

Rating Action: Moody's changes outlook on Telekom Austria's Baa1 ratings to negative

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Madrid, January 14, 2013 -- Moody's Investors Service has today changed to negative from stable the outlook on the Baa1 senior unsecured and issuer ratings of Telekom Austria AG (Telekom Austria) and its guaranteed finance subsidiary Telekom Finanzmanagement GmbH. Moody's has also affirmed the ratings.

A full list of ratings affected by the change in outlook is provided towards the end of this press release.

RATINGS RATIONALE

"Today's change in outlook reflects our expectation that Telekom Austria's operating performance will remain weak, affected by regulation, fierce competition and the adverse macroeconomic conditions in Austria as well as in other countries in which the group operates," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for Telekom Austria. "In addition, the outlook change reflects the group's recent EUR390 million debt-financed acquisition of YESSS! and other assets, together with additional likely funding needs related to the spectrum auction to take place in Austria in H2," explains Mr. Winzer. "These factors will exert further pressure on Telekom Austria's adjusted financial ratios, which may not be completely offset by the group's recently announced cut in dividends."

Telekom Austria's Baa1 rating is supported by (1) the group's scale; (2) its position as a strong integrated player in its highly competitive domestic telecommunications market and a geographically diversified leading mobile operator in Austria and the countries in which it operates in eastern Europe; and (3) its continued solid cash flow generation. The group has publicly stated capital structure guidance including reported net debt/EBITDA of between 2.0x and 2.5x. Telekom Austria's baseline credit assessment (BCA), a measure of its standalone credit quality, is baa2. The Baa1 rating currently benefits from a one-notch uplift as a result of Telekom Austria being 28.42% government-owned, its moderate level of default dependence and Moody's moderate support assumptions for the group. Moody's has changed the government-related issuer (GRI) default dependence factor to moderate from low. This change does not have an impact on Telekom Austria's final rating.

Moody's expects that Telekom Austria will retain its strong market position in Austria, weathering macroeconomic and competitive pressures in the markets where it operates, and that management will preserve the group's financial strength within the publicly stated ratio guidance. Moody's expects Telekom Austria's revenue to either remain flat or decline slightly in the short to medium term, broadly offset by the group's ongoing efforts to sustain margins and cash flow. In addition, the rating agency would expect the group to manage its strategic investments, as well as shareholder remuneration, within the financial ratio guidance for this rating level.

From a liquidity risk management perspective, Telekom Austria's liquidity profile is becoming more constrained. Moody's notes that the company has around EUR981 million debt maturing in 2013. In addition, the group will undertake a significant amount of capital expenditure, together with expected spectrum payments in the second half of 2013 and dividends of EUR22 million during the year, as well as the EUR390 million acquisition of YESSS! and other assets. However, at the end of September 2012, Telekom Austria had around EUR506 million in cash and cash equivalents. The group's external liquidity sources include EUR1.0 billion worth of committed long-term bank facilities, which were unutilised as of 30 September 2012, and can be drawn at any time, not being subject to material adverse change (MAC) clauses or financial covenants. Moody's expects Telekom Austria's funding plans to comfortably address the combined acquisition of YESSS!, other assets and the spectrum licenses.

The negative outlook reflects Moody's concerns related to Telekom Austria's future operating performance in an increasingly tough market in which the company will have to continue to weather macro-economic, regulatory and competitive pressures. Also, the negative pressure on the ratings factors in management's challenges to preserve the company's financial strength within the publicly stated ratio guidance and fund cash needs resulting from the spectrum auction expected to take place later this year. Moody's expects Telekom Austria to suffer single-digit revenue declines in the short to medium term, although these will be broadly offset by the company's ongoing efforts to sustain margins and cash flow.

WHAT COULD CHANGE THE RATING UP/DOWN

The ratings could come under downward pressure if (1) Telekom Austria's underlying operating performance were to weaken beyond current expectations as a result of more adverse macroeconomic, regulatory or competitive developments; or (2) the group were to make additional material debt-financed acquisitions and/or increase shareholder remuneration, such that its credit metrics were to deteriorate (reflected in adjusted retained cash flow (RCF)/adjusted gross debt trending towards 20% and adjusted gross debt/EBITDA trending towards 3.0x). Negative pressure could also be exerted on the rating if the group's liquidity profile were to weaken further.

Moody's would consider a change in the rating outlook to stable if Telekom Austria strengthened its financial ratios well within the guidance for the current rating, which includes adjusted gross debt/EBITDA comfortably below 3.0x and adjusted RCF/gross adjusted debt around the mid-twenties in percentage terms. In addition, a stabilisation of the outlook would depend on Telekom Austria successfully executing its updated strategic plan.

In addition, although there are currently no indications of it, Moody's would most likely no longer apply its GRI methodology to Telekom Austria or incorporate uplift in its final rating if (1) the government were to reduce its stake in the group to below 20%; or (2) the rating agency were to lower its support assumptions for the group. On its own, this would likely result in a one-notch downgrade.

Conversely, although not currently expected, Moody's could consider upgrading Telekom Austria's rating if the group's debt protection ratios were to strengthen as a result of improvements in its operational cash flows. Assuming no change in the sovereign rating or the levels of government support and default dependence, the rating could come under positive pressure if it were to become clear that the group would achieve improvements in its debt protection ratios. This would be reflected by, for example, an adjusted RCF/gross adjusted debt ratio trending towards 30% and a gross adjusted debt/EBITDA ratio that is comfortably lower than 2.5x on a sustainable basis.

List of ratings affirmed and outlook changed to negative from stable:

Telekom Austria AG:

....Issuer Rating, outlook changed to negative from stable

....EUR 2.500 Billion Senior Unsecured Multi issuer Euro Medium-Term Note Program, outlook changed to negative from stable, (P)Baa1

Telekom Finanzmanagement GmbH (fully and unconditionally guaranteed by Telekom Austria AG):

....Issuer Rating, outlook changed to negative from Stable

....EUR 2.500 Billion Senior Unsecured Multi issuer Euro Medium-Term Note Program, outlook changed to negative from stable, (P)Baa1

....EUR 750 Million 5% Senior Unsecured Medium-Term Note, outlook changed to negative from stable, Baa1

....EUR 750 Million 4% Senior Unsecured Medium-Term Note, outlook changed to negative, from stable Baa1

....EUR 500 Million 4.25% Senior Unsecured Medium-Term Note, outlook changed to negative from stable, Baa1

....EUR 750 Million 6.375% Senior Unsecured Eurobonds, outlook changed to negative from stable, Baa1

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was the Global Telecommunications Industry Methodology published in December 2010. Other methodologies used include the Government-Related Issuers methodology, published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Vienna, Austria, Telekom Austria is a leading provider of telecommunication services in Austria, with 2.3 million fixed voice lines, almost 1.3 million fixed-line broadband connections and serving 5.3 million mobile customers as of September 2012. The group has a nationwide presence, delivering a full range of services and products, including telephony, data exchange, interactive contents, TV and information and communications technology (ICT) solutions. The group has also expanded its mobile operations outside Austria, where its customer base accounts for more than 19 million subscribers. Telekom Austria is one of the leading mobile operators in Bulgaria (through its subsidiary Mobiltel), Belarus (Velcom) and Croatia (Vipnet), and is also present in Slovenia

(Si.mobil), Macedonia (Vip operator), Serbia (Vip mobile) and Liechtenstein.

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