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CREDIT OPINION
28 June 2018

Update

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RATINGS

Ceska telekomunikacni infrastruktura a.s.

Domicile	Czech Republic
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Negative

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.

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Ceska telekomunikacni infrastruktura a.s.

Update following change in outlook to negative due to increased financial pressure from parent

Summary

Česká Telekomunikační Infrastruktura a.s. (CETIN) Baa2 issuer rating reflects the company's 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. Strong commercial agreements with O2 Czech Republic and T-Mobile Czech Republic (T-Mobile) underpin this position.

The rating also takes into consideration:

» Higher risk as a result of the financial policies and higher leverage of PPF Arena 1, its parent holding company

» the Czech telecom market's strong growth prospects and expected supportive regulatory environment

» CETIN's modest size but strong market position, with a very strong EBITDA margin in its domestic business

» Stable business risk and stable capital spending overall

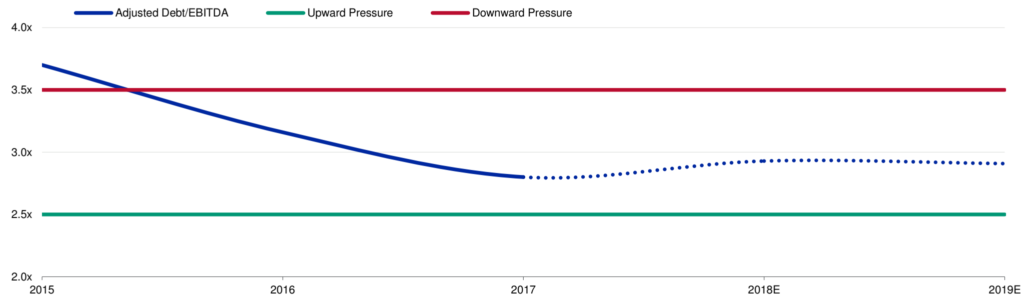
» A track record of deleveraging and a conservative financial strategy, under which the dividend is subject to operating performance, capex funding and debt repayment

» Strong cash flow generation before dividends

» An adequate liquidity profile over the next 12-24 months

THIS REPORT WAS REPUBLISHED ON 28 June 2018 WITH A CORRECTION TO EXHIBIT 4 IN WHICH WE CHANGED NATIONAL FOR INTERNATIONAL IN THE PIE CHART LABELS.

Exhibit 1
We expect CETIN's gross leverage to stay below 3x over the next couple of years
CETIN's gross leverage evolution



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

Credit strengths

» A leading position in the Czech telecom market

» Long-term contracts with the largest Czech operators, providing predictable cash flow

» Sustained capital spending to enhance the quality of the network

» Leverage expected to remain appropriate for the rating category

Credit challenges

» Small scale and weaker margins than those of its peers

» No precedent for structural separation in Europe

» High (although discretionary) dividend policy

» CETIN's weakened position resulting from the increase in leverage at its immediate parent (PPF Arena 1) to fund the acquisition of Telenor's CEE assets

Rating outlook

The negative outlook reflects that although the underlying cash flow and key credit ratios of CETIN are adequate for the current rating on a standalone basis, increased leverage has weakened credit quality at PPF Arena 1, where the financial policy is also more aggressive, and there is a limit as to how far CETIN's credit quality can now be delinked from its parent. At this stage we have factored in no further acquisitions, and CETIN's rating may be downgraded if PPF Arena 1's deleveraging plan is not met.

Factors that could lead to an upgrade

» Upward pressure on the rating is unlikely unless leverage at PPF Arena 1 level reduces substantially and sustainably, alleviating the financial pressure on CETIN.

» Over the long term, upward pressure on CETIN's rating could develop if the company delivers on its business plan, such that its adjusted debt/EBITDA ratio drops below 2.5x on a sustained basis. This decrease in leverage would likely be reliant on the company maintaining a conservative approach to acquisitions and shareholder remuneration policies.

Factors that could lead to a downgrade

» Downward pressure could be exerted on the rating if leverage at PPF Arena 1 remains at 3.5x or higher on a reported basis, either because of further debt-financed acquisitions at PPF Arena 1 level or weaker than expected performance at the operating subsidiaries.

» Downward pressure on CETIN's rating would also develop if the company's operating performance weakens as a result of pricing pressures or market share losses reducing cash flow generation, or if the company increases debt as a result of acquisitions or shareholder distributions such that its adjusted debt/EBITDA rises above 3.5x.

» A weakening liquidity profile.

Key indicators

Exhibit 2
Česká Telekomunikační Infrastruktura a.s.

Ceska telekomunikacni infrastruktura a.s.					
KORUNY Millions	**Dec-15**	**Dec-16**	**Dec-17**	**2018-proj**	**2019-proj**
Revenue	19,097	20,378	20,968	21,516	22,351
FFO Margin %	41%	38%	36%	36%	33%
(EBITDA - CAPEX) / Interest Expense	14.1x	9.0x	9.9x	8.2x	7.7x
FCF / Debt	11.8%	0.0%	11.9%	1.9%	-0.8%
Debt / EBITDA	3.7x	3.2x	2.8x	2.9x	2.9x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated.
Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Profile

Česká Telekomunikační Infrastruktura a.s. (CETIN), headquartered in Prague (the Czech Republic), is the Czech Republic's sole national telecommunications infrastructure provider. It was incorporated in June 2015 following its separation from O2 Czech Republic.

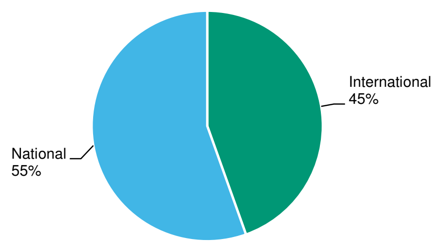
CETIN operates and manages fixed and mobile infrastructure in the Czech Republic and transit infrastructure abroad, with a presence in Europe, Africa and Asia. In 2017, the company generated revenue of CZK21 billion and EBITDA of CZK7.8 billion. As of December 2017, domestic fixed and mobile services segments represented 95% of EBITDA. CETIN's main customer is O2, which accounts for almost 80% of the company's EBITDA.

CETIN is 89.73% owned by PPF Arena 1, which is turn owned by PPF Group, PPF is a Czech investment group with diverse business activities encompassing banking and financial services, telecommunications, biotechnology, insurance, real estate and agriculture in Europe, Russia, Asia and the US.

Exhibit 3

The Czech Republic accounted for 55% of CETIN's revenue in 2017...

Revenue breakdown by geography

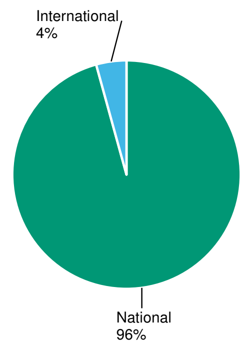


Source: Company data

Exhibit 4

...and 96% of EBITDA

EBITDA breakdown by geography



Source: Company data

Detailed credit considerations

CETIN's position has weakened following the increase in leverage at its immediate parent to fund the acquisition of Telenor's Central and Eastern European (CEE) assets

PPF, a Czech investment group, is CETIN's 100% owner. PPF is active in the telecom sector through its stakes in CETIN and O2. In March 2018, PPF announced the acquisition of 100% of Telenor's CEE assets for €2.8 billion.

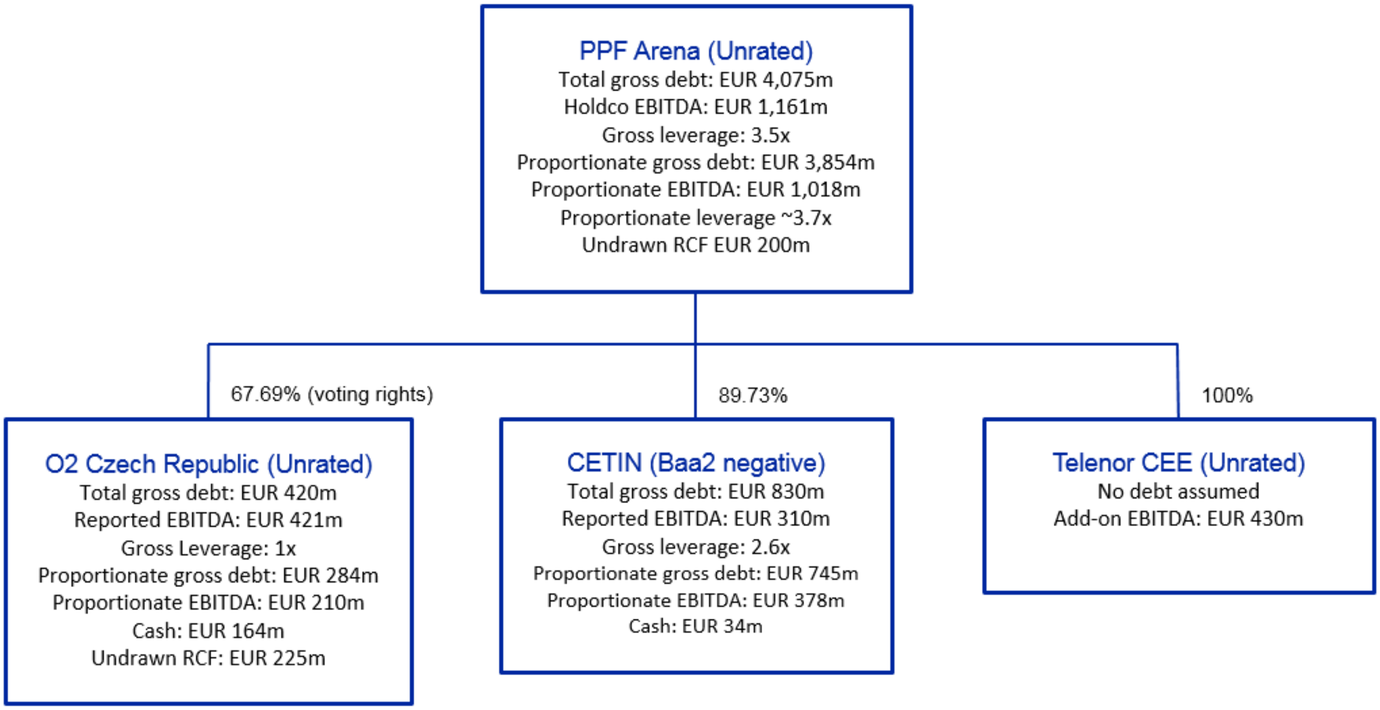
To finance the transaction, PPF has entered into a €3 billion syndication facility comprising a €1.04 billion five-year amortizing term loan A, a €1.785 billion six-year bullet term loan B and a €200 million revolving credit facility. The facility agreement has been entered into by PPF Arena 1, which consists of O2 Czech Republic, CETIN and the newly acquired Telenor assets.

CETIN's credit quality is now constrained by the financial policies and higher leverage of PPF Arena 1, its parent company. PPF Arena 1 is a holding company that relies entirely and exclusively on the cashflows and value dividend up-streaming from its 3 operating companies (CETIN, O2 Czech Republic and the newly acquired assets in CEE countries) to support its cash needs (mainly interest cost from its over EUR 3 billion debt, which translates into a 3.5x reported consolidated gross leverage at PPF Arena 1 level).

Although the dividend contribution from CETIN will be proportionally small in the short term (approximately 20% of the total cash up-streaming from subsidiaries), lenders at PPF Arena 1 benefit more significantly from the value represented by CETIN.

There is a limit to how far the credit quality of CETIN can now be delinked from that of PPF Arena 1 as the entity that owns and controls it, so the credit quality of PPF Arena 1 could pressure CETIN's rating in the future, for example if the deleveraging plan of PPF Arena 1 is not met, if there are more debt-financed acquisitions or if the performance of any of PPF Arena 1's aggregated subsidiaries business deteriorates.

Exhibit 5
PPF Arena 1 Debt Distribution



Based on reported figures; Exchange rate assumption: 25 CZK/EUR for simplicity purposes. Gross debt at PPF Arena Calculated as: O2 debt+ CETIN debt+ Telenor senior syndicated loan.
PPF Group voting rights in O2 as of February 2017 is 83.4%. PPF Group ownership of CETIN as of December 2017 is 100%.
Source: Company Data

Leading position in the Czech telecom market

CETIN covers more than 50% of the Czech Republic's telecommunication infrastructure market, and there is no comparable nationwide infrastructure-based provider. However, Vodafone Group Plc (Vodafone, Baa1 RUR) announced on May 9, 2018, its plans to engage in an €18.4 billion deal to acquire Liberty Global plc's operations in Germany, Czech Republic, Hungary and Romania. This could potentially intensify competition in the Czech retail market because CETIN's closest competitors, UPC Holding B.V. (UPC, Ba3 negative) and Vodafone, could increase their coverage and improve their market positions.

CETIN is the only Czech operator with a copper network, covering around 85% of households. Despite the rollout of fiber, this network will remain crucial for the last meters of access. In the mobile segment, the company's current 2G and 4G/LTE coverage extends to 99.6% and 98.0% of the Czech population, respectively.

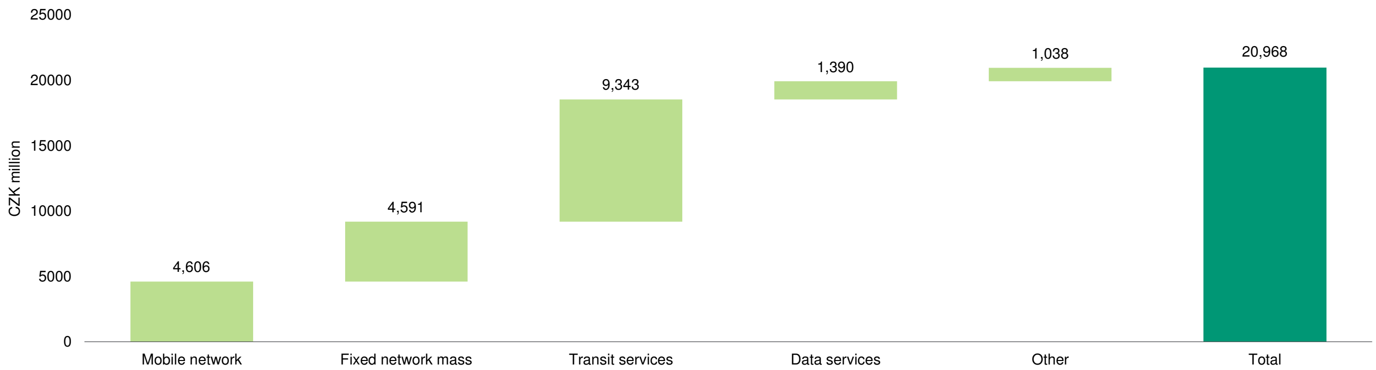
This strong position is underpinned by (1) the fact that CETIN provides mobile voice and data services to O2 and T-Mobile through the shared network; (2) CETIN's partnership with O2 in all downstream retail markets; (3) the fact that T-Mobile's fixed broadband services mostly represent a resale of CETIN's xDSL and voice; and (4) the delivery of a backbone transport network to numerous alternative network operators and retail service providers, including T-Mobile and Vodafone. CETIN's two key customers (O2 and T-Mobile) are the market leaders in mobile, with an estimated 37% market share each.

CETIN also provides wholesale international voice services to more than 200 customers worldwide. This is a low-margin business (4% of 2017 EBITDA), with high revenue (45% of 2017 revenue) and high cost of sales, entailing minimum operating/capital spending and elevated cash conversion. This segment is the main contributor to CETIN's revenue growth, with negative implications on the company's margins. Continued single-digit growth in percentage terms is expected over the next two years despite increasing competition from over-the-top services and the internalization of Vodafone's international wholesale operations.

Exhibit 6

Mobile and fixed-line services represented nearly half of CETIN's 2017 revenue base

Revenue breakdown by segment, December 2017



Source: Company data

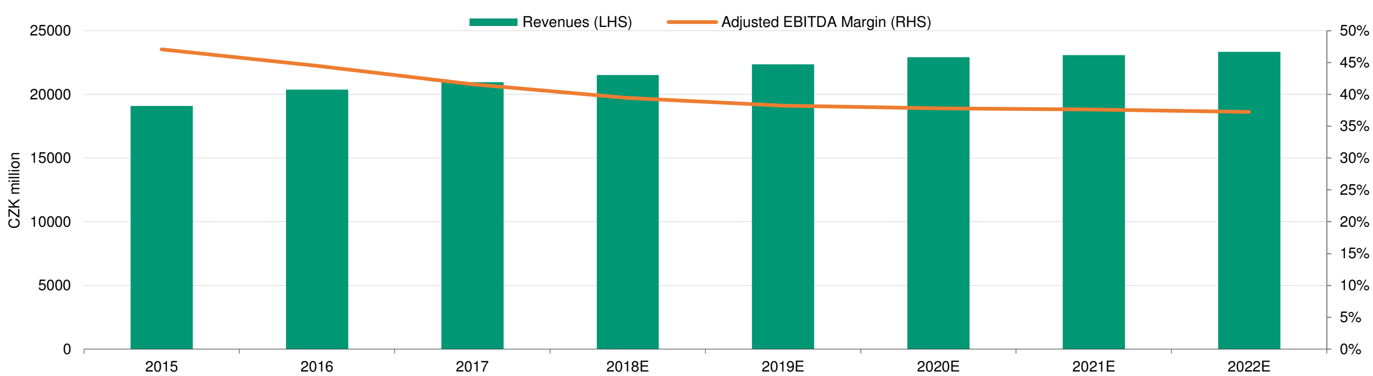
Revenue growth and high domestic margins underpin resilient cash flow

Under our assumptions, consolidated revenue will increase by 2.6% in 2018, mainly as a result of higher volumes in the mobile businesses and the contribution from international transit. EBITDA margin is likely to decrease to below 40% in the next two years, driven by higher operating costs as a result of higher inflation and staff costs. At the same time, EBITDA margin is diluted by international transit, which is the main contributor to revenue growth.

Exhibit 7

Growth in international business and higher operating expenditure are expected to drive lower EBITDA margin

Revenue and adjusted EBITDA margin evolution



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

CETIN's 2017 performance was hurt by (1) the declining fixed customer base of O2, mainly affected by the re-pricing carried out in 2016; and (2) delayed growth in the IPTV business and higher-than-expected decline in fixed voice. Nevertheless, growing demand for network capacity and high-single-digit revenue growth in percentage terms in the international transit segment (although lower than expected given increased competition) helped offset any impact on EBITDA in 2017.

In 2018 and in future years, investments in the fixed network will accelerate net adds, mainly through IPTV and xDLS. Unlike in mobile, traffic is key to revenue growth, and this, along with the increase in mobile revenue and international transit, will likely offset the decline in fixed voice. We expect data services to stabilize as higher volumes compensate for continued declines in price.

The conclusion of the 3.7 GHz spectrum auction in 2017 also represents a growth opportunity for CETIN. Spectrum band was also granted to two new operators (Nordic Telecom 5G a.s. and PODA a.s.), which will need mobile infrastructure, backhaul and network capacity that CETIN will be able to provide.

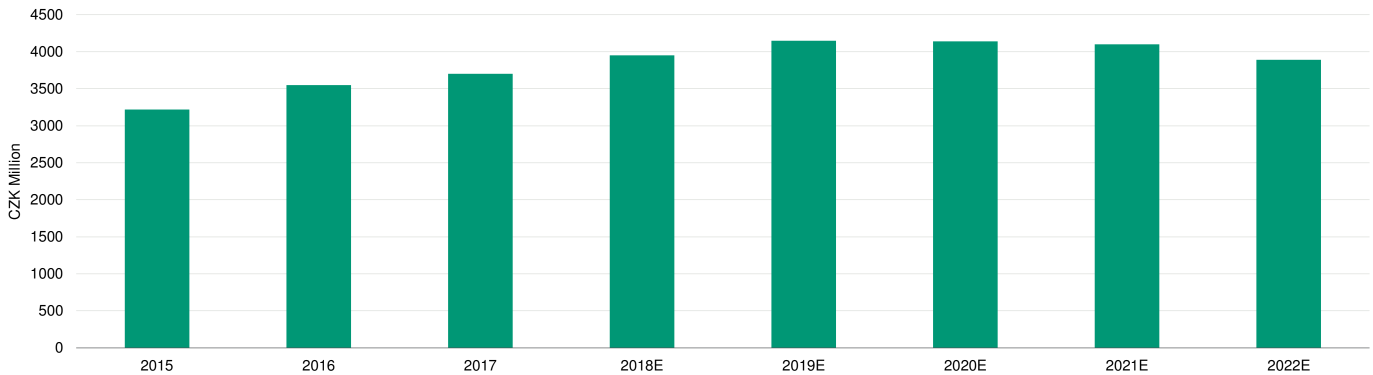
Higher capital spending to support future growth

Infrastructure development and specific customer projects drive CETIN's capital investment planning. The company aims to gradually upgrade its fixed network using a hybrid technology approach that combines fiber and enhanced copper technologies, which support an efficient investment.

CETIN is implementing a major capital spending plan that will provide a strong base for long-term growth. The updated plan entails capital investment of around CZK24 billion in 2017-22, predominantly driven by infrastructure development. This amount is CZK6.7 billion higher than the initial plan of CZK17 billion. We assume that 50%-60% of this investment is highly discretionary, and that it will only be executed if a minimum rate of return is achieved. Investments could also be postponed to enhance cash flow for debt reduction.

Exhibit 8

Capital investment is increasing and will reach around CZK4 billion p.a. over the next five years



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

The plan's key project entails upgrading the fixed network to fiber to the cabinet (FTTC). This project, which is expected to provide a significant part of CETIN's fixed broadband base with speeds of at least 80 mbps-100 mbps by 2020, is critical to the company's long-term position in the broadband market. Delivering premium speeds will enable CETIN to (1) improve its competitive position in relation to Wi-Fi and cable operators, leveraging their limited speed and coverage; (2) reduce churn; (3) increase its customer base; and (4) increase its market share. Key to this will be the modernization of the current copper network. In 2017, CETIN was able to deliver 250 mbps connection speeds to more than 200,000 housing units.

CETIN has committed to developing its mobile infrastructure as part of its long-term agreement with O2. One of the key implementations entails 4G/LTE network rollout, which was completed in 2017 and enabled O2 to achieve the license requirements (95% coverage by 2018) ahead of the envisaged time frame. The project is important for CETIN even from a 5G perspective because it will help the company lay the foundations to implement the new technology.

Leverage will remain at the current level; further deleveraging is not expected owing to higher investments in infrastructure and high dividend payout

We expect CETIN's leverage to remain at the current level for the next 12-24 months, mainly owing to higher investments in infrastructure development projects. This implies stable Moody's-adjusted gross debt/EBITDA of 2.9x over 2018-19. However, adjusted gross debt/EBITDA decreased to 2.8x in 2017 from 3.7x in 2015 owing to management's commitment to debt reduction.

Strategic investments will be CETIN's priority in the use of free cash flow (FCF), and adjustments to its 100% of net income distribution policy could be made to mitigate any potential weaker performance.

We have factored into the rating our high confidence in management's ability to deliver financial objectives on the basis of reliable and predictable revenue, based on existing contracts with O2 and T-Mobile. Operating costs are predictable, implying high certainty in respect of future EBITDA margin.

We take into consideration the high-margin component of domestic revenue, which becomes very diluted as a result of substantial transit traffic with a single-digit margin. As the domestic fixed and mobile businesses generate 95% of the company's EBITDA, we have given particular weight in our analysis to the domestic business' high margin.

Liquidity

CETIN's liquidity is adequate. It is supported by (1) the company's strong operating cash flow generation, and (2) cash and cash equivalents of CZK805 million as of December 2017.

CETIN's liquidity profile is sufficient to cover its upcoming debt maturities as well as other cash demands. In this regard, we expect FCF generation (after capital spending and dividends) in 2018 to be CZK470 million. However, we expect FCF to turn negative in 2019.

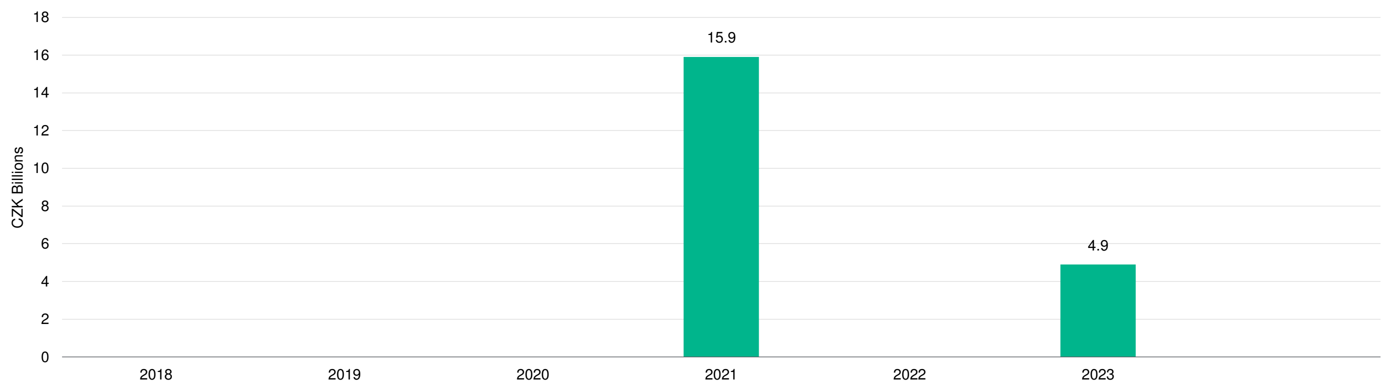
Nevertheless, CETIN does not have any committed credit facilities following the maturity of its CZK500 million committed credit facility in June 2018.

Upcoming debt maturities include the repayment of a five-year €625 million bond in December 2021 and a seven-year CZK4.9 billion bond in December 2023. CETIN hedges its foreign-currency bond exposure; at present, 85% of its euro-denominated bonds are hedged.

Exhibit 9

No debt maturities over the next 3 years, but debt maturity wall in 2021

CETIN's debt maturity profile as of December 2017



Source: Company data

According to its liquidity policy, CETIN needs to hold a minimum technical cash reserve of CZK300 million. Additional funds may be used for capital investment, debt reduction and dividend distributions, unless net leverage is above 3.5x.

Rating methodology and scorecard factors

The grid-indicated rating of Baa2 for full-year 2017 is in line with CETIN's Baa2 rating. We expect the company's credit metrics to remain broadly stable over the next 12-18 months. The forecasted grid-indicated rating of Baa3 reflects lower FCF/debt of 1.9%- -0.8%, constrained by a dividend distribution of CZK2.7 billion in 2018.

Exhibit 10
Rating factors

Global Communications Infrastructure Industry Grid [1][2]	Current FY 12/31/2017		Moody's 12-18 Month Forward View As of 25/05/2018 [3]	
Factor 1: Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (in $Bn)	$0.9	B	$0.9-$10	B
Factor 2: Business Profile (25%)				
b) Business Model	A	A	A	A
c) Competitive Environment and Business Conditions	A	A	A	A
Factor 3: Profitability and Efficiency (20%)				
a) FFO Margin %	35.7%	B	33% - 36%	B
Factor 4: Financial Strength (30%)				
d) (EBITDA-CapEx) / Interest Expense	9.9x	Aa	8.2x-7.7x	Aa
e) FCF / Debt	11.9%	Baa	1.9%- -0.8%	B
f) Debt / EBITDA	2.8x	Baa	2.9x	Baa
Factor 2: Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa3
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2017.
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Ratings

Exhibit 11

Category	Moody's Rating
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

Appendix

Exhibit 12

Peer comparison table

	CETIN Baa2 Negative		Chorus Limited Baa2 Stable			SES S.A. Baa2 Stable		Eutelsat Communications SA Ba1 Stable			Inmarsat plc Ba2 Stable	
(in USD millions)	FYE Dec-16	FYE Dec-17	FYE Jun-16	FYE Jun-17	LTM Dec-17	FYE Dec-16	FYE Dec-17	FYE Jun-16	FYE Jun-17	LTM Dec-17	FYE Dec-16	FYE Dec-17
Revenue	$834	$901	$674	$741	$718	$2,289	$2,299	$1,697	$1,611	$1,604	$1,329	$1,400
EBITDA	$371	$375	$406	$477	$470	$1,629	$1,508	$1,290	$1,220	$1,201	$817	$766
Total Debt	$1,135	$1,167	$1,442	$1,607	$1,661	$5,469	$5,667	$5,873	$4,720	$4,904	$2,768	$2,736
Cash & Cash Equivalents	$13	$38	$73	$124	$28	$620	$324	$1,282	$465	$432	$262	$145
FFO Margin %	37.8%	35.7%	44.1%	45.7%	47.9%	52.0%	53.1%	55.6%	57.2%	56.4%	49.8%	44.1%
(EBITDA - CapEx) / Interest Exper	9.0x	9.9x	0.2x	0.1x	-0.4x	3.5x	4.0x	5.3x	5.0x	5.9x	3.3x	1.3x
FCF / Debt	0.0%	11.9%	-7.6%	-7.4%	-14.0%	-1.0%	-0.7%	5.0%	4.0%	3.6%	1.7%	-5.9%
RCF / Debt	13.0%	29.1%	21.2%	19.6%	18.9%	10.4%	9.8%	14.0%	14.0%	12.4%	15.6%	15.1%
DEBT / EBITDA	3.2x	2.8x	3.3x	3.3x	3.5x	3.5x	3.5x	4.5x	3.7x	3.8x	3.4x	3.6x

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 13

Operating leases represented more than 16% of Moody's-adjusted debt in 2017

CETIN's Moody's-adjusted EBITDA breakdown

(in KORUNY Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported Debt	**28,931.0**	**24,651.0**	**20,755.0**
Operating Leases	4,350.0	4,435.0	4,070.0
Non-Standard Adjustments	-144.0	-22.0	-21.0
Moody's-Adjusted Debt	**33,137.0**	**29,064.0**	**24,804.0**

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 14

Operating leases adjustment contributed to nearly 10% of 2017 EBITDA

CETIN's Moody's-adjusted debt breakdown

(in KORUNY Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported EBITDA	**8,148.0**	**8,246.0**	**7,970.0**
Operating Leases	870.0	887.0	814.0
Unusual	-29.0	-66.0	-59.0
Moody's-Adjusted EBITDA	**8,989.0**	**9,067.0**	**8,725.0**

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

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