

## ISSUER COMMENT

8 August 2019



## RATINGS

**Ceska telekomunikacni infrastruktura a.s.**

Long Term Issuer Rating	Baa2
Outlook	Negative

**CETIN Finance B.V.**

BACKED Senior Unsecured	Baa2
Outlook	Negative

**PPF Arena 1 B.V.**

LT Corporate Family Ratings	Ba1
Backed Senior Secured	Ba1
Outlook	Stable

Source: Moody's Investors Service

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## Ceska telekomunikacni infrastruktura a.s. and PPF Arena 1 B.V.

### European Commission's objections to CETIN's network sharing agreement are credit negative

On 7 August 2019, the European Commission informed Czech operators O2 Czech Republic, T-Mobile Czech Republic a.s. (T-Mobile CZ) and telecom infrastructure provider [Ceska telekomunikacni infrastruktura a.s.](#) (Baa2 negative, "CETIN"), of its preliminary view that the mobile network sharing agreement between CETIN and T-Mobile CZ, restricts competition in densely populated areas of the Czech Republic and breaches EU antitrust rules.

As part of the mobile network sharing agreement with T-Mobile CZ, CETIN operates the mobile network of T-Mobile CZ in half of the country and O2 CZ's in the other half. In 2018, CETIN successfully completed this network sharing project for 2G and 3G networks with the LTE 800 coverage layer. Capacity was increased for more than 870 base stations by adding additional frequency. We note that most densely populated cities of Prague and Brno are not covered by the network sharing agreement being disputed.

O2 CZ (owned by [PPF Arena 1](#) [Ba1 stable]) and T-Mobile CZ are major operators in the Czech retail mobile telecommunications market. O2 CZ's mobile infrastructure and wholesale business are managed by CETIN, a fixed and mobile network infrastructure company belonging to the same corporate group, PPF Arena 1. CETIN operates and manages fixed and mobile infrastructure in the Czech Republic and transit infrastructure abroad. In 2018, the company generated revenue of CZK19.8 billion and EBITDA of CZK7.57 billion. CETIN's main customer is O2, which accounts for almost 80% of the company's EBITDA.

The Commission has alerted that although network sharing is a widespread practice in the European telecom sector that can facilitate the roll out of communications networks by reducing costs, this particular network sharing agreement in the Czech Republic may have a negative impact on competition. Furthermore, the Commission, has reached the preliminary conclusion that the mobile network sharing structure restricts competition and thereby harms innovation in breach of EU antitrust rules.

The Commission has stated that because of CETIN's position as the main provider of telecom infrastructure in the country, instead of leading to greater efficiencies and higher quality of service, the model is likely to remove the incentives for the two mobile operators to improve their networks and services to the benefit of users. If confirmed, this would infringe Article 101 of the Treaty on the Functioning of the European Union, which prohibits anti-competitive agreements. The sending of a Statement of Objections does not prejudice the outcome of the ongoing investigation, which started in October 2016. The timing of the final

resolution of this process is uncertain, although we do not expect it to be concluded in the short-term.

A change to CETIN's business model, imposed by a possible remedy package, could be credit negative depending on the extent to which the remedies might affect the company's business and financial risk. Additionally, any potential fine imposed by the Commission on CETIN could put pressure on the company's credit metrics. There is a risk that CETIN might have to deploy mobile infrastructure to achieve geographical coverage in areas determined by the EC, where they currently have a network sharing agreement with T-Mobile CZ. This could imply a substantial investment need.

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