MOODY'S
INVESTORS SERVICE

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

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Madrid, July 05, 2017 -- Moody's Investors Service has today changed to positive from stable the outlook on the ratings of Telekom Austria AG (Telekom Austria or "the company"), the leading integrated telecommunications provider in Austria, and its guaranteed finance subsidiary Telekom Finanzmanagement GmbH. Concurrently, Moody's has affirmed the company's Baa2 long-term issuer rating, Baa2 senior unsecured ratings, (P)Baa2 medium term notes (MTN) programme ratings, Ba1 junior subordinate instrument ratings, and Prime-2 (P-2) short-term ratings.

"The change in outlook to positive mainly reflects our expectation that Telekom Austria's leverage and cash flow metrics will remain strong for the current rating underpinned by a stable operating performance and a reduction in event risk. It also factors in the company's strengthened position in what is a very competitive telecoms market as well as the broadly stable revenue growth and EBITDA margin from its geographically diversified operations," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for Telekom Austria.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

Telekom Austria's Baa2 rating is supported by (1) the group's moderate scale; (2) its position as a strong integrated player in its highly competitive domestic telecommunications market; (3) its geographical diversification in a number of Eastern European countries, mitigated by the fact that these countries are exposed to higher macroeconomic and foreign currency risks than its core domestic operations; (4) its strong cash flow generation; and (5) the improving credit metrics since 2013.

The rating also factors in management's willingness to preserve the group's financial strength and public commitment to an investment grade rating. In addition, Moody's also considers the benefits resulting from America Movil, S.A.B. de C.V. 's (America Movil, A3 stable) shareholding in Telekom Austria.

Telekom Austria is a government-related issuer (GRI) and its Baa2 rating currently benefits from one notch of uplift as a result of (1) the group being 28.42% government-owned; (2) its moderate level of default dependence; and (3) Moody's moderate government support assumptions for the group. Telekom Austria's baseline credit assessment (BCA), a measure of its standalone credit quality, is baa3.

Moody's expects that Telekom Austria will retain its strong market position in Austria and continued operating performance weathering competitive pressures in the markets where it operates. At the same time, Moody's expects that management will preserve the group's financial strength, managing its strategic investments, as well as shareholder remuneration in line with its stated commitment to an investment grade rating.

The rating agency expects that competitive challenges in Austria will remain and will continue to put pressure on revenues, which will grow marginally at around 1% per year through 2019. In fact, Moody's expects that most of the future revenue growth will come from international subsidiaries.

The company will continue to make substantial investments in its domestic network in order to accelerate broadband capacity to better differentiate from its competitors. This will be the principal use of its cash flow generation capacity, given the expected moderate dividend policy and lack of sizable M&A opportunities. However, uncertainty remains in relation to future spectrum auction payments for the 2,100 MHz frequency expected in 2019 and the 700 MHz frequency in 2020.

RATIONALE FOR POSITIVE OUTLOOK

The change in outlook to positive reflects the expectation that the company will sustain its improved financial metrics and business positioning in Austria and throughout its international footprint. As a result, Moody's expects that Telekom Austria's leverage ratio, measured by gross debt/EBITDA, will be sustained below 2.5x and retained cash flow/debt above 30%.

The positive rating outlook also reflects Moody's expectation that Telekom Austria will at least sustain a stable operating performance in a highly competitive market in which the company will continue to benefit from past investments to improve the quality of the network.

WHAT COULD CHANGE THE RATING UP/DOWN

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. This would be reflected by an adjusted RCF/gross adjusted debt ratio trending towards 30% and a gross adjusted debt/EBITDA ratio that is lower than 2.8x on a sustainable basis.

The ratings could come under downward pressure if (1) Telekom Austria's underlying operating performance were to weaken as a result of more adverse macroeconomic, regulatory or competitive developments; (2) the group's liquidity profile deteriorated; or (3) 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 RCF/adjusted gross debt sustainably below 20% and adjusted gross debt/EBITDA sustainably above 3.3x).

In addition, 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. While either one of these factors would likely result in a one-notch downgrade, there is currently no indication that either will occur.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: Telekom Austria AG

....LT Issuer Rating, Affirmed Baa2

....ST Issuer Rating, Affirmed P-2

....Junior Subordinated Regular Bond/Debenture, Affirmed Ba1

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

....Other Short Term, Affirmed (P)P-2

..Issuer: Telekom Finanzmanagement GmbH

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

....Backed Other Short Term, Affirmed (P)P-2

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

Outlook Actions:

..Issuer: Telekom Austria AG

....Outlook, Changed To Positive From Stable

..Issuer: Telekom Finanzmanagement GmbH

....Outlook, Changed To Positive From Stable

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Telecommunications Service Providers published in January 2017, and Government-Related Issuers published in October 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Headquartered in Vienna, Austria, Telekom Austria is the leading integrated telecommunications provider in Austria, providing 2.2 million fixed access lines, almost 1.5 million broadband connections and serving 5.4 million mobile customers (as of 30 March 2017). 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 15.2 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 (Simobil), Macedonia (One Vip), Serbia (Vip Mobile) and Liechtenstein (Telecom Lichtenstein). Telekom Austria's main shareholders are América Móvil (A3 stable), with a 51% holding (fully consolidating Telekom Austria) and the Austrian government, with a 28.42% holding. Group revenues amounted to EUR4.2 billion and company reported EBITDA to EUR1.3 billion as of December 2016.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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.

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

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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