Ceska telekomunikacni infrastruktura a.s. (CETIN)

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB	Stable	Affirmed 14 November 2016
Senior Unsecured Rating	BBB		Assigned 14 November 2016

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Financial Summary

	2015	2016F	2017F	2018F
Gross Revenues (CZKm)	19,579	19,528	20,814	21,411
Operating EBITDA Margin (%)	40.5	39.5	37.4	36.6
FFO Margin (%)	36.4	30.2	35.0	31.9
FFO Fixed Charge Coverage (x)	8.7	5.1	7.8	7.7
FFO Adjusted Net Leverage (x)	4.5	4.5	3.5	3.7

Source: Fitch

Key Rating Drivers

Core National Infrastructure: Ceska telekomunikacni infrastruktura a.s. (CETIN) is a wholesale-only supplier of mobile and fixed infrastructure in the Czech Republic. The company was created following a voluntary structural separation from O2 Czech Republic a.s. (O2) in 2015 and owns and operates the incumbent national telecoms infrastructure. This includes the fixed local access loop, back bone and mobile. Structural separation enables CETIN to provide wholesale services to all telecoms operators in the Czech Republic on an equal footing. This enables the company to reduce its regulatory exposure to a few core areas.

Outside Prague and Brno, mobile network access is provided through a 50:50 network sharing agreement with T-Mobile, enabling both parties to efficiently deliver faster mobile network with better coverage. The only alternative mobile infrastructure on a truly national scale is operated by Vodafone Czech Republic. In fixed access, the largest available alternative is cable operator UPC, covering 33% of households. This leaves limited alternative wholesale infrastructures to CETIN with an equal depth of coverage and capacity.

Manageable Customer Concentration Risk: CETIN derives around 80% of its EBITDA from O2 through long-term agreements. The high dependency of sales on one party creates customer concentration risk. Fitch incorporates a low weighting for this risk in the rating due to O2's strong market position and high switching costs.

O2’s Entrenched Position: O2's strong position in the Czech telecoms market benefits from some structural support when compared with other EU incumbents. Fitch Ratings estimates the operator has a 39% share of mobile voice and data service revenues and 42% share of fixed voice and broadband revenues. Investments in pay TV are likely to support further growth and maintain O2's competitive position. Structural support is derived from a three-member mobile operator market, a lack of significant competition from local loop unbundling operators in broadband (around 3% of lines) and low cable coverage.

O2 Unlikely to Switch: Switching costs for O2 are extremely high due to financial and operational reasons. CETIN's agreement is based on significant financial commitments from O2 on a “take-or-pay” basis, which initially last for seven years from June 2015. This makes O2's business case for alternative suppliers or own network investments prohibitive in all but niche areas. O2 owns the customers, retail distribution, mobile spectrum and certain technical platforms, while CETIN owns the network infrastructure.

Cash Flow Visibility and Generation: CETIN's most material contracts with O2, T-Mobile and other operators are based on long-term durations with guaranteed base-line revenue commitments. These commitments come with service and capex obligations for CETIN, but provide the company with revenue, opex and capex visibility and the capacity to generate strong EBITDA margins (64% excluding international transit). As a result of these agreements, CETIN is able to increase the stability and visibility of cash flows and reduce operational risk.

The revenue commitments reduce the proportion of variable revenue and costs for CETIN and provide greater planning certainty than for typical European telecoms operators. This improves the stability of CETIN's cash flows.

Measured Financial Policy: CETIN has a long-term policy to manage leverage below 3.5x net debt to EBITDA based on its definition of the metric, with a gradual reduction towards a target of 2.5x after 2020. It has a strong underlying pre-dividend free cash flow margin (around 25%-28% excluding international transit) which provides flexibility for increased investment and deleveraging if required. Fitch expects CETIN will progressively increase its dividend to a pay-out ratio of 100% of net income by 2018 from zero in 2016. This should enable it to reduce its funds from operations (FFO) adjusted net leverage to 3.6x by 2019 from 4.5x in 2016. On an underlying basis, normalised for tax and interests costs, CETIN's 2016 FFO adjusted net leverage would be around 4.1x.

Standalone Rating: CETIN is 100% owned by PPF Group N.V., which also owns 84% of O2. CETIN's rating is based on its standalone credit profile and is not affected by its parent or its holdings in other entities. This reflects contractual debt terms such as CETIN having no cross defaults with, or guarantees for any other part of the PPF group.

PPF considers CETIN a strategic investment. The group views its investment in CETIN as long term. PPF plays an advisory role in areas such as corporate funding, procurement and real estate. PPF holds minimal debt at the holding-company level and has no obligation to provide bail-out support for any of its subsidiaries.

Rating Derivation Relative Table

Rating Derivation versus Peers	
Peer Comparison	CETIN has a unique operating profile due to its focus on the provision of wholesale infrastructure of mobile and fixed services in the Czech Republic. The ability to sustain leverage is stronger than for typical European incumbent operators due to long-term contracts that reduce operating risks which drive improved visibility and stability of cash flows, strong cash generating capability and a measured financial policy that is also supported by a flexible shareholder remuneration policy.
Parent/Subsidiary Linkage	No parent/subsidiary linkage is applicable. CETIN is rated on a standalone basis.
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	Not applicable.

Source: Fitch

Rating Sensitivities

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

- Greater EBITDA diversification in its wholesale customer base and a significant growth in broadband market share of CETIN fibre and xDSL lines;
- Improved visibility of long-term cash flow generation driven by a material increase of committed revenues;
- FFO adjusted net leverage falling sustainably below 3.5x.

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

- A material and sustained decline in EBITDA or free cash flow driven by pressure in core national business segments;
- A deterioration in the credit quality of O2 Czech Republic driven by a material loss in market share particularly but not solely in the broadband segment;
- A roll-out of alternative network infrastructures that result in a loss of CETIN's market share of fibre and xDSL lines;
- A change in the financial policy of CETIN that results in reduced financial flexibility, higher long-term leverage targets or contractual debt obligations to other parts of the PPF group;
- FFO-adjusted net leverage trending above 4.0x on a sustained basis.

Liquidity and Debt Structure

Strong Liquidity: CETIN had CZK656m of cash on its balance sheet at the end of 2015. The company generates strong FCF and does not need any additional source of liquidity for the next two years. With its current capital structure it has no debt maturities until 2018.

Debt Structure: CETIN had CZK28.9bn of debt at end-2015 consisting of the two loan tranches due 2018 (CZK6.9bn) and 2022 (CZK22bn).

Debt Maturities and Liquidity at FYE15

Debt Maturities	**(CZKm)**
2016	794
2017	0
2018	6,150
2019	0
After 2019	21,987
Total debt	28,931
Liquidity Analysis	**(CZKm)**
Unrestricted cash	656
Committed banking facilities	0
Available undrawn portion	0
FCF (post dividend) from forecast	2,261
Short-term debt	794
Total Liquidity	2,123
Liquidity score	3.7

Source: Fitch

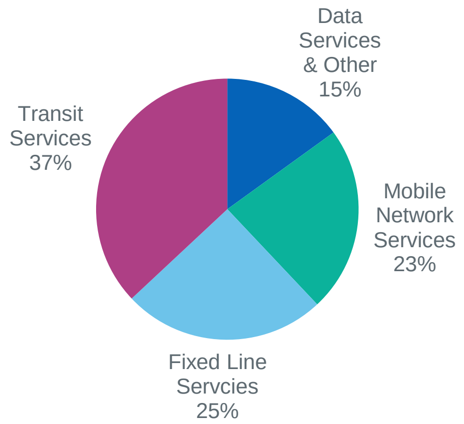
Key Rating Issues

Solid Business Model

CETIN is a telecom infrastructure company that voluntarily separated from the incumbent telecoms operator O2 Czech Republic in mid-2015. The company owns and operates mobile and fixed networks throughout the country and manages an international transit business. The domestic networks business is core, generating 96% of total EBITDA, while the international transit segment generates around 40% of total revenue but 4% of total EBITDA.

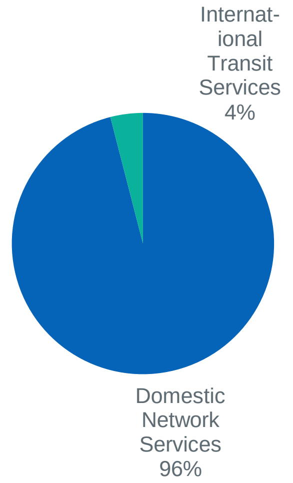
CETIN operates one of the best mobile networks in the country. As of October 2016, the company's mobile network had 99.6% 2G population coverage, 80% 3G coverage and 94% LTE coverage. Fixed-line infrastructure passes 4.1m households (85% penetration) with 1.2m housing units connected. CETIN offers all operators equal access to its fixed network together with related voice services, xDSL broadband access, IPTV, LLU and co-location of technology. For both mobile and fixed networks, O2 remains the largest customer. Other operators are expected to gradually increase their share but O2 is likely to remain the single largest contributor to CETIN's revenue and EBITDA in the medium term.

CETIN Product and Service Revenue Mix
2015



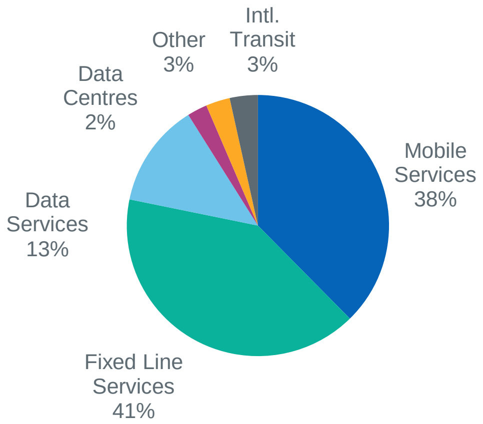
Source: CETIN

CETIN EBITDA Breakdown
2015



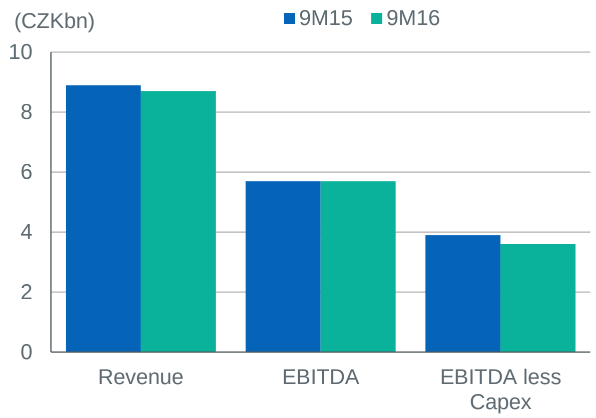
Source: CETIN

CETIN Gross Margin Split by Product & Services
2015



Source: CETIN

CETIN Domestic Revenue and EBITDA



Source: CETIN

Mobile Services

Following its separation from O2, CETIN entered into a long-term agreement with the operator to provide network services. The agreement secures revenues for the first seven years (mid-2015 – mid-2022), a guaranteed amount of around CZK30.8bn or CZK4.4bn per year on a 100% take-or-pay basis. Under the agreement, CETIN has obligations to maintain and improve the quality of the network, increase coverage and instigate technological upgrades. The obligations are captured in a committed capital investment plan. In addition, CETIN provides backhaul services for all three mobile operators.

The company is to some extent protected from cost inflation with the ability to pass through certain cost increases for energy and site deployments once certain thresholds have been reached.

Network Sharing with T- Mobile

CETIN has a 20-year network sharing contract with T-Mobile which includes combination of 2G/3G/4G networks of the two largest mobile operators and joint deployment of 4G and potentially next-generation technologies. The agreement implies active RAN sharing, with site and passive infrastructure being owned by their historic owner, while active technology is owned by the master operator. T-Mobile is a master operator for the western part of the country while CETIN is for the eastern part. The largest cities, Prague and Brno, are outside the scope of the agreement. Backbone infrastructure is also not a part of the agreement. The agreement does not imply any material cash flow movements between the companies.

The agreement allows for an accelerated deployment of networks with greater scope, coverage and efficiencies. Each party has an obligation to maintain high-quality network services and build new LTE stations in the consolidated network. One of the positive impacts of the network sharing will be seen in the reduction of operating leases as a smaller number of towers drives lower land rent expenses leading to a modest positive impact on FFO adjusted net leverage.

Fixed-Line Services

As a former part of the national incumbent operator O2 Czech Republic, CETIN has the largest fixed-line metallic network coverage in the country. Following separation, O2 is an anchor customer in CETIN's fixed-line business, with a small portion of revenues coming from T-Mobile's operations. In the broadband segment, the company provides mostly xDSL connections and the upgrade of the network with a mix of technologies, including FTTC+VDSL2 and FTTH, is a major development goal.

Unlike the mobile segment, CETIN's revenues in its fixed-line segment have a significant variable pricing element to them, being dependent on the number of access lines, broadband and pay TV services that O2 and other operators provide to their customers. CETIN has a commitment from O2 to use a significant part xDSL lines, in a period between mid-2015 and mid-2022 with a substantial take-or-pay commitment. The contract with T-Mobile also has a similar take-or-pay commitment. Overall, a part of fixed-line segment revenues is committed with take-or-pay terms for some of the revenues for the next seven years.

Historically, the fixed-line segment generated CZK4.8bn of revenue for CETIN (40% of national revenues and 25% of total revenues). O2 heavily relies on CETIN in its fixed-line segment where the company generates 38% of its Czech revenues.

CETIN plans a total of CZK20.8bn of capex in the next seven years for networks upgrade. Part of the capex is committed and it mostly relates to mobile operations with O2. However, the largest part of capex is related to the fixed network upgrade and is not fully protected by committed revenue streams.

International Transit Services

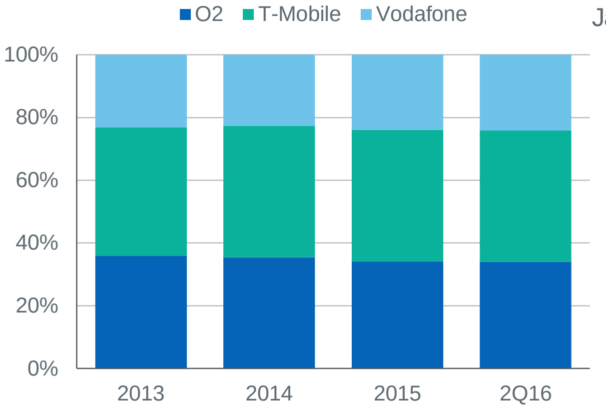
The international segment is a growing, albeit highly competitive, segment which generates around 40% of CETIN's revenue but only 4% of EBITDA. CETIN has points of presence (PoP) in Germany, Austria, London and Slovakia and enjoys a favourable geographic position being a natural transit point between western Europe and eastern Europe and Asia. It is a low-margin business with high revenue and cost of sales and very low opex and capex. The company expects that it will be able to monetise growing international data traffic which would allow this segment to demonstrate double-digit growth in the next two years. In 2015 the contribution of this business to total EBITDA was 4.2% (CZK330m), while capex was only 1.3% of total capex.

Czech Telecoms Market

The mobile market is dominated by three players – O2, T-Mobile and Vodafone. Although a large number of MVNOs exist, their market share is negligible. O2 and T-Mobile each have around 38% subscriber market share and with the existing network sharing agreement may further strengthen their market positions as the companies extract benefits from deploying better coverage faster. Overall, the Czech mobile market has around 13.9m subscribers implying 131% penetration. The penetration of smartphones is around 60%.

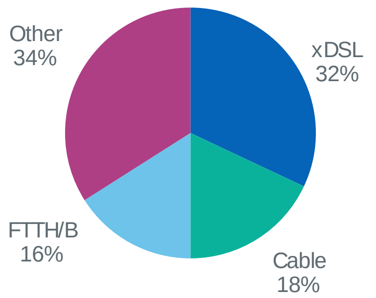
The broadband market's structure is atypical, with a 30% share controlled by small operators providing services via Wi-Fi. O2 is a market leader with a 35% share, followed by cable company UPC with an 18% market share (revenue) in 2015. Fibre connections are provided by a vast number of small ISPs which together hold around a 14% market share in revenue terms. Both O2 and CETIN are interested in an efficient partnership as O2 controls 35% of the broadband market and 67% of the fixed-voice market and thus the network upgrade by CETIN is vital for company's further growth and competitive position. Importantly, the upgrade to higher speeds will enable O2 to upsell IPTV services which should result in additional revenue generation for CETIN. IPTV development may become an important driver of traffic as at end-2015 the segment occupied only 13% of the pay TV market which is dominated by satellites (25%) and cable (40%).

Czech Mobile Market Share



Source: BMI Research

Czech Fixed Broadband Subscriptions by Technonology
Jan 2016



Source: European Commision

Deleveraging Path

Fitch estimates CETIN's FFO adjusted net leverage to be at 4.5x at end-2016 (same as at end-2015) and will be in the range between 3.5-3.7x in 2017-2019. The deleveraging will be supported by strong cash flow generation, moderate capex and flexibility over dividend payments. On our estimates, the company will generate around CZK2.9-3.8bn of pre-dividend free cash flow (15-18% margins) in 2016-2019.

The deleveraging path is not smooth mostly due to volatility in cash taxes paid which relates to specifics of local tax administration. Companies in the Czech Republic make substantial tax prepayments which result in future tax returns. Another major factor is the difference in the treatment of depreciation and amortisation in local accounting standards and IFRS. Given that CETIN's investment programme peaks in 2016-2018, the impact of higher depreciation and amortisation expenses on its tax calculation will be most pronounced. These differences are also the main reason why CETIN makes an unusually large cash tax payment in 2016 (CZK1.24bn cash tax) with a positive reverse effect in 2017 (CZK0.25bn cash tax).

The company's dividend policy supports deleveraging, allowing payment of up to 100% of net income only when net leverage is kept below 3.5x. The policy provides some flexibility to adjust dividends to mitigate pressure on cash flow if needed. Fitch's current expectation is no dividends in 2016, 30% of 2016 net income in 2017 and not more than 100% of the previous year's net income from 2018.

CETIN's financing policy implies leverage of not more than 3.5x net debt/EBITDA with a plan to reduce it to 2.5x in the medium to long term. Net debt/EBITDA of higher than 3.5x would constrain the company from paying dividends. The long-term leverage target of 2.5x net debt/EBITDA roughly corresponds to Fitch's 3.3x FFO adjusted net leverage (delta between ratios fluctuates depending on the amount of cash taxes). The company is committed to maintaining an investment-grade rating.

Key Operating Risks to Rating

Fitch has considered four main operational events that could have an impact on CETIN's credit profile for which it is attributing either a low risk of occurrence or minimal impact within the rating horizon. These risks are reflected in the rating sensitivities and include firstly, the build-out of alternative infrastructures (eg cable or government-backed fibre) where the current pace of development is slow and in our opinion unlikely to have a significant impact on CETIN's fixed-line local access share.

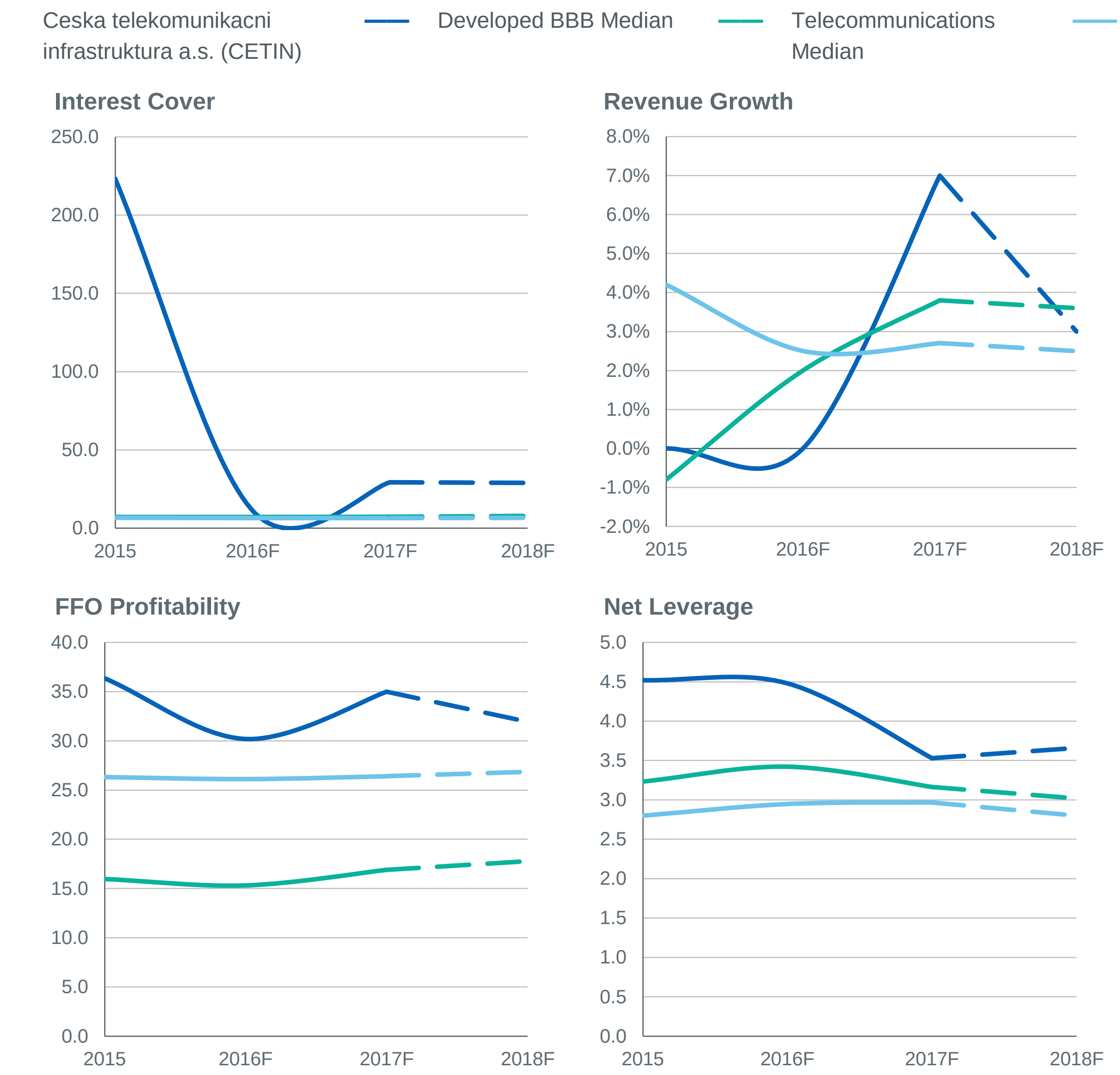
Secondly, a sustained increase in capex for network investments, for which the company has some headroom within its rating and flexibility in terms of shareholder remuneration. Thirdly, a material loss of broadband market share at O2. The final risk is that there is no contractual agreement between O2 and CETIN following the initial seven-year contractual period. Switching costs, limited alternative national wholesale networks and the contractual relationship for O2 and CETIN make this unlikely.

Hybrid Credit Profile

Fitch views CETIN's operating risk profile as lower than that of typical, fully integrated telecom operators, which we reflect in the credit metrics that we incorporate in our rating sensitivities. The lower risk profile reflects a combination of long-term contracts, flat fees and volume commitments, higher visibility on capex investment return, potential for improved scale economics (supplying all market participants) and a greater proportion of revenues derived from ownership of the local loop.

We view CETIN's profile as having higher risk than mobile tower operators', which benefit from higher cash flow visibility and stability as a result of longer-term contracts, minimal technology obsolescence risk, greater visibility of capex investment returns, higher price indexation and energy cost pass-through (in many cases). In comparison, CETIN's business model benefits from higher barriers to entry as its fixed-line network would be more costly to replicate. However, overall, CETIN bears commercial risk on its investments in fixed-line infrastructure that is more similar to that of traditional, vertically integrated telecom operators.

Trends and Forecasts



Note: Including Fitch expectations
Source: Fitch

Definitions

Interest cover: FFO plus gross interest paid, plus preferred dividends divided by gross interest paid, plus preferred dividends.
Revenue Growth: Percentage growth in revenues since previous reporting period.
FFO profitability: FFO divided by revenue.
Net leverage: Gross debt plus lease adjustments, minus equity credit for hybrids, plus preferred stock, minus freely available cash; divided by FFO, plus gross interest paid, minus interest received, plus preferred dividends, plus rental expense.

Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- Revenue (excluding international transit) decline of around 4% in 2016 and broadly stable to marginally declining thereafter.
- EBITDA margin (excluding international transit) improving by one percentage point between 2016 and 2018 to 65% from 64% in 2015, reflecting operational efficiencies.
- International transit revenue and EBITDA to grow at mid-single digit percentage from 2016 to 2018.
- Capex to total revenue at 15%-17% in 2016-2018 and declining thereafter (capex to revenue excluding international transit around 31% in 2017 and 2018).
- Profit distribution subordinated to strategic investment in infrastructure, debt reduction and maintaining net debt to EBITDA (as defined by company) below 3.5x.

Financial Data

(CZKm)	Historical	Forecast			
	2015	2016F	2017F	2018F	2019F
SUMMARY INCOME STATEMENT					
Gross Revenues	19,579	19,528	20,814	21,411	21,728
Revenue Growth (%)	na	0.0	7.0	3.0	1.0
Operating EBITDA (before income from associates)	7,928	7,715	7,784	7,827	7,824
Operating EBITDA Margin (%)	40.5	39.5	37.4	36.6	36.0
Operating EBITDAR	8,798	8,578	8,602	8,604	8,578
Operating EBITDAR Margin (%)	44.9	43.9	41.3	40.2	39.5
Operating EBIT	2,384	3,666	3,893	3,938	4,059
Operating EBIT Margin (%)	12.2	18.8	18.7	18.4	18.7
Gross Interest Expense	-180	-585	-258	-245	-238
Pretax Income (Including Associate Income/Loss)	2,411	3,081	3,636	3,693	3,821
SUMMARY BALANCE SHEET					
Readily Available Cash & Equivalents	656	986	1,555	1,922	1,167
Total Debt with Equity Credit	28,931	27,000	24,500	24,500	23,000
Total Adjusted Debt with Equity Credit	35,891	33,902	31,040	30,719	29,033
Net Debt	28,275	26,014	22,945	22,578	21,833
SUMMARY CASH FLOW STATEMENT					
Operating EBITDA	7,928	7,715	7,784	7,827	7,824
Cash Interest Paid	-31	-585	-258	-245	-238
Cash Tax	-756	-1,236	-245	-744	-778
Divs received less Divs paid to minorities (inflow / (out)flow)	0	0	0	0	0
Other Items Before FFO	-22	0	0	0	0
Funds Flow from Operations	7,119	5,895	7,282	6,838	6,808
Change in Working Capital	-520	124	124	-6	53
Cash Flow from Operations (Fitch Defined)	6,599	6,019	7,406	6,832	6,861
Total Non-Operating/Non-Recurring Cash Flow	0				
Capital Expenditure	-2,701				
Capital Intensity (Capex/Revenues)	13.8				
Common Dividends	0				
Net Acquisitions & Divestitures	134				
Other Investing and Financing Cash Flow Items	-32,213	30,925	0	0	0
Net Debt Proceeds	28,782	-1,931	-2,500	0	-1,500
Net Equity Proceeds	0	0	0	0	0
Total Change in Cash	601	330	569	367	-755

DETAIL CASH FLOW STATEMENT					
FFO Margin (%)	36.4	30.2	35.0	31.9	31.3
Calculations for Forecast Publication					
Capex, Dividends, Acquisitions & other. Items before FCF	-2,589	-35,367	-4,337	-6,465	-6,116
Free Cash Flow after Acquisitions & Divestitures	3,764	-28,664	3,069	367	745
Free Cash Flow Margin (after net acquisitions) margin (%)	19.2	-146.8	14.7	1.7	3.4
COVERAGE RATIOS					
FFO Interest Coverage	223.3	11.1	29.3	28.9	29.7
FFO Fixed Charge Coverage	8.7	5.1	7.8	7.7	7.9
Operating EBITDAR/Gross Interest Expense + Rents	8.4	5.9	8.0	8.4	8.7
Operating EBITDA/Gross Interest Expense	255.7	13.2	30.2	32.0	32.9
LEVERAGES RATIOS					
Total Adjusted Debt/Operating EBITDAR	4.1	4.0	3.6	3.6	3.4
Total Adjusted Net Debt/Operating EBITDAR	4.0	3.8	3.4	3.4	3.3
Total Debt with Equity Credit/Operating EBITDA	3.7	3.5	3.2	3.1	2.9
FFO Adjusted Leverage	4.6	4.6	3.7	3.9	3.7
FFO Adjusted Net Leverage	4.5	4.5	3.5	3.7	3.6

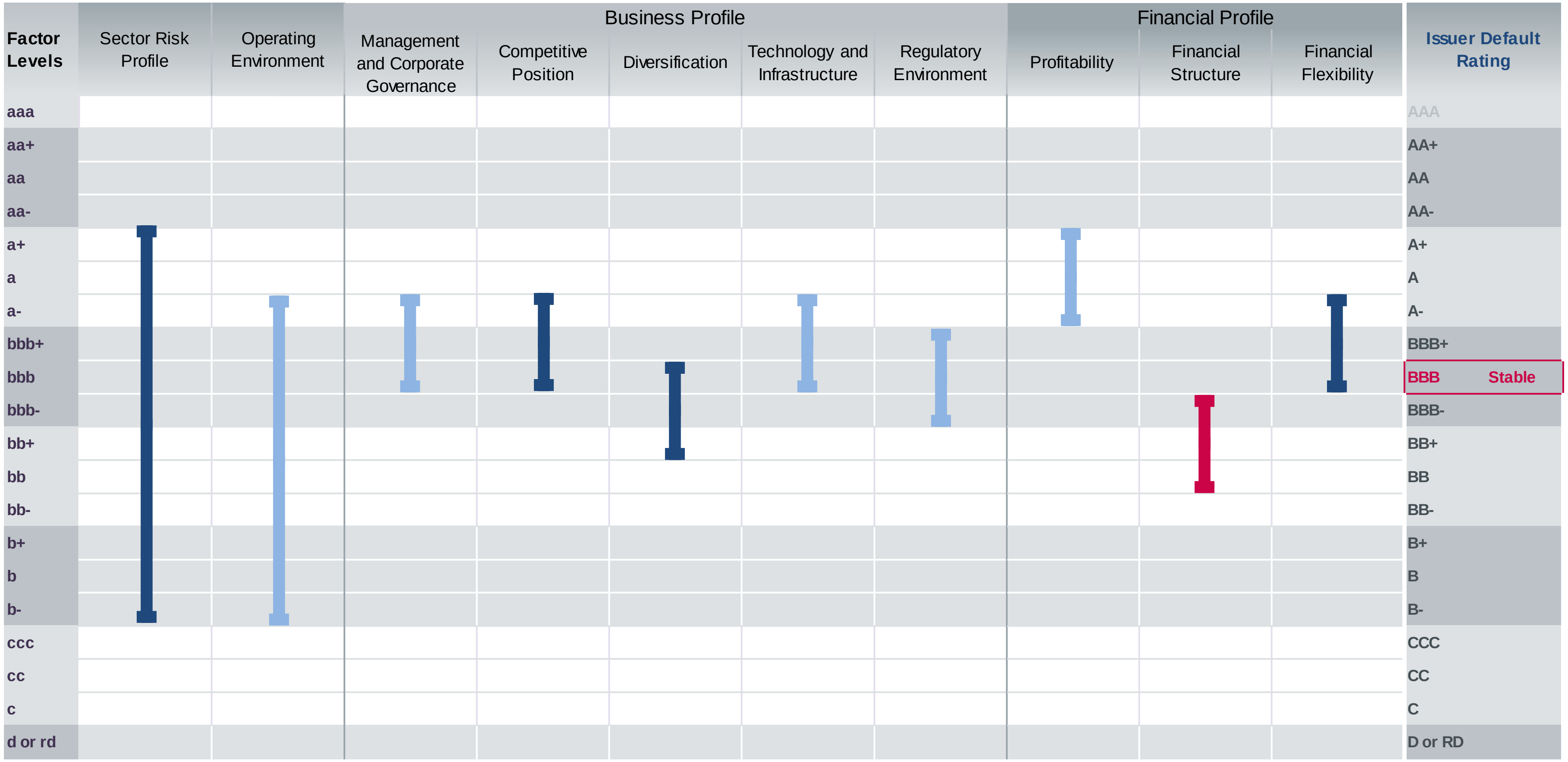
How to Interpret the Forecast Presented

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

Rating Navigator

Ceska telekomunikacni infrastruktura a.s. (CETIN

Corporates Ratings Navigator
Telecommunications



Ceska telekomunikacni infrastruktura a.s. (CETIN)

Corporates Ratings Navigator
Telecommunications

Operating Environment

a	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	a	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'a'.
b-			
ccc			

Management and Corporate Governance

a	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
a-	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	aa	Transparent group structure.
bbb	Financial Transparency	a	High quality and timely financial reporting.
bbb-			

Competitive Position

a	Market Position	a	Very strong and sustainable market share in primary markets (> 30%).
a-	Competition	a	Primary markets characterized by low competitive intensity and/or high barriers to entry.
bbb+	Scale - $ EBITDAR	b	<500 million
bbb			
bbb-			

Diversification

bbb+	Service Platform Diversification	a	Operates several service platforms in primary markets.
bbb	Geographic Diversification	bb	Limited geographic diversification.
bbb-			
bb+			
bb			

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-			

Regulatory Environment

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

Profitability

aa-	Volatility of Cash Flow	a	Lower volatility and better visibility of cash flow than industry average.
a+	EBITDAR Margin	a	35%
a	FFO Margin	a	30%
a-			
bbb+			

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	bb	4.0x
bb-			

Financial Flexibility

a	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a-	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	a	6.0x
bbb	FX Exposure	a	Profitability potentially exposed to FX but efficient hedging in place. Debt and cash flows well-matched.
bbb-			

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.

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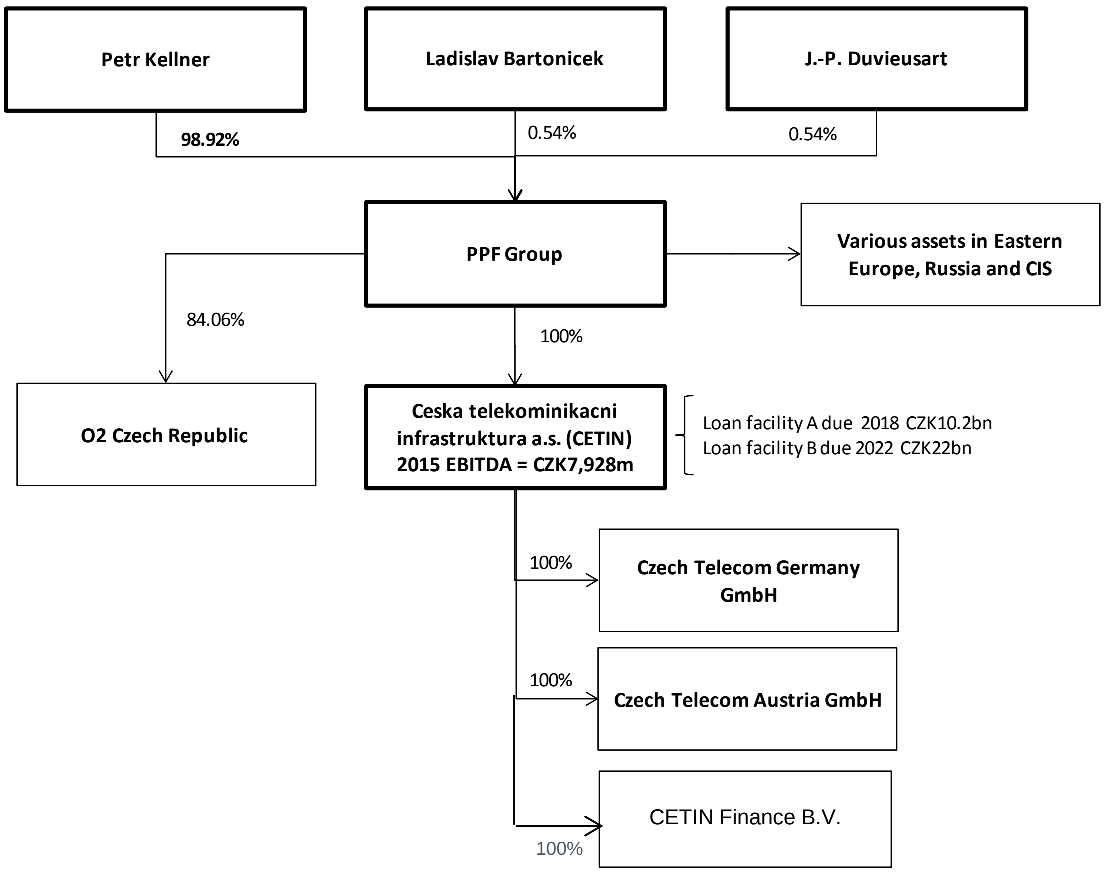
Peer Financial Summary

Company	Date	IDR	Gross Revenues (+)	Operating EBITDA Margin (%)	FFO Margin (%)	FFO Fixed Charge Coverage	FFO Adjusted Net Leverage
Ceska telekomunikacni infrastruktura a.s. (CETIN)	2018	BBB	792	36.6	31.9	7.7	3.7
	2017		770	37.4	35.0	7.8	3.5
	2016		723	39.5	30.2	5.1	4.5
	2015		725	40.5	36.4	8.7	4.5
Cellnex Telecom S.A.	2018	BBB-	806	44.7	37.2	2.7	4.9
	2017		776	43.4	36.1	2.6	5.4
	2016		717	40.7	34.1	2.4	6.2
	2015		612	38.4	34.3	2.7	5.5
BT Group plc	2018	BBB+	27,032	34.0	26.2	6.2	1.8
	2017		26,696	33.6	27.4	6.0	1.8
	2016		21,025	34.1	25.1	5.7	2.3
	2015		19,991	34.9	23.6	5.3	1.6
Royal KPN N.V.	2018	BBB	6,565	36.9	29.1	3.9	3.0
	2017		6,611	36.4	27.9	3.6	3.0
	2016		6,764	35.5	27.6	3.6	3.0
	2015	-	7,008	34.5	27.1	3.6	3.1
TDC A/S	2018	BBB-	2,735	41.0	29.5	4.1	3.7
	2017		2,729	40.6	29.2	4.0	3.8
	2016		3,063	36.8	27.0	4.0	3.9
	2015		3,275	40.3	31.4	5.0	3.9

Source: Fitch

Simplified Group Structure Diagram

CETIN group structure as of end-2015



Reconciliation of Key Financial Metrics

Reconciliation of Key Financial Metrics for Ceska telekomunikacni infrastruktura

(CZK Millions)	31 Dec 2015
Total Debt with Equity Credit	28,931
+ (ST Leases * ST Lease Multiple)	0
+ (LT Leases * LT Lease Multiple)	6,960
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	35,891
Readily Available Cash [Fitch-Defined]	656
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents	656
Net Lease-Adjusted Debt (b)	35,235
Cash Flow from Operations [CFO]	6,599
- Change in Working Capital [Fitch-Defined]	-520
= Funds From Operations [FFO] (c)	7,119
Interest Received	229
Interest (Paid) (d)	-31
= Net Finance Charge (e)	198
Preferred Dividends (Paid) (f)	0
Operating Lease Expense for Assets With Long Economic Life (g)	870
FFO Adjusted Net Leverage (x)	
Net Lease-Adjusted Debt/(FFO - Net Finance Charge + LT leases - Pref Div Paid) (b/(c-e+g-f))	4.5
FFO Adjusted Gross Leverage (x)	
Lease-Adjusted Debt/(FFO - Net Finance Charge + LT Leases - Pref Div Paid) (a/(c-e+g-f))	4.6
FFO Fixed Charge Cover (x)	
(FFO - Net Finance Charge + LT leases - Pref Div Paid) / (Gross Interest Paid + LT leases - Pref Div Paid) ((c-e+g-f)/(-d+g-f	8.6
FFO Gross Interest Coverage (x)	
(FFO - Net Finance Charge - Pref Div Paid) / (Gross Interest Paid - Pref Div Paid) ((c-e-f)/(-d-f))	223.3

Source: Fitch based on company reports

Fitch Adjustment Reconciliation

Fitch Financial Adjustments – Summary Financials

Ceska telekomunikacni infrastruktura (CZK Millions)	Reported Values 31 Dec 15	Sum of Fitch Adjustments	Adjusted Values
Income Statement Summary			
Revenue	19,579	0	19,579
Operating EBITDAR	8,798	0	8,798
Operating EBITDAR after Associates and Minorities	8,798	0	8,798
Operating EBITDA	7,928	0	7,928
Operating EBITDA after Associates and Minorities	7,928	0	7,928
Operating EBIT	2,384	0	2,384
Debt & Cash Summary			
Total Debt With Equity Credit	28,931	0	28,931
Total Adjusted Debt With Equity Credit	35,891	0	35,891
Lease-Equivalent Debt	6,960	0	6,960
Other Off-Balance-Sheet Debt	0	0	0
Readily Available Cash & Equivalents	656	0	656
Not Readily Available Cash & Equivalents	0	0	0
Cash-Flow Summary			
Cash Interest (Paid) LTM	-31	0	-31
Funds From Operations [FFO]	7,119	0	7,119
Change in Working Capital [Fitch-Defined]	-520	0	-520
Cash Flow from Operations [CFO]	6,599	0	6,599
Non-Operating/Non-Recurring Cash Flow	0	0	0
Capital (Expenditures)	-2,701	0	-2,701
Common Dividends (Paid)	0	0	0
Free Cash Flow [FCF]	3,898	0	3,898
Gross Leverage			
Total Adjusted Debt / Op. EBITDAR* [x]	4.1		4.1
FFO Adjusted Leverage [x]	4.6		4.6
Total Debt With Equity Credit / Op. EBITDA* [x]	3.7		3.7
Net Leverage			
Total Adjusted Net Debt / Op. EBITDAR*	4.0		4.0
FFO Adjusted Net Leverage [x]	4.5		4.5
Total Net Debt / (CFO - Capex) [x]	7.3		7.3
Coverage			
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	9.8		9.8
Op. EBITDA / Interest Paid* [x]	255.7		255.7
FFO Fixed Charge Coverage [x]	8.7		8.7
FFO Interest Coverage [x]	223.3		223.3

**EBITDA/R after Dividends to Associates and Minorities*

Full List of Ratings

	Rating	Outlook	Last Rating Action
Ceska telekomunikacni infrastruktura a.s. (CETIN)			
Long Term IDR	BBB	Stable	New Rating 17 October 16

Related Research & Criteria

Criteria for Rating Non-Financial Corporates (September 2016)

Parent and Subsidiary Rating Linkage (August 2016)

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