MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time Baa2 ratings to CETIN Group N.V.; outlook stable

30 Sep 2021

Existing ratings of CETIN a.s. and PPF Telecom Group B.V. affirmed

Madrid, September 30, 2021 -- Moody's Investors Service, ("Moody's") has today assigned a first-time Baa2 long-term issuer rating to CETIN Group N.V. (CETIN Group), a 100% owned subsidiary of PPF Telecom Group B.V. (PPF Telecom), and the 100% owner of CETIN a.s. (CETIN) as well as group's infrastructure business in Hungary, Bulgaria and Serbia. The outlook on the rating is stable.

Concurrently, Moody's has affirmed the existing Ba1 senior secured ratings of PPF Telecom, the Baa2 long-term issuer rating of CETIN a.s. and the Baa2 senior unsecured ratings of its fully and unconditionally guaranteed subsidiary, CETIN Finance B.V.. The outlook remains stable on all entities' ratings.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The rating actions follow the recent corporate restructuring of the PPF Telecom Group, that included the expected buyout of O2 Czech Republic, a.s.'s (O2) minorities for around €1 billion, and the push down of debt from PPF Telecom to CETIN Group level, including the €825 million Term Loan due 2024 (that includes the €300 million Loan issued to buy the shares in O2). In addition, PPF Group has contributed a 10.27% equity stake in CETIN into PPF Telecom, with no exchange of cash.

PPF Telecom Group owns 100% of CETIN Group and once the group's restructuring is complete, PPF Telecom is expected to own 100% of O2 and the former Telenor businesses in the CEE countries except Hungary.

The bank debt at PPF Telecom has been refinanced at CETIN Group level and the December 2021 notes at CETIN level will be refinanced at CETIN Group level, keeping group leverage within the financial limits stated in the financial strategy of reported net leverage of 3.0x.

"The Baa2 ratings of CETIN Group and CETIN as well as the Ba1 ratings of PPF Telecom reflect our expectation that CETIN Group will achieve gradual organic deleveraging based on the strength of the operating cash flow generated at the operating subsidiaries and subject to the group's financial policy of sustaining net reported leverage at or below 3x," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for PPF Telecom, CETIN Group and CETIN.

-- RATIONALE FOR CETIN GROUP'S Baa2 RATING

The first-time Baa2 rating of CETIN Group reflects a credit profile that is broadly similar to that of CETIN. The higher debt of €825 million is broadly offset with the incremental EBITDA from the consolidation of the NetCos in Hungary, Bulgaria and Serbia, which represent around 40% of total group EBITDA in 2021.

The rating reflects the governance considerations associated with the company's financial strategy and risk management linked to its leverage policy and liquidity management, the complexity of its group structure with the presence of different credit pools and the concentrated ownership.

Moody's expects CETIN Group's leverage to peak at around 3.5x in 2021 and thereafter gradually reduce to around 3.0x by 2025.

CETIN Group does not benefit from an upstream guarantee from CETIN so debt at CETIN is potentially in a stronger position due to structural subordination. However, this distinction is balanced against the need to limit the rating gap between the strongest ratings in CETIN Group relative to the PPF Telecom's ratings at Ba1, since this transaction itself strengthens the linkages between CETIN Group and PPF Telecom, with debt being pushed down from the PPF Telecom level into CETIN Group.

The current rating construct reflects the expectation of minimal debt at the CETIN level, with CETIN Group appropriately positioned at Baa2. If in the future, material debt was pushed down to CETIN, Moody's could consider leaving CETIN rated not more than two notches higher than PPF Telecom, while CETIN Group would likely be positioned one notch lower than CETIN to reflect structural subordination.

-- RATIONALE FOR AFFIRMATION OF CETIN'S Baa2 RATING

The ratings of CETIN remain unchanged at Baa2 with a stable outlook. Despite the expected reduction in leverage (to 1.1x in 2021) following the planned repayment of the December 2021 notes, Moody's has considered the rating of CETIN relative to that of the ultimate parent company PPF Telecom, and maintained a maximum of two-notches differential between the two entities.

-- RATIONALE FOR AFFIRMATION OF PPF TELECOM'S Ba1 RATING

Moody's expects PPF Telecom's credit metrics to remain inside the thresholds for the Ba1 rating, with Moody's adjusted gross leverage remaining below 3.5x, and the RCF/debt ratio remaining at around 15-16%, well above the 10% trigger.

The acquisition of the O2 minorities is credit positive, as it has only marginal impact on the company's leverage ratio and removes the dividend leakage to minorities. However, the overall complexity of the group has increased, with the introduction of another credit pool at CETIN Group level, in addition to the credit pools at PPF Telecom and CETIN.

Moody's also notes that PPF Telecom is currently undergoing a strategic review that include 3 possible scenarios for CETIN Group: (1) status quo, (2) equity offering and listing, or (3) a direct sale of a minority stake. In the event the group decided to sell an equity stake in CETIN Group, this would likely be credit negative, depending on the use of process, due to the ownership dilution, while the entity would remain fully consolidated. As a result, this could lead to negative pressure on the rating of PPF Telecom and in turn, on the ratings of CETIN Group and CETIN owing to the linkages between the three entities.

LIQUIDITY PROFILE

Liquidity remains adequate for all group entities.

For CETIN Group in particular, liquidity is supported by cash and cash equivalents of around €40 million as of June 30, 2021. It is supported by the company's strong Moody's -adjusted operating cash flow of around €550 million and a Revolving Credit Facility of €200 million due in 2026. CETIN Group's liquidity is sufficient to cover its upcoming debt maturities and other cash demands through the next 12-18 months, including its CAPEX needs expected to be at around €400 million in 2021, on a Moody's-adjusted basis.

Upcoming debt maturities include a €750 million bridge loan due in 2023, a €700 million term loan due in 2026 and a €195 million bond at CETIN a.s. level maturing in 2023.

RATIONALE FOR STABLE OUTLOOK

The stable outlook on CETIN Group reflects the underlying strength of its cash flow and Moody's expectation that the company's leverage (Moody's adjusted debt/EBITDA) will peak at around 3.5x in 2021 and thereafter gradually reduce to around 3.0x by 2025.

It also takes into consideration the leverage and credit quality of PPF Telecom Group, given that its financial policy allows for higher leverage and there is a limit as to how far CETIN Group's credit quality can be delinked from its parent.

The stable outlook assumes no further acquisitions, and the expectation that CETIN Group's rating may be downgraded if PPF Telecom's financial projection is not met.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the ratings of CETIN Group and CETIN is unlikely unless leverage at PPF Telecom level reduces substantially and sustainably, alleviating the financial pressure on CETIN Group. 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.

The rating could be downgraded if leverage at PPF Telecom Group remains at 3.5x or higher on a reported basis, either because of further debt-financed acquisitions at the PPF Telecom Group level or weaker-than-expected performance at the operating subsidiaries.

Downward pressure on CETIN Group'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, or if CETIN Group increases its debt as a result of acquisitions or shareholder distributions, such that its adjusted debt/EBITDA rises above 3.5x with no improvement expectation.

A weakening of the company's liquidity could also strain the rating.

LIST OF AFFECTED RATINGS:

..Issuer: CETIN Group N.V.

Assignments:

.... LT Issuer Rating, Assigned Baa2

Outlook Actions:

....Outlook, Assigned Stable

..Issuer: CETIN a.s.

Affirmations:

.... LT Issuer Rating, Affirmed Baa2

Outlook Actions:

....Outlook, Remains Stable

..Issuer: CETIN Finance B.V.

Affirmations:

....BACKED Senior Unsecured Medium-Term Note Program, Affirmed (P)Baa2

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

Outlook Actions:

....Outlook, Remains Stable

..Issuer: PPF Telecom Group B.V.

Affirmations:

.... LT Corporate Family Rating, Affirmed Ba1

.... Probability of Default Rating, Affirmed Ba1-PD

....BACKED Senior Secured Regular Bond/Debenture, Affirmed Ba1

Outlook Actions:

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in rating CETIN a.s., CETIN Finance B.V. and CETIN Goup N.V. was Communications Infrastructure Methodology published in August 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1285583 . The principal methodology used in rating PPF Telecom Group B.V. was Telecommunications Service Providers published in January 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1055812. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

COMPANY PROFILE

PPF Telecom Group B.V., a European telecommunications group, is the holding company owning 100% of CETIN Group N.V., O2 (telecom service provider) and the companies which form the international service provider in the CEE countries. In 2020, PPF Telecom generated revenues of EUR 3.2 billion and EBITDA of EUR 1.4 billion. PPF Telecom is in turn owned by PPF Group, an investment group with diverse business activities encompassing banking and financial services, telecommunications, media, biotechnology, insurance, real estate, mechanical engineering and e-commerce in Europe, Russia, Asia and the US.

CETIN Group N.V., is a holding company 100% owner of CETIN a.s. and the infrastructure business in Hungary, Bulgaria and Serbia.

CETIN a.s., headquartered in Prague (Czech Republic), is the leading national Czech telecommunications infrastructure provider. The company was incorporated in June 2015 after the spinoff from O2 Czech Republic a.s. In 2020, CETIN generated revenues of CZK 18.9 billion and EBITDA of CZK 8.8 billion. CETIN currently operates and manages fixed and mobile infrastructure in the domestic market and transit infrastructure abroad with international points of presence in Germany, Austria, Slovakia and UK.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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