

PPF Arena 1 BV

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB-	Stable	New Rating 14 March 2019
Click here for full list of ratings			

Financial Summary

(EURm)	Dec 2016	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F
Gross Revenue	1,744	1,826	2,415	3,194	3,240	3,290
Operating EBITDA Margin (%)	35.9	38.0	38.6	39.4	40.0	40.3
Pre-Dividend Free Cash Flow Margin (%)	10.0	10.9	13.7	8.8	8.1	8.1
Free Cash Flow Margin (%)	10.0	1.0	8.2	-9.9	-2.6	-2.1
FFO Fixed-Charge Coverage (x)	6.6	8.3	5.3	5.1	5.1	5.0
FFO Adjusted Net Leverage (x)	3.3	3.0	5.2	4.1	4.0	4.0
Source: Fitch Ratings, Fitch Solutions						

Fitch Ratings has assigned PPF Arena 1 BV a Long-Term Issuer Default Rating (IDR) and senior unsecured rating of 'BBB-'. The Outlook on the IDR is Stable.

The rating of PPF Arena 1 reflects the strong position of its incumbent telecoms assets in the Czech Republic and its leading mobile position in three central and eastern European (CEE) markets. Funds from operations (FFO)-adjusted net leverage is likely to temporarily exceed our negative sensitivity of 4.0x for the rating in 2019 before declining to this level within the next 12-18 months. This leaves limited headroom within the rating to absorb unforeseen financial and operational pressures.

PPF Arena 1, however, retains significant financial flexibility to manage its leverage profile as a result of dividend flexibility. This flexibility, together with the management's willingness to adjust dividends if needed to sustain the company's leverage profile, has been essential to the company's investment-grade rating.

Key Rating Drivers

Strong Czech Operations: PPF Arena 1 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 accounted for 51% of total EBITDA in 2018 on a pro-forma basis for the acquisition of Telenor's CEE assets. PPF Arena 1 has a solid position in the mobile market with a Fitch-estimated service revenue market share of 37% (1H18). The mobile market is growing, supported by increasing consumer spending and macroeconomic factors. Combined with a stable mobile market structure, this enables mobile operators to monetise data usage and increase service revenue.

Broadband Market More Competitive: PPF Arena 1's retail broadband revenue market share in the Czech Republic is lower than its mobile market share at a Fitch-estimated 31% (1H18) but broadly stable. This reflects a more competitive market structure as a result of alternative WiFi, and cable/fibre local access network infrastructures. Investment plans to increase the depth and breadth of its fibre network to the kerb should support the company's market position.

Structural Separation, Increased Focus: PPF Arena 1 separated its fixed and mobile network infrastructure and retail operations into two companies in the country. Ceska telekomunikacni infrastruktura a.s. (CETIN, 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 Arena 1 acquired Telenor's mobile assets in Hungary, Bulgaria, Serbia and Montenegro in mid-2018 for an enterprise value (EV) of EUR2.8 billion, adding to existing international mobile operations in Slovakia. The acquired 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. While a lack of fixed network ownership may create disadvantages compared with a convergent network strategy, we see the risks as manageable through partnerships and mobile network infrastructure-sharing.

Limited Headroom but Proactively Managed: We expect PPF Arena 1's FFO adjusted net leverage to increase to 4.1x at end-2019 from 4.0x on a pro-forma basis in 2018. The increase, following the acquisition of Telenor's CEE assets last year, will temporarily breach our downgrade sensitivity of 4.0x and is primarily driven by a higher rate of dividend payments in 2019 and potential spectrum costs in the Czech Republic. We expect that leverage will fall back to 4.0x in the subsequent years as a result of FFO growth and lower dividend payments. This leaves limited headroom in the rating for managing operational pressures in the short term and exploiting new investment opportunities.

Retained Financial Flexibility: PPF Arena 1 manages its leverage profile through a flexible dividend policy, while its financial policy is to manage leverage, based on its definition of net debt-to-EBITDA, at 2.8x-3.2x. This corresponds to 3.8x-4.2x on a FFO adjusted net leverage basis. PPF Arena 1 has pre-dividend free cash flow (FCF) margin around 8%-9%. 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. The company'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.

Potential FX Risks to Leverage: At end-2018, PPF Arena 1 had about 76% of its total group debt denominated in euros and 24% of its EBITDA (assuming the peg between the euro and Bulgarian lev is maintained) denominated in euros. This creates FX mismatch to leverage. PPF Arena 1 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 loan. However, a lack of visibility on medium- to long-term FX fluctuations raises risks to leverage.

Consolidated Rating, No Subordination: PPF Arena 1'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 Arena 1 on behalf of its operating subsidiaries in the Czech Republic. 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 that is sizeably below Fitch's threshold of 2.0x EBITDA.

Standalone Rating Profile: We rate PPF Arena 1 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 Arena 1 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.

Rating Derivation Relative to Peers

Rating Derivation v.s. Peers	
Peer Comparison	<p>The operating and financial profiles of PPF Arena 1 benchmark well with its peer group of incumbent European operators, such as Royal KPN N.V. (BBB/Stable) and BT Group plc (BBB/Stable). PPF Arena 1's lower rating reflects a financial policy that is likely to sustain leverage at higher levels. PPF Arena 1's operating profile is rated stronger than predominantly mobile-only operators, such as Sunrise Communications Holdings S.A. (BB+/RWN) and P4 S.p.z o.o (BB/Stable) and benefits from greater leverage capacity.</p> <p>The benefits of PPF Arena 1's geographic diversification are tempered by lower post-dividend FCF; the complexity of group structure, some FX mismatch to leverage, and three local-access network infrastructures for broadband in the Czech Republic 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 and/or manage leverage at lower levels.</p>
Parent/Subsidiary Linkage	A standalone, consolidated rating profile with no structural subordination assumed.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	No operating environment influence was in effect for these ratings.
Other Factors	No other factors were in effect for these ratings.
Source: Fitch Ratings	

Navigator Peer Comparison

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		
PPF Arena 1 BV	BBB-/Sta	a+	bbb-	bbb+	bbb	bbb+	bbb	bbb+	bb+	bbb		
Deutsche Telekom AG	BBB+/Sta	aa	a-	a-	a	a	bbb	bbb+	bbb-	bbb+		
Vodafone Group Plc	BBB+/Sta	aa-	a-	bbb+	bbb+	a	bbb	bbb	bbb	bbb+		
Royal KPN N.V.	BBB/Sta	aa	a-	bbb+	bbb	a	bbb	bbb+	bbb	a-		
BT Group plc	BBB/Sta	aa	a	bbb+	bbb	a-	bbb	bbb+	bbb-	a-		
Ceska telekomunikacni infrastruktura a.s. (CETIN)	BBB/Sta	a+	bbb	bbb+	bbb-	bbb+	bbb	a	bb+	bbb+		
NOS, S.G.P.S., S.A.	BBB/Sta	bbb+	bbb	bbb	bbb-	a	bbb	bbb+	bbb	a-		
Telefonica SA	BBB/Sta	aa-	a	a-	a	a	bbb	bbb	bbb-	bbb		
Sunrise Communications Holdings S.A.	BB+/RWN	aa-	bbb+	bb+	bb+	bbb	bbb	bbb	bbb-	a-		
P4 Sp. z o.o.	BB/Sta	a-	bbb+	bb	bb	bb+	bbb	bb+	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		
PPF Arena 1 BV	BBB-/Sta	5.0	0.0	2.0	1.0	2.0	1.0	2.0	-1.0	1.0		
Deutsche Telekom AG	BBB+/Sta	5.0	1.0	1.0	2.0	2.0	-1.0	0.0	-2.0	0.0		
Vodafone Group Plc	BBB+/Sta	4.0	1.0	0.0	0.0	2.0	-1.0	-1.0	-1.0	0.0		
Royal KPN N.V.	BBB/Sta	6.0	2.0	1.0	0.0	3.0	0.0	1.0	0.0	2.0		
BT Group plc	BBB/Sta	6.0	3.0	1.0	0.0	2.0	0.0	1.0	-1.0	2.0		
Ceska telekomunikacni infrastruktura a.s. (CETIN)	BBB/Sta	4.0	0.0	1.0	-1.0	1.0	0.0	3.0	-2.0	1.0		
NOS, S.G.P.S., S.A.	BBB/Sta	1.0	0.0	0.0	-1.0	3.0	0.0	1.0	0.0	2.0		
Telefonica SA	BBB/Sta	5.0	3.0	2.0	3.0	3.0	0.0	0.0	-1.0	0.0		
Sunrise Communications Holdings S.A.	BB+/RWN	7.0	3.0	0.0	0.0	2.0	2.0	2.0	1.0	4.0		
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		

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 Arena 1'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 Arena 1 is refinancing part of its term loan facilities in 2019 with a bond. Prior to this refinancing, PPF Arena 1 had cash and cash equivalents of EUR441 million and an undrawn five-year revolving credit facility of EUR200 million at end-2018. These comfortably cover short-term debt amortisation costs of EUR103 million in 2019. PPF Arena 1 has no other debt maturities in 2019 and pre-dividend FCF provides a further source of liquidity if needed.

Debt Maturities and Liquidity at FYE18

	Original
(EURm)	31 December 2018
Beginning Cash Balance	262
Czech Treasury Bills	173
Cash Collateral	6
Less: Not Readily Available Cash and Cash Equivalents	-6
Fitch-Defined Readily Available Cash and Cash Equivalents*	435
Available under Committed Lines of Credit	200
Total Liquidity	635
LTM EBITDA after Associates and Minorities	857
LTM Free Cash Flow	197
Source: Fitch Ratings, Fitch Solutions, PPF Arena 1	

Scheduled Debt Maturities	Original
Statement Date	31 December 2018
2019	103
2020	426
2021	779
2022	154
2023	652
Thereafter	1,764
Total	3,878
* EUR6m cash collateral is treated as not readily available cash for liquidity analysis, but treated as available cash in financial ratio calculations.	
Source: Fitch Ratings, Fitch Solutions, PPF Arena 1	

Key Assumptions

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

- Revenue of around EUR3.2 billion in 2019, growing at 1%-2% a year over the next three years.
- EBITDA margin just over 39% in 2019, gradually increasing to 40.5% over the next three years.
- Cash tax of EUR126 million in 2019 with a broadly stable effective tax rate over the next three years.
- Capex-to-revenue ratio (excluding spectrum costs) of 13% in 2019, increasing to 14% over the next three years.
- Dividend payment of EUR595 million in 2019, reducing to between EUR335 million and EUR390 million in the following three years. The higher dividend in 2019 is the result of the distribution of cash flow generated in 2018 but delayed to 2019.
- Net debt-to-EBITDA maintained at around 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 Czech Republic and Slovakia and 7x for liabilities in Bulgaria, Hungary, and Serbia and Montenegro.

Financial Data

(EURm)	Historical			Forecast		
	Dec 2016	Dec 2017	Dec 2018*	Dec 2019F	Dec 2020F	Dec 2021F
Summary Income Statement						
Gross Revenue	1,744	1,826	2,415	3,194	3,240	3,290
Revenue Growth (%)	0	4.7	32.3	32.0	1.0	2.0
Operating EBITDA (Before Income from Associates)	656	693	932	1,260	1,296	1,326
Operating EBITDA Margin (%)	37.6	38.0	38.6	39.4	40.0	40.3
Operating EBITDAR	716	750	1,037	1,364	1,401	1,432
Operating EBITDAR Margin (%)	41.1	41.1	42.9	42.7	43.2	43.5
Operating EBIT	318	352	435	614	630	644
Operating EBIT Margin (%)	18.2	19.3	18.0	19.2	19.5	19.6
Gross Interest Expense	-22	-23	-65	-117	-123	-131
Pretax Income (Including Associate Income/Loss)	270	337	318	497	507	513
Summary Balance Sheet						
Readily Available Cash and Equivalents	199	207	441	328	338	313
Total Debt with Equity Credit	1,542	1,629	3,986	4,218	4,312	4,357
Total Adjusted Debt with Equity Credit	1,996	2,060	4,781	5,008	5,106	5,155
Net Debt	1,343	1,422	3,545	3,890	3,974	4,044
Summary Cash Flow Statement						
Operating EBITDA	656	693	932	1,260	1,296	1,326
Cash Interest Paid	-23	-18	-53	-117	-123	-131
Cash Tax	-87	-76	-100	-126	-129	-132
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	-62	-55	-75	-91	-91	-91
Other Items Before FFO	10	2	-22	-5	-5	-5
Funds Flow from Operations	465	546	687	921	948	967
FFO Margin (%)	26.7	29.9	28.5	28.9	29.3	29.4
Change in Working Capital	3	-25	-19	-48	-63	-78
Cash Flow from Operations (Fitch Defined)	468	521	668	874	884	889
Total Non-Operating/Non-Recurring Cash Flow	0	0	-27			
Capital Expenditure	-294	-322	-309			
Capital Intensity (Capex/Revenue) (%)	16.9	17.6	12.8			
Common Dividends	0	-181	-135			
Free Cash Flow	174	18	197			
Net Acquisitions and Divestitures	5	29	-2,659			
Other Investing and Financing Cash Flow Items	-397	30	156	18	0	0
Net Debt Proceeds	-7	22	2,337	195	94	45
Net Equity Proceeds	302	-91	203	-12	0	0
Total Change in Cash	77	8	234	-113	11	-25

Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-289	-474	-3,103	-1,188	-968	-959
Free Cash Flow After Acquisitions and Divestitures	179	47	-2,462	-314	-84	-70
Free Cash Flow Margin (After Net Acquisitions) (%)	10.3	2.6	-102.0	-9.9	-2.6	-2.1
Coverage Ratios						
FFO Interest Coverage (x)	21.2	31.3	13.9	8.6	8.4	8.1
FFO Fixed-Charge Coverage (x)	6.6	8.3	5.3	5.1	5.1	5.0
Operating EBITDAR/Interest Paid + Rents (x)	7.9	9.3	6.1	5.8	5.8	5.7
Operating EBITDA/Interest Paid (x)	25.8	35.4	16.2	10.0	9.8	9.4
Leverage Ratios						
Total Adjusted Debt/Operating EBITDAR (x)	3.1	3.0	5.0	3.9	3.9	3.9
Total Adjusted Net Debt/Operating EBITDAR (x)	2.8	2.7	4.5	3.7	3.6	3.6
Total Debt with Equity Credit/Operating EBITDA (x)	2.6	2.6	4.7	3.6	3.6	3.5
FFO Adjusted Leverage (x)	3.7	3.3	5.7	4.4	4.3	4.3
FFO Adjusted Net Leverage (x)	3.3	3.0	5.2	4.1	4.0	4.0
*2018 ratios are not "pro forma" but reported, where P&L and cash flow for Telenor CEE is only for five months from August 2018						
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

FitchRatings

PPF Arena 1 BV

ESG Relevance:

Corporates Ratings Navigator
Telecommunications

Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Competitive Position	Business Profile Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Profile Financial Structure	Financial Flexibility	Issuer Default Rating
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+											A+
a											A
a-											A-
bbb+											BBB+
bbb											BBB
bbb-											BBB-
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	Owns almost all of its infrastructure.
a-	Network and Service Quality	bbb	Solid network 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
bbb-			

Credit-Relevant ESG Derivation

				Overall ESG	
PPF Arena 1 BV has 8 ESG potential rating drivers					
key driver	0	issues	5		
driver	0	issues	4		
potential driver	8	issues	3		
not a rating driver	1	issues	2		
	5	issues	1		

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

Credit-Relevant ESG Derivation

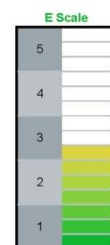
PPF Arena 1 BV has 8 ESG potential rating drivers

- PPF Arena 1 BV has exposure to energy productivity risk but this has very low impact on the rating.
- PPF Arena 1 BV has exposure to extreme weather events but this has very low impact on the rating.
- PPF Arena 1 BV has exposure to customer accountability risk but this has very low impact on the rating.
- PPF Arena 1 BV 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



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.

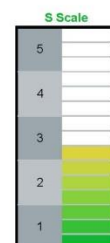
The **Environmental (E), Social (S) and Governance (G)** tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned 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 [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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



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



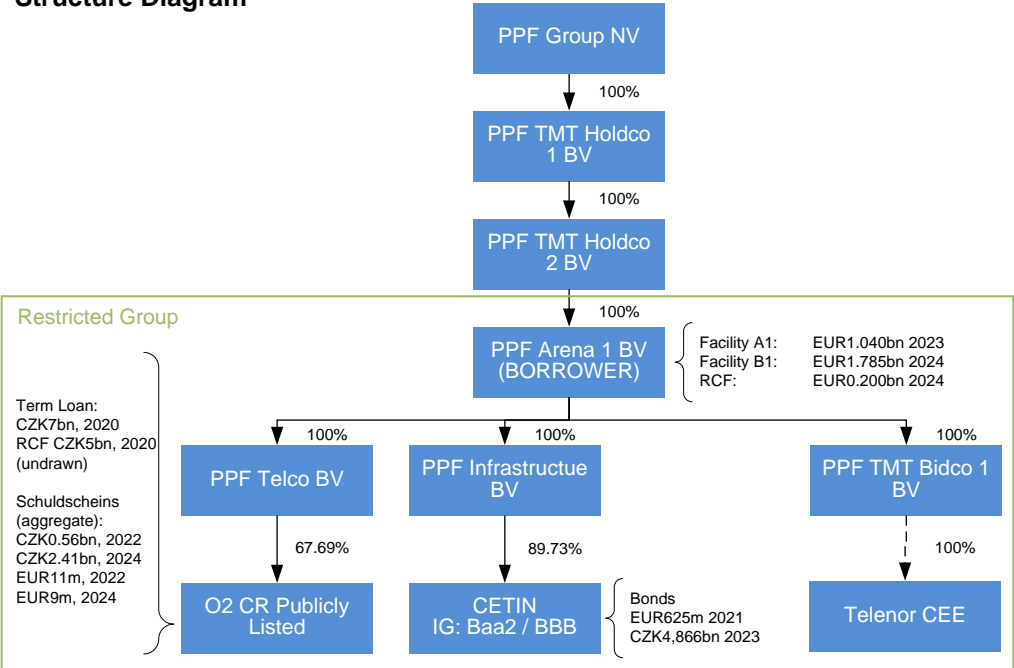
CREDIT-RELEVANT ESG SCALE

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 within 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 within 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 "lower" relative importance within 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

Structure Diagram



Source: Fitch Ratings, FitchSolutions, PPF Arena 1 BV

Peer Financial Summary

Company	IDR	Financial Statement Date	Gross Revenue (EURm)	Operating EBITDA Margin (%)	Free Cash Flow Margin (%)	FFO Fixed-Charge Coverage (x)	FFO Adjusted Net Leverage (x)
PPF Arena 1 BV	BBB-						
		2018*	2,415	38.6	8.2	5.3	5.2
		2017	1,826	38.0	1.0	8.3	3.0
		2016	1,744	37.6	10.0	6.6	3.3
Orange S.A.	BBB+						
	BBB+	2017	41,096	31.3	0.5	4.4	2.9
	BBB+	2016	40,918	31.0	-4.0	4.1	3.1
	BBB+	2015	40,236	30.9	2.1	3.8	3.3
Vodafone Group Plc	BBB+						
	BBB+	2018	46,571	31.6	3.1	4.7	3.2
	BBB+	2017	47,631	29.7	0.6	4.4	3.3
	BBB+	2016	55,919	28.3	-12.8	3.9	3.2
Royal KPN N.V.	BBB						
	BBB	2017	6,498	35.5	3.5	4.4	2.9
	BBB	2016	6,806	35.7	2.1	3.8	3.0
	BBB-	2015	7,008	33.2	5.0	3.6	3.1
P4 Sp. z o.o.	BB						
	BB-	2017	1,573	34.5	1.2	5.0	3.3
	B+	2016	1,403	33.3	-14.1	7.0	2.7
	B+	2015	1,299	32.9	15.8	6.7	2.3
Sunrise Communications Holdings S.A.	BB+						
	BB+	2017	1,666	31.9	3.7	4.5	3.2
	BB+	2016	1,740	31.6	-0.9	4.4	3.8
	BB+	2015	1,850	31.2	0.6	2.4	3.8
Deutsche Telekom AG	BBB+						
	BBB+	2017	74,159	27.8	-6.7	3.3	3.3
	BBB+	2016	71,856	25.3	-2.4	3.2	3.6
	BBB+	2015	69,024	25.3	-2.7	3.3	3.4
BT Group plc	BBB						
	BBB+	2018	26,910	31.6	-2.1	4.7	2.5
	BBB+	2017	28,641	31.7	4.0	5.3	2.1
	BBB+	2016	25,766	34.2	5.9	5.5	2.4
*2018 ratios are as reported and only include approximately five months trading of Telenor CEE. Source: Fitch Ratings, Fitch Solutions							

Reconciliation of Key Financial Metrics

(EUR Millions, As reported)	Reported 31 Dec 2018
Income Statement Summary	
Operating EBITDA	932
+ Recurring Dividends Paid to Non-controlling Interest	-75
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	857
+ Operating Lease Expense Treated as Capitalised (h)	105
= Operating EBITDAR after Associates and Minorities (j)	962
Debt & Cash Summary	
Total Debt with Equity Credit (l)	3,986
+ Lease-Equivalent Debt	795
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	4,781
Readily Available Cash [Fitch-Defined]	441
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	441
Total Adjusted Net Debt (b)	4,340
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	0
Interest Received	5
+ Interest (Paid) (d)	-53
= Net Finance Charge (e)	-48
Funds From Operations [FFO] (c)	687
+ Change in Working Capital [Fitch-Defined]	-19
= Cash Flow from Operations [CFO] (n)	668
Capital Expenditures (m)	-309
Multiple applied to Capitalised Leases	7.6
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	5.0
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	5.7
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	4.7
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	4.5
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	5.2
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	9.9
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	6.1
Op. EBITDA / Interest Paid* [x] (k/(-d))	16.2
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	5.3
<i>(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	13.9
<i>(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>	
* EBITDAR after Dividends to Associates and Minorities	
Source: Fitch Ratings, Fitch Solutions, PPF Arena 1	

Fitch Adjustment Reconciliation

(EUR Millions, As reported)	Reported Values 31 Dec 2018	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Leases Adjustments	Readily Available Cash Adjustments	Adjusted Values
Income Statement Summary						
Revenue	2,415	0				2,415
Operating EBITDAR	1,037	0				1,037
Operating EBITDAR after Associates and Minorities	1,037	-75	-75			962
Operating Lease Expense	105	0				105
Operating EBITDA	932	0				932
Operating EBITDA after Associates and Minorities	932	-75	-75			857
Operating EBIT	435	0				435
Debt & Cash Summary						
Total Debt With Equity Credit	3,986	0				3,986
Total Adjusted Debt With Equity Credit	3,986	795		795		4,781
Lease-Equivalent Debt	0	795		795		795
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	262	179			179	441
Not Readily Available Cash & Equivalents	0	0				0
Cash-Flow Summary						
Preferred Dividends (Paid)	0	0				0
Interest Received	5	0				5
Interest (Paid)	-53	0				-53
Funds From Operations [FFO]	762	-75	-75			687
Change in Working Capital [Fitch-Defined]	-19	0				-19
Cash Flow from Operations [CFO]	743	-75	-75			668
Non-Operating/Non-Recurring Cash Flow	-27	0				-27
Capital (Expenditures)	-309	0				-309
Common Dividends (Paid)	-135	0				-135
Free Cash Flow [FCF]	272	-75	-75			197
Gross Leverage						
Total Adjusted Debt / Op. EBITDAR* [x]	3.8					5.0
FFO Adjusted Leverage [x]	4.4					5.7
Total Debt With Equity Credit / Op. EBITDA* [x]	4.3					4.7
Net Leverage						
Total Adjusted Net Debt / Op. EBITDAR* [x]	3.6					4.5
FFO Adjusted Net Leverage [x]	4.1					5.2
Total Net Debt / (CFO - Capex) [x]	8.6					9.9
Coverage						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	6.6					6.1
Op. EBITDA / Interest Paid* [x]	17.6					16.2
FFO Fixed Charge Coverage [x]	5.8					5.3
FFO Interest Coverage [x]	15.3					13.9
*EBITDA/R after Dividends to Associates and Minorities						
Source: Fitch Ratings, Fitch Solutions, PPF Arena 1						

(EUR Millions)			Reported 31 Dec 2018
Debt & Cash Summary			
Due to banks	as reported		3,174
Debt Securities Issued	as reported		812
Total debt with equity credit			3,986
Total off-balance sheet debt	(h x 7.57)		795
Total lease-adjusted debt			4,781
Cash and cash equivalents	as reported		262
plus: Cash collateral for derivative instruments	as reported		6
plus: Czech Treasury Bills	as reported		173
Readily Available Cash	Fitch defined		441
Net debt with equity credit	(a)		3,545
Net lease-adjusted debt	(b)		4,340
Cash Flow Summary			
Revenue	as reported		2,415
EBITDA	as reported		940
Impairment loss	as reported		-8
EBITDA	Fitch defined	(c)	932
Interest paid	as reported	(d)	-53
Interest received	as reported	(e)	5
Income tax paid	as reported		(100)
Dividends paid to NCI	as reported	(f)	(75)
Other items before FFO	Fitch assumption		(22)
Funds flow from operations (FFO)	As below	(g)	687
Net cash from operating activities	as reported		764
Dividends paid to NCI	as reported		(75)
Interest paid	as reported		(53)
Interest received	as reported		5
Non-Operating/Non-Recurring Cash Flow	Fitch assumption*		27
Cash flow from operations (Fitch)	Calculated	(h)	668
Change in working capital	Fitch definition		19
Funds flow from operations (FFO)	Calculated		687
Long-term (LT) lease expense			
	reported	(i)	105
CAPEX			
	reported	(j)	309
FFO Interest Coverage (x)			
(FFO + net interest paid) / gross interest paid	Calculated	(g - d - e) / (-d)	13.9
FFO fixed charge cover (x)			
(FFO + net interest paid + LT leases) / (gross interest paid + LT leases)	Calculated	(g - d - e + i) / (-d + i)	5.3
Net debt / EBITDA (x)			
Net debt with equity credit / EBITDA after dividends paid to NCI	Calculated	a / (c + f)	4.1
FFO adjusted net leverage (x)			
Net lease-adjusted debt / (FFO + net interest paid + LT leases)	Calculated	b / (g - d + i)	5.2
Net debt / CFO less Capex (x)			
	Calculated	a / (h - j)	10

* EUR27m assumed non-recurring portion of leases

Source: Fitch Ratings, Fitch Solutions, PPF Arena 1

Related Research & Criteria

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

[Corporates Notching and Recovery Ratings Criteria \(March 2018\)](#)

[Parent and Subsidiary Rating Linkage \(July 2018\)](#)

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