile market share and a 30% retail fixed broadband market share in terms of revenue. Additionally, the company holds a strong challenger position in Slovakia (24% mobile revenue market share), Hungary (28%), Bulgaria (37%), Serbia (39%) and Montenegro (42%).

Exhibit 5

PPF Arena 1 ranks number one or two in most of the countries in which it operates

Mobile revenue market share and relative position by country as of 2018



Source: Company information

The company's strategy focuses on maintaining leading market positions in all its markets by ensuring high-quality services and infrastructure, integrating and spreading the group's culture and know-how to Telenor CEE's operations and maintaining sound and disciplined financial management and practices.

One of the unique characteristics of PPF Arena 1 is its position as the leading integrated operator with a corporate structure that separates service provision from infrastructure management. Voluntary separation of the business took effect in June 2015. Management believes this structural separation has eased regulation and allowed the group to streamline the business while optimizing network utilization and financial policy.

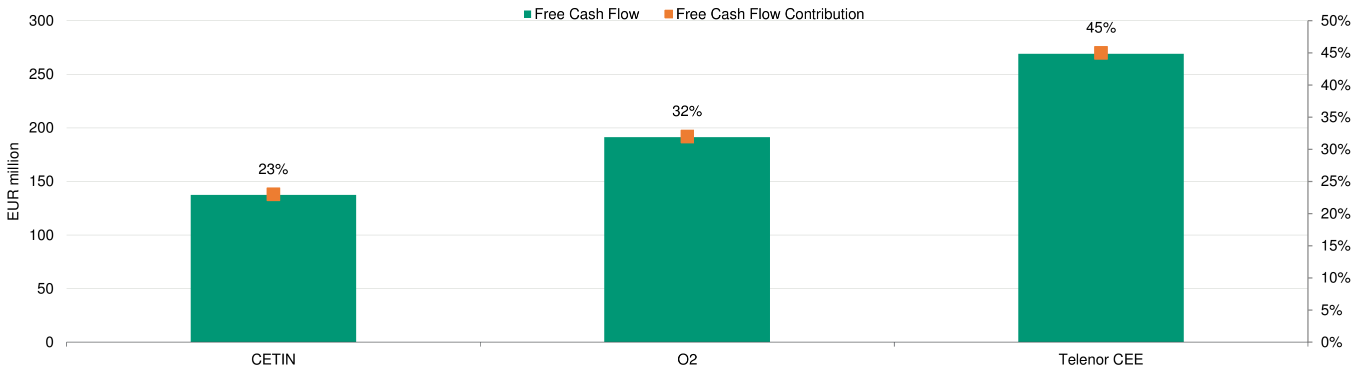
Additionally, the company's cash flow is well diversified in terms of geography and business segments. The recently acquired mobile assets in Hungary, Bulgaria, Serbia and Montenegro are the major contributors to PPF Arena 1's earnings and cash flow, representing 40% of EBITDA and around 45% of the company's Free Cash Flow (FCF) in 2018. The group provides mobile services in the CEE region to around nine million subscribers and generated EBITDA of €493 million in 2018. In these countries, Telenor's mobile offers are focused on attracting and retaining the most valuable customers through differentiation.

O2 Group generated around 32% of the group's FCF, followed by CETIN with 23%. O2 is the largest integrated telecommunications operator in the Czech Republic. It offers mobile, fixed voice, FBB, data IPTV, and ICT, data center housing and cloud services to consumers, businesses and the public segment. O2 is listed on the Prague stock exchange with a 17% free float and a market capitalisation of CZK 76.8 billion (around €3.1 billion) as of March 2019. The company also operates in Slovakia through its wholly owned subsidiary O2 Slovakia. In Slovakia, O2 is the number three operator after Orange and T-Mobile, with a 24% mobile revenue market share.

CETIN is the Czech Republic's sole national telecommunications infrastructure provider. The company operates and manages fixed and mobile infrastructure in the Czech Republic and provides transit services abroad, with a presence in Europe, Africa and Asia. As of December 2018, domestic fixed and mobile services segments represented 97% of the company's EBITDA. CETIN's main customer is O2, which accounts for almost 80% of the company's EBITDA. The company has a 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 underpinned by strong commercial agreements with O2 Czech Republic and T-Mobile Czech Republic (T-Mobile).

Exhibit 6

Telenor CEE's assets represent around 45% of PPF Arena 1's free cash flow[1]
2018 FCF by operating subsidiary



Source: Company information

Solid revenue growth balancing service provision, infrastructure and international revenue

We expect revenue to grow at around 1%-2% (excluding international transit) in the next two years, driven by growth in all markets. Particularly, we expect solid growth in O2 and Telenor CEE as a result of good mobile momentum in the Czech market and upselling opportunities in the CEE markets.

Revenue growth (pro forma for the acquired Telenor CEE assets) of 2.2% was solid in 2018 (+2.1% in fiscal 2017 pro forma for Telenor CEE assets), driven by solid revenue growth of 0.8% at O2 and strong growth of 3.7% in the CEE region, offset by declines in CETIN's low-margin international traffic business (around 3% EBITDA margin). Excluding international transit, total revenue increased by an estimated 3.8%.

In 2018, O2's revenue growth in the Czech Republic was broadly flat (-0.2% in 2018) as mobile revenue growth of 1.6% was offset by a 3.6% decline in fixed revenue. In Slovakia, total revenue increased by 7.9%, driven by an increase of 4.7% in the subscriber base as a result of continued investments in O2's mobile network. O2's total mobile subscriber base grew 2% in 2018 as a result of strong postpaid customer base growth.

Telenor CEE's revenue grew by 3.7%, driven by strong growth in Bulgaria (+8.7% in 2018) and Hungary (+4%), offsetting a decline of 1% in Telenor Serbia and Montenegro driven by aggressive competition and declining ARPU. Growth in Hungary and Bulgaria is mainly driven by ARPU growth supported by subscriber migration to postpaid from prepaid as well as the increasing data consumption, which is driving customer upselling. Management expects good performance in all four markets as a result of positive macroeconomic trends, relatively moderate competition in these countries with stable market shares and ARPU increases driven by growing demand for data and multiplay services.

CETIN's revenue, excluding international transit, was flat in 2018 as a result of declines in O2's xDSL lines. However, we expect CETIN's mobile revenue to grow as a result of network upgrades. The telecommunications market in the Czech Republic has stabilised and we expect its fixed revenue to return to growth, given the signs of stabilisation in O2's churn and xDSL line growth from new customers because of CETIN's past investments in the network.

The company's pro forma organic EBITDA was up by 6.8% in 2018, driven by double-digit EBITDA growth in Slovakia, Hungary and Bulgaria, offsetting higher operating expenses at CETIN driven by inflation, the insourcing of certain activities and broadly flat EBITDA in Serbia and Montenegro. We expect the company's EBITDA growth of around 3%-4% in the next two years to be driven by revenue growth, operational efficiencies resulting from digitalisation initiatives and the realization of synergies stemming from the acquisition of Telenor CEE assets.

Solid, diversified operating cash flow generation, while free cash flow is constrained by sustained capital spending investments and high dividend payments

In the Czech Republic, CETIN is the only Czech operator with a copper network, covering around 85% of households. Despite the rollout of fibre, this network will remain crucial for the last meters of access. In the mobile segment, the company's mobile coverage extends to 99.6% of the Czech population, through a network-sharing agreement with T-Mobile. The company also operates its own mobile network in the CEE region with 100% 4G coverage in Hungary (through a network-sharing agreement with T-Mobile), 97% in Bulgaria, 96% in Serbia and 98% in Montenegro in 2018.

We expect the group's capital spending/sales (excluding spectrum) to remain at around 12%-13%. A larger part of the investment will be executed by CETIN, which will invest around CZK24 billion from 2017 to 2022. However, we believe that 50%-60% of this investment is highly discretionary. We expect both Telenor's and O2's investments in the network to be around 10%-11% of sales.

We expect the company's Moody's-adjusted FCF (after dividends as per our definition) to be negative in 2019 as a result of higher dividend payments resulting from a portion of FY2018 cash flow distribution being delayed to 2019. From 2020 onwards, we expect Moody's-adjusted FCF/debt to be at around 0%-1%, driven by EBITDA growth and offset by high dividend payments. The company will face spectrum payments in the next two years in all the markets in which it operates. Additionally, in 2018, the group renewed its rights to use the O2 brand until January 2022 (with the option to extend for another five years) for CZK781 million. The group also holds rights to use the Telenor brand until April 2021. We note that failure to renew brand license for any of these brands could result in a negative impact on the company's operating performance.

Prudent financial policy, although with limited deleveraging prospects

We expect the company's Moody's-adjusted group leverage to peak at around 3.4x in the next 12-18 months, which is equivalent to reported net debt of around 3.2x. The company targets to maintain reported net consolidated leverage between 2.8x and 3.2x, while net leverage at the operating subsidiaries is limited to a maximum of 1.5x. We estimate that the group will distribute most of the free cash flow that it will generate such that it maintains leverage within the stated leverage range.

In addition, PPF Arena 1 does not fully own O2 Czech Republic (67.69% voting rights ownership) or CETIN (89.73%) but fully consolidates these assets. We estimate that leverage on a pro rata consolidated basis is approximately 0.3x higher, at 3.7x.

We do not expect significant M&A transactions in the next two years. However, in case of a temporary breach of financial policy, the company commits to bringing back its net consolidated leverage to 3.2x within 12-18 months following the acquisition.

Additionally, the company may consider small, bolt-on acquisitions from time to time. PPF Arena 1's rating reflects our expectation that small acquisitions will not have a significant impact on its leverage.

Broadly diversified owner with exposure to different geographies and sectors, but non-telecom activities have weaker credit quality than PPF Arena 1

PPF Arena 1 is indirectly owned by PPF Group NV, a conglomerate with activities mainly in telecommunications, banking and financial services with significant exposure to China and Russia (supervised by the European banking regulation) and real estate. These other activities outside PPF Arena 1 are considered by Moody's to be of lower credit quality and therefore subject of marginal risk of needing financial support in the future. However, PPF Arena 1 being the strongest cash contributor to PPF Group NV, has clearly defined and publicly communicated its financial policy (including dividend distributions within leverage objectives), which we believe will be a key determinant to the future cash flow distribution within the broader group.

Exhibit 7

Telecommunications represents almost 50% of PPF Group NV's cash generation

Select fiscal 2017 financials for PPF Group NV

PPF Group NV (EUR million, 2017)				
	Financial Segment	Telecommunications	Real Estate	Insurance
Total Revenues	4,449	1,822	144	68
Assets	30,224	4,283	1,787	175
Liabilities	27,469	4,283	1,411	131
Net profit + D&A - Capex	228	289	71	5
Equity	2,772	2,159	448	44
% Revenues	68.4%	28.0%	2.2%	1.0%
% Assets	76.9%	10.9%	4.5%	0.4%
% Liabilities	79.5%	12.4%	4.1%	0.4%
% Net profit + D&A - Capex	38.8%	49.1%	12.1%	0.9%

Source: Company reports

We also note the presence of liabilities related to the telecoms operations outside of the PPF Arena 1 group, but are considered to be relatively small in size. These liabilities mainly relate to the deferred purchase price for the Telenor CEE acquisition which amounts to €400 million.

Liquidity analysis

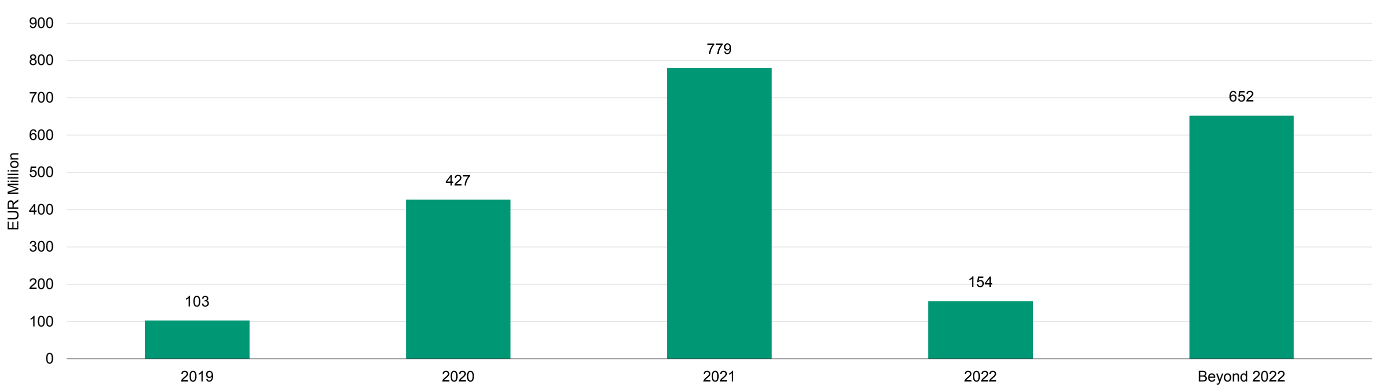
PPF Arena 1's liquidity is adequate and benefits from (1) cash and cash equivalents of €435 million (including €173 million Czech treasury bills) as of December 2018; (2) full availability under its €200 million revolving credit facility, maturing in 2023, with ample capacity under the covenants as of December 2018; (3) a CZK5 billion RCF at O2 CR; and (4) internally generated cash flow (defined as EBITDA net of cash interest, tax obligations and dividends received) of around €1 billion per year.

These internal sources compare favourably with cash requirements consisting of (1) annual capital spending of around €500 million per year; (2) cash dividends of around €400-€450 million per year; and (3) €530 million in debt (including scheduled amortization) maturing over the next two years as of December 2018.

Exhibit 8

PPF Arena 1's maturities are covered through 2020

PPF Arena 1's debt maturity profile (€ million)



Source: Company reports

Structural considerations

The group has a complex structure, with around 70% of debt raised at PPF Arena 1 level, and the balance sitting at CETIN (20%) and O2 Czech Republic (10%). Debt at the holdco level consists of a €3.0 billion senior syndicated facility, including a €2.8 billion term loan and a €200 million RCF. In addition, PPF Arena 1 is in the process of issuing a benchmark size senior secured bond to partially refinance the term loan. Since the operating companies do not guarantee the debt at PPF Arena 1 level, this creates structural subordination.

Financial debt at the operating subsidiaries includes around €625 million and CZK4.8 billion of bonds issued by CETIN and around CKZ10.5 billion in bank and Schuldschein debt at the O2 level as of December 2018. The rating reflects our expectation that PPF Arena will maintain in its current structure, with holdco debt representing around 70% of total group consolidated debt.

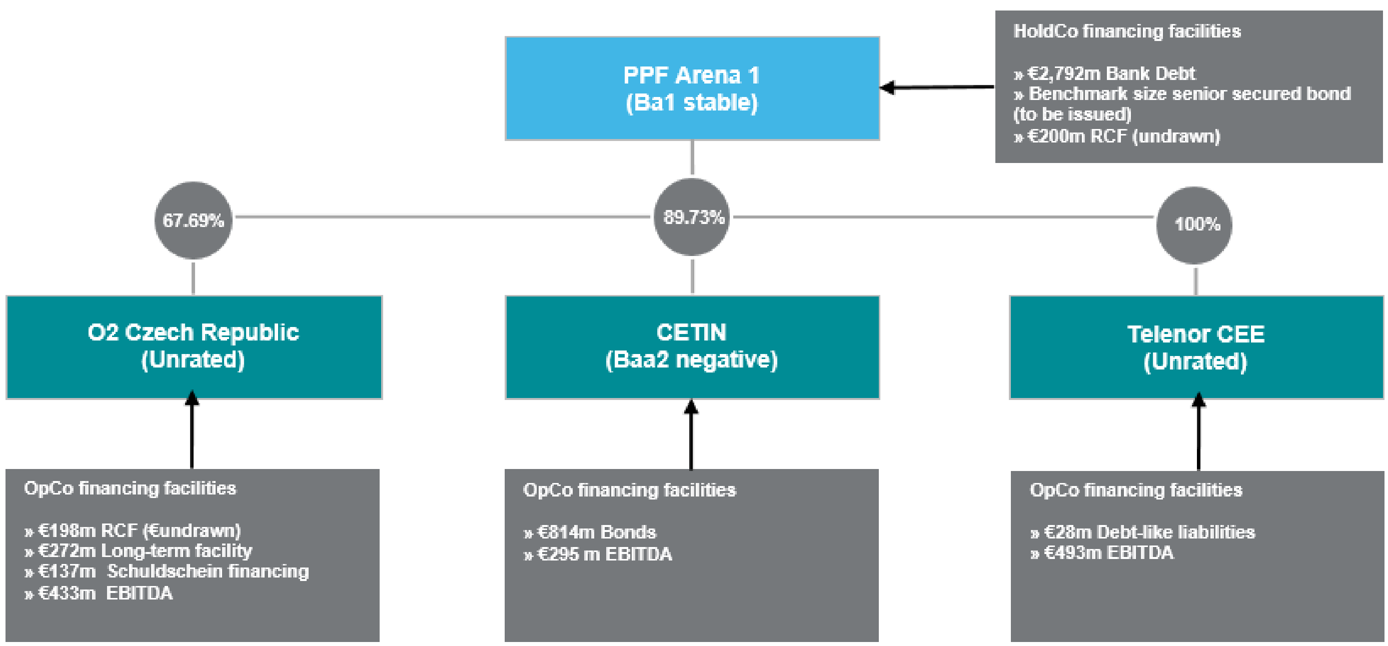
Regarding the Loss Given Default (LGD) assessment for PPF Arena 1 B.V., we assume a family recovery rate of 50% as is customary for capital structures that include bank loans and bonds. As a result, the Probability of Default Rating (PDR) of Ba1-PD is in line with the CFR.

The LGD assessment only includes financial liabilities at PPF Arena 1 level and excludes debt at the operating entities. However, we have considered the rating of the operating entity (CETIN, Baa2 negative) relative to the holding company (PPF Arena 1, Ba1 stable). The two-notch gap reflects the structurally subordinated position of PPF Arena 1's bondholders.

Exhibit 9

Presence of substantial debt at the operating subsidiaries creates structural subordination

PPF Arena 1 group structure as of December 2018



Source: Company information

Rating methodology and scorecard factors

The methodology grid outcome for PPF Arena 1, based on our 12-18 months forward-looking view, is Ba1, which is in line with the assigned rating.

Exhibit 10

PPF Arena 1 B.V.

Rating Factors

Methodology: Telecommunications Service Providers	Current FY 2018		Moody's Forward View Next 12-18 months (as of Mar-19)	
Factor 1: SCALE (12%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.80	B	$3.4-$3.6	B
Factor 2: BUSINESS PROFILE (28%)				
a) Business Model, Competitive Environment and Technical Positioning	A	A	A	A
b) Regulatory Environment	Ba	Ba	Ba	Ba
c) Market Share	Baa	Baa	Baa	Baa
Factor 3: PROFITABILITY AND EFFICIENCY (10%)				
a) Revenue Trend and Margin Sustainability	Baa	Baa	Baa	Baa
Factor 4: LEVERAGE AND COVERAGE (35%)				
a) Debt / EBITDA	4.4x	B	3.4x	Ba
b) RCF / Debt	15.7%	B	9%-13%	B
c) (EBITDA - CAPEX) / Interest Expense	6.5x	Aa	6x-6.3x	A
Factor 5: FINANCIAL POLICY (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating Outcome:				
a) Indicated Rating from Grid		Ba1		Ba1
b) Actual Rating Assigned				Ba1

Audited FY2018 figures include Telenor Central and Eastern European assets since August 2018

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

Appendix

Exhibit 11
Peer Comparison

	PPF Arena 1 B.V. Ba1 Stable			Telekom Austria AG Baa1 Stable			Telecom Italia S.p.A. Ba1 Stable			Cyfrowy Polsat S.A. Ba2 Positive			Koninklijke KPN N.V. Baa3 Stable		
(in USD millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	LTM Sep-18	FYE Dec-16	FYE Dec-17	LTM Sep-18	FYE Dec-15	FYE Dec-16	FYE Dec-17
Revenues	$1,930	$2,063	$2,852	$4,564	$4,836	$5,129	$21,050	$22,403	$22,917	$2,468	$2,610	$2,879	$7,779	$7,525	$7,341
EBITDA	$806	$858	$1,171	$1,683	$1,748	$1,826	$10,842	$11,103	$10,225	$1,017	$1,074	$1,131	$2,933	$2,977	$2,877
Total Debt	$1,832	$2,191	$5,009	$4,058	$4,145	$3,914	$40,571	$45,519	$44,157	$3,545	$4,046	$3,832	$11,278	$10,213	$10,386
Cash & Cash Equivalents	$177	$219	$300	$490	$243	$73	$5,783	$5,485	$4,185	$318	$334	$312	$2,135	$1,391	$1,423
EBITDA Margin	41.7%	41.6%	41.1%	36.9%	36.1%	35.6%	51.5%	49.6%	44.6%	41.2%	41.2%	39.3%	37.7%	39.6%	39.2%
(EBITDA-CAPEX) / Interest Exper	12.1x	12.0x	6.5x	3.2x	5.6x	5.7x	2.5x	2.6x	4.7x	5.2x	5.6x	5.9x	2.1x	2.8x	3.2x
Debt / EBITDA	2.4x	2.4x	4.4x	2.5x	2.2x	2.2x	3.9x	3.9x	4.4x	3.7x	3.5x	3.5x	3.9x	3.6x	3.4x
FCF / Debt	10.0%	1.0%	4.5%	3.8%	5.9%	6.1%	2.2%	-0.5%	4.0%	12.4%	12.2%	12.0%	3.8%	1.8%	3.0%
RCF / Debt	30.0%	22.2%	15.7%	30.9%	32.3%	34.1%	18.0%	18.1%	17.2%	23.0%	22.0%	22.9%	18.8%	16.1%	19.6%

FYE = Financial year-end. LTM = Last 12 months. All figures and ratios calculated using Moody's estimates and standard adjustments
Source: Moody's Financial Metrics™

Exhibit 12
PPF Arena 1 Moody's adjusted debt breakdown

(in EUR Millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported Debt	**1,541**	**1,618**	**3,986**
Operating Leases	196	207	396
Moody's-Adjusted Debt	**1,737**	**1,825**	**4,382**

FYE = Financial year-end. All figures and ratios calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 13
PPF Arena 1 Moody's adjusted EBITDA breakdown

(in EUR Millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported EBITDA	**666**	**704**	**860**
Operating Leases	60	57	132
Unusual	2	-2	0
Moody's-Adjusted EBITDA	**728**	**759**	**992**

FYE = Financial year-end. All figures and ratios calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Ratings

Exhibit 14

Category	Moody's Rating
PPF ARENA 1 B.V.	
Outlook	Stable
Corporate Family Rating	Ba1
Bkd Senior Secured (Domestic)	Ba1
CESKA TELEKOMUNIKACNI INFRASTRUKTURA A.S.	
Outlook	Negative
Issuer Rating	Baa2
CETIN FINANCE B.V.	
Outlook	Negative
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

Endnotes

1 Free cash flow before dividends as defined by the company

REPORT NUMBER 1161187