S&P Global
Ratings

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Telekom Austria AG

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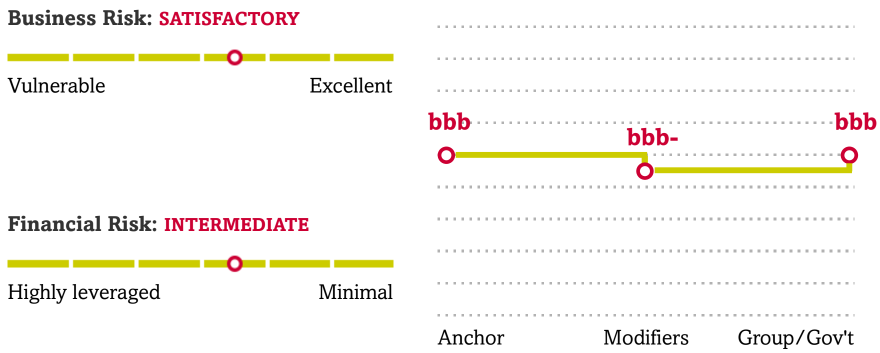
Telekom Austria AG



CORPORATE CREDIT RATING
BBB/Positive/A-2

Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
• Leading telecommunications operator in Austria, with about 37% mobile and 56% fixed-line broadband (subscriber) market shares. • More than 90% domestic coverage with 4G mobile and about half of the total spectrum holdings available in Austria. • No. 1 or No. 2 positions in five of six Central and Eastern European (CEE) mobile markets, complemented by an expanding fixed-line offering. • Continued fierce competition in the domestic mobile business by Hutchison Drei, T-Mobile, and mobile virtual network operators (MVNOs), as well as in several CEE markets. • Partly inflexible cost structure in Austria due to a high proportion of civil servants in the workforce (20% in 2017 at the group level), and high annual restructuring-related cash outflows of about €90 million-€110 million historically and in our forecast for 2018–2019. • Exposure to very high country risks in Belarus.	• S&P Global Ratings-adjusted debt to EBITDA of about 2.4x-2.7x and funds from operations (FFO) to debt of 33%-36% in our forecast for 2018-2019. • Declared appetite for mergers and acquisitions (M&A) and a lack of explicit leverage targets. • Significant network investments and restructuring costs that constrain free operating cash flow (FOCF) to 11%-14% of adjusted debt (before spectrum payments). • Exposure of EBITDA and cash flows from Belarus (13% of 2017 group EBITDA) to exchange-rate risk.

Outlook: Positive

The positive outlook on Telekom Austria reflects our expectation that service revenue trends in its markets will improve further. We also consider that successful cost management will continue to cushion the EBITDA impact from increases in certain cost items and regulatory headwinds, such as the remaining drag from the phase-out of retail roaming fees in the EU. We think this will enable the company to report organic revenue growth of 1%-2% in the next two years and stable adjusted EBITDA margins of 30%-32%, which may help adjusted FOCF to debt to remain sustainably above 10% and could support an upgrade within the next 12 months. In addition, we expect Telekom Austria will maintain adjusted debt to EBITDA below 3x and FFO to debt of at least 30%.

Upside scenario

We could raise the rating if operating trends in Austria and foreign markets keep improving and Telekom Austria posts stable or increasing adjusted EBITDA margins, supporting adjusted FOCF to debt sustainably at 10%-15%, and mitigating event risk resulting from the lack of explicit leverage targets and the company's appetite for M&A. In addition to FOCF to debt at this level, we would require Telekom Austria to maintain adjusted debt to EBITDA below 3x and FFO to debt of at least 30%. We could also raise the rating if we viewed Telekom Austria's strategic importance to its majority shareholder, Mexico-headquartered telecoms operator América Móvil S.A.B. de C.V. (AMX), as strengthening. This could happen if we saw increased support from AMX, for example through AMX guaranteeing or refinancing Telekom Austria's debt.

Downside scenario

We could revise the outlook to stable if stronger competition than we expect in Austria and other markets--alongside higher-than-expected capital expenditure (capex)--prevented FOCF from remaining at more than 10% of adjusted debt in the next 12 months. Equally, we could revise the outlook to stable if debt to EBITDA weakened to more than 3x; or if FFO to debt deteriorated to less than 30% for an extended period, for example due to unexpectedly high spectrum costs or material debt-funded acquisitions.

We could further revise the outlook to stable if we downgraded AMX to 'BBB+' as our issuer credit rating on Telekom Austria would no longer benefit from a one-notch uplift due to group support from AMX in this case. However, we view this as unlikely given our stable outlook on AMX. We could downgrade Telekom Austria by one notch if we assessed that its strategic importance to AMX had weakened, for example if it appeared likely to be sold over the near term--which we currently consider unlikely.

Our Base-Case Scenario

We think that in the next few years, Telekom Austria's leverage and FOCF will primarily be influenced by its ability to further stabilize its operations in Austria and certain CEE markets; take cost-efficiency steps to offset pressure on EBITDA from cost inflation in certain areas, regulatory measures, and intense competition; and carefully manage its capex needs. Large acquisitions could also materially affect its credit metrics.

Assumptions

- Austrian real GDP growth of 2.6% in 2018 and 2.0% in 2019, down from 2.9% in 2017. In the group's most relevant CEE markets of Bulgaria, Croatia, and Belarus, we expect slightly stronger real GDP growth, averaging 2.0%-3.5% in 2018 and 2019. Although there is a limited link between business cycles and spending on telecoms services, we think these robust macroeconomic fundamentals are conducive to the upselling of higher-value broadband, mobile, and TV products across all markets.
- In the next two years, modest growth in the total number of mobile subscriptions in the Austrian market thanks to more machine-to-machine SIM cards. We expect fixed broadband subscriptions to remain flattish and traditional fixed-line voice lines to continue their low- to mid-single-digit decline. At the same time, we think upselling will contribute to higher mobile average revenue per user (excluding roaming) and increasing average revenue per line in the fixed segment.
- In the Austria segment, annual revenue growth of 1.0%-2.0% in 2018-2019, mainly thanks to mid-single-digit growth in IT solutions and growth in fixed-line retail service revenues, which is driven by upselling higher broadband speeds and TV, offsetting the structural decline in fixed voice. We forecast mobile service revenues to decline by up to 1.5% in 2018 and by 0.0%-0.5% in 2019, owing primarily to customer attrition in lower-value and prepaid segments. The decline in 2018 also reflects the remaining impact of the abolition of EU retail roaming charges.
- Pro forma revenue growth for the group of 1.5%-2.0% in 2018 and 2019, after 3% in 2017, as growth in Austria is augmented by fixed-line service revenue growth in Bulgaria, growth in both fixed and mobile services in Croatia, and solid mobile service revenue growth in Serbia. We expect topline growth in Belarus in local currency to be partly offset by exchange-rate volatility.
- Approximately stable adjusted EBITDA margins of 30.5%–32.0% in 2018 and 2019, after about 31% in

Key Metrics

	2017A	2018E	2019E
Revenues (mil. €)	4,383	4,430-4,500	4,510-4,620
EBITDA margin (%)	31.0	30.5-32.0	30.5-32.0
Capex to sales (%)*	16	16-18	16-18
Debt to EBITDA (x)	2.5	2.5-2.7	2.4-2.6
FFO to debt (%)	35	33-35	34-36
FOCF to debt (%)	12.0	9-11	8-10
FOCF to debt (%)*	12.0	11-13	12-14

All data adjusted by S&P Global Ratings. FFO--Funds from operations. FOCF--Free operating cash flow, defined as cash flow from operations after investments in property, plant, and equipment, and intangible assets. *Excluding spectrum. A--Actual. E--Estimate.

2017, as cost savings and some M&A synergies in CEE markets offset cost inflation for items such as content, staff, the remaining drag from the abolition of EU retail roaming charges, and higher commercial costs incurred due to intense competition in some markets.

- Cash capex, excluding spectrum, of 16%-18% of sales in 2018 and 2019, after about 16% in 2017, driven by ongoing fixed broadband investments in Austria and mobile network upgrades in Austria and CEE. We assume additional spectrum capex of up to €50 million and €150 million in 2018 and 2019, respectively.
- Dividends of up to €200 million in 2019, after about €133 million in 2018 (excluding a final hybrid coupon payment of €34 million).
- Up to €200 million on M&A in 2018 and 2019 combined.

Company Description

Headquartered in Vienna, Telekom Austria is the leading telecoms operator in Austria and a mobile operator in Bulgaria, Croatia, Belarus, Slovenia, Serbia, and Macedonia. It also provides fixed-line broadband, telephony, and TV services in all countries except Serbia. As of March 2018, the combined group served about 20.6 million mobile subscribers and had a total of 6.0 million fixed broadband, telephony, and TV subscriptions (3.4 million in Austria). In 2017, the domestic market contributed about 60% of the group's €4.4 billion in revenue and about 65% of its €1.40 billion EBITDA.

AMX is Telekom Austria's largest shareholder (51% stake), followed by government holding company Österreichische Bundes- und Industriebeteiligungen GmbH (28.4%).

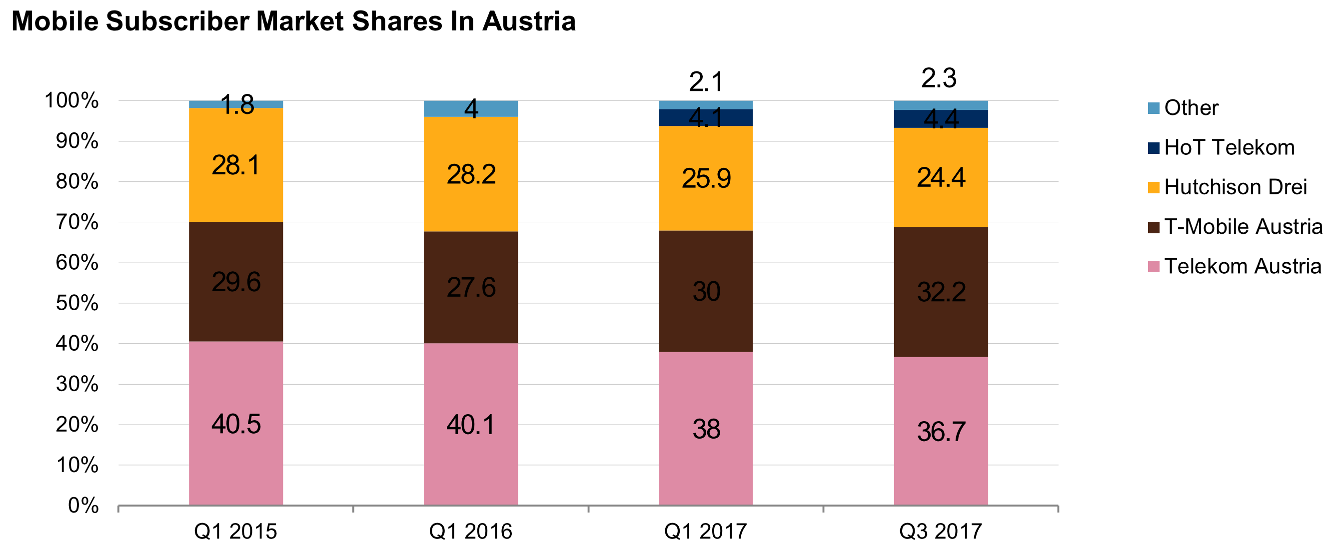
Business Risk: Satisfactory

Our view of Telekom Austria's business risk benefits from its strong incumbent market position in Austria and robust market positions in most of its six CEE markets, balanced by intense competition in the mobile segment, both domestically and internationally.

Leading telecoms operator in Austria

A key factor in our assessment of Telekom Austria's business risk is the company's leading position in Austria's wealthy, albeit mature and relatively small, market for fixed and mobile telecoms services. As of third-quarter 2017, Telekom Austria had a mobile subscriber market share of about 37%, down from 38% in first-quarter 2017, ahead of T-Mobile and Hutchison Drei (see chart 1).

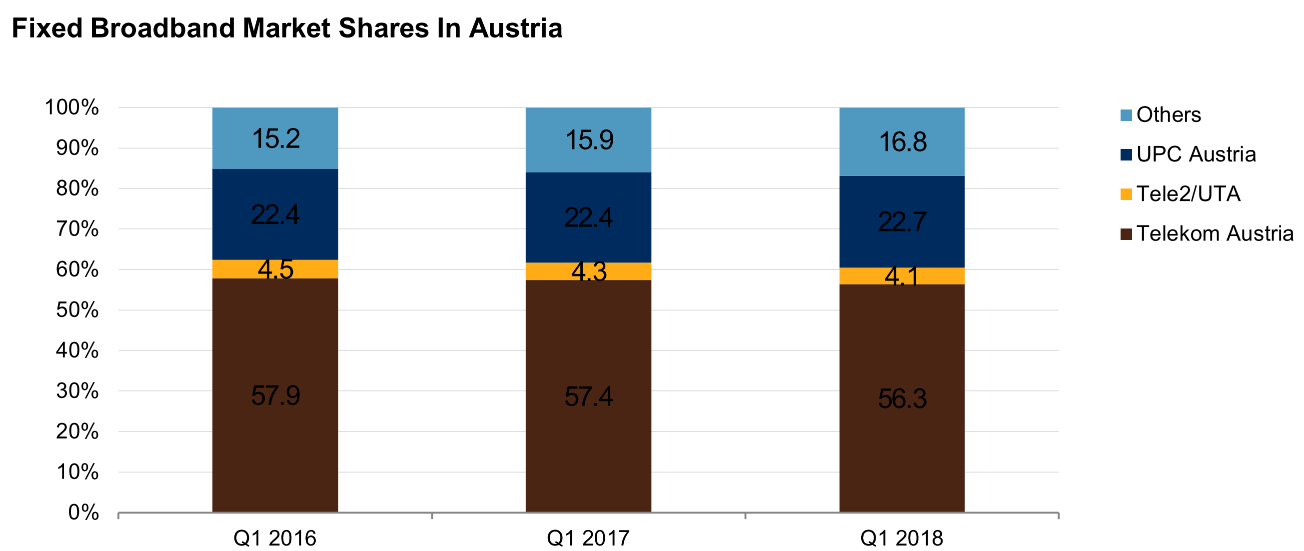
Chart 1



Source: RTR Telekom Monitors. HoT Telekom not reported seperately in 2015 and 2016.

As of the first quarter of 2018, the company reported a 56.3% share in fixed-line broadband, well ahead of UPC Austria (UPC; 22.7%; see chart 2).

Chart 2



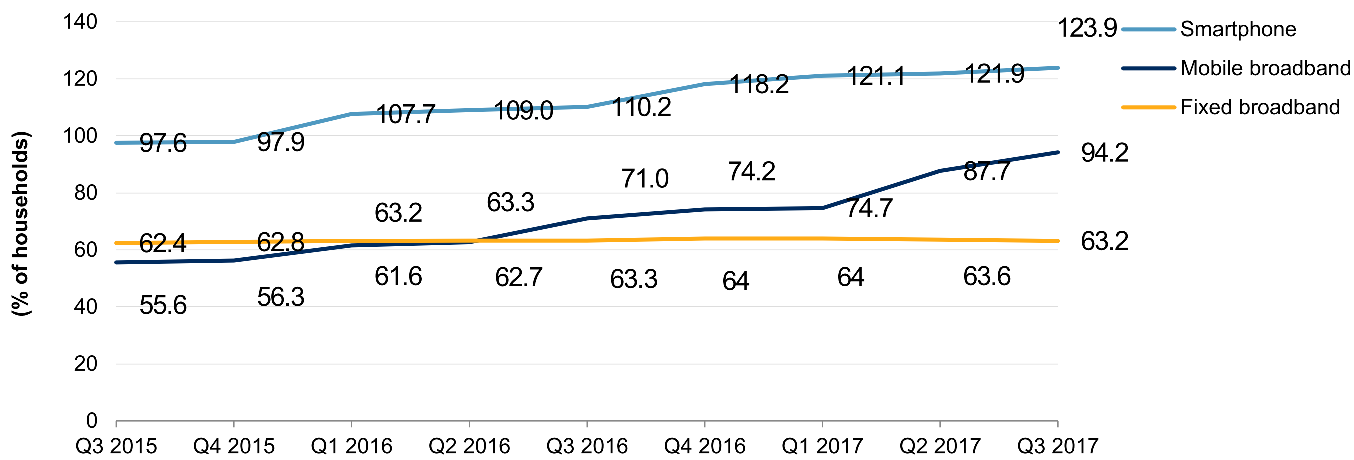
Source: Telekom Austria, first-quarter 2018 and 2017 earnings presentations.

Historically, the Austrian broadband market has oriented toward the development of mobile broadband, and fixed broadband penetration of about 29% of the population (about 64% of households) was still below the EU average of about 34% as of mid-2017 (European Commission data).

Chart 3

Broadband Penetration In Austria

Mobile broadband is on the rise



Source: RTR Telekom Monitor Third Quarter 2017. Smartphone includes data products that are bundled voice/text messages. Mobile broadband products do not include voice/text messages.

Competitive conditions have led to a decrease of Telekom Austria's mobile and fixed broadband subscriber market shares by about 2.5 percentage points (pps) and 1.6 pps, respectively, over the last two years. However, in light of ongoing market stabilization, we think the company will be able to avert further significant erosion of market share by continuously fine-tuning its go-to-market strategies, harnessing its strong brand, and maintaining its focus on the premium mobile segment, and making ongoing network investments.

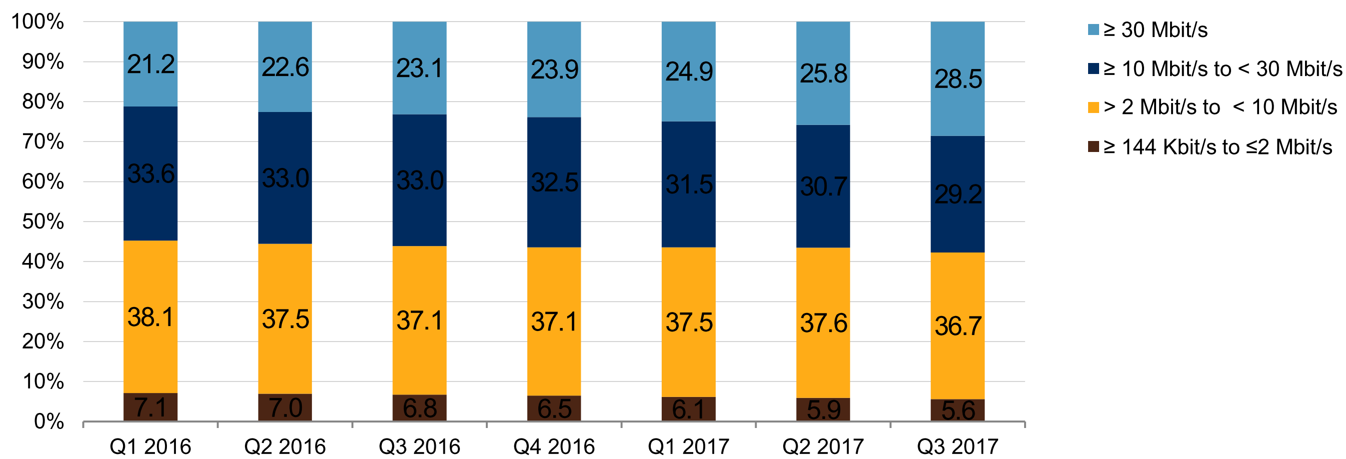
In addition, we think Telekom Austria is likely to increasingly benefit from its ample spectrum holdings. Once forthcoming spectrum reassignments from Hutchison Drei to Telekom Austria are completed in 2020, the company will hold half of the total spectrum in the 800 megahertz (MHz), 900 MHz, and 1,800 MHz bands available in Austria's three-player market, up from about 44% today. At the same time, we do not expect major shifts in spectrum distribution due to the upcoming spectrum auctions in 2018 and 2019. In terms of fourth-generation mobile network coverage, all three operators report similar levels, with more than 90% coverage for Telekom Austria, 97% for T-Mobile, and 98% for Hutchison Drei (company data). Likewise, the latest mobile network quality test by the German computer magazine connect assesses all three networks as "very good," though with Telekom Austria ranking somewhat ahead of Hutchison Drei and T-Mobile.

In fixed line, Telekom Austria benefits from the limited presence of alternative high-speed broadband infrastructure in its domestic market, in our opinion. As estimated from the latest published company data, the cable network of the main fixed broadband competitor UPC currently covers less than 37% of Austrian households, which is much lower than cable network coverage in other European markets. Outside the UPC footprint, Telekom Austria mainly competes with mobile broadband products, in addition to some competition based on regulated wholesale access to its own network and small local utility-owned cable networks. In these areas, we think the company's competitive position could be enhanced by its ongoing fixed network upgrade program, which aims to expand coverage with download speeds of up to 40 megabits per second (Mbps) to at least 65% of homes by 2019, up from 55% at the end of 2017. Including hybrid broadband products, which bundle fixed and mobile technologies, Telekom Austria was able to offer broadband with download speeds of at least 40 Mbps to 90% of all households at the end of 2017. Given that only 15% of Telekom Austria's customers subscribed to products with above 40 Mbps download speeds as of December 2017, we see further potential for upselling to higher speeds (see chart 4).

Chart 4

Retail Fixed-Line Broadband Access Lines By Speed In Austria

Access lines with bandwiths of above 30 Mbit/s are growing



Source: RTR Telekom Monitor Third Quarter 2017.

CEE markets diversify revenues and offer growth opportunities

We think that Telekom Austria's profitable and cash-generative operations in six CEE mobile markets, in five of which it holds No. 1 or No. 2 positions, help to diversify its revenue base and provide incremental scale. The largest international operations (by revenue) are its Croatian subsidiary, which reported a 36% mobile market share and an EBITDA margin of about 25% in the first quarter of 2018, Bulgaria-based Mobiltel (39% mobile market share and 29% EBITDA margin), and Belarus-based Velcom (about 42% mobile market share and 44% EBITDA margin). Since 2015, Telekom Austria has strengthened its ability to make fixed-mobile convergence offers in CEE through various acquisitions of smaller fixed-line or cable operators and is now able to offer fixed telephony, broadband, and TV in all markets except Serbia. In Serbia and in other countries without own fixed-line infrastructure, Telekom Austria utilizes WiFi routers to compete with converged players and to save wholesale access fees.

Competition remains intense

Competition in Austria's mobile market remains intense, reinforced by several MVNOs. Even though growth of the largest MVNO, Hofer Telekom, ebbed at 4.4% market share as of the third quarter of 2017, we think the presence of MVNOs will continue to constrain pricing and may require Telekom Austria to use other commercial measures to defend its revenue base, such as high outlays for marketing or high handset subsidies. Competitively priced mobile broadband products such as mobile WiFi routers also limit subscriber growth and pricing upside in fixed broadband, in our opinion. We think the pending acquisition of UPC by T-Mobile could modestly dent Telekom Austria's mobile market share over time because we expect T-Mobile to actively cross-sell its mobile plans to UPC's broadband and TV customers.

Telekom Austria's foreign mobile operations face fierce competition, particularly in Slovenia, Serbia, and Bulgaria. In our view, this contributes to revenue and earnings volatility, which we think is generally higher for the company's international operations than for its domestic business. In Austria and some other markets, the company also faces regulatory headwinds related to the phasing out of retail roaming charges in the EU. According to the company, these effects reduced EBITDA by about €20 million in 2017 and we expect a similar impact in 2018. Telekom Austria's subsidiary in Belarus is subject to high country risks and foreign exchange-rate volatility.

Domestic workforce structure burdens free cash flow

Despite a track record of cutting operating expenses, Telekom Austria's domestic cost structure exhibits some rigidity with respect to staff costs. At the end of 2017, about 47% of employees in the Austrian segment (equivalent to 20% of the workforce of the entire group) were civil servants who cannot be dismissed. Costs for early retirement, voluntary termination, or re-transfer of civil servants to the government resulted in cash payments for restructuring of €100 million-€110 million per year in 2014-2017. We expect restructuring payments will remain high at €90 million-€105 million annually in 2018-2019.

Peer comparison

Table 1

Telekom Austria AG Peer Comparison

	Telekom Austria AG	Koninklijke KPN N.V.	Elisa Oyj	Deutsche Telekom AG	Telekom Slovenije, d.d.
(Mil. €)	**--Fiscal year ended Dec. 31, 2017--**				
Revenues	4,382.5	6,363.0	1,787.4	74,947.0	716.2
EBITDA	1,357.9	2,314.5	641.5	24,915.5	195.5
Funds from operations (FFO)	1,178.4	2,047.1	551.7	20,754.6	183.8
Net income from continuing operations	344.5	390.0	336.6	3,461.0	11.2
Cash flow from operations	1,100.9	2,029.9	515.1	19,452.2	157.2
Capital expenditures	699.6	1,140.0	246.6	19,318.0	149.2
Free operating cash flow	401.3	889.9	268.5	134.2	7.9
Discretionary cash flow	251.3	392.1	28.9	(1,424.8)	(24.6)
Cash and short-term investments	202.4	1,185.0	44.3	3,319.0	107.2
Debt	3,338.7	7,395.8	1,237.2	78,177.4	381.5
Equity	2,604.1	3,168.8	1,039.8	42,470.0	680.9

Table 1

Telekom Austria AG Peer Comparison (cont.)					
	Telekom Austria AG	**Koninklijke KPN N.V.**	**Elisa Oyj**	**Deutsche Telekom AG**	**Telekom Slovenije, d.d.**
(Mil. €)	**--Fiscal year ended Dec. 31, 2017--**				
Adjusted ratios					
EBITDA margin (%)	31.0	36.4	35.9	33.2	27.3
Return on capital (%)	6.1	7.9	16.8	8.0	3.1
EBITDA interest coverage (x)	10.1	6.4	22.1	6.4	15.8
FFO cash interest coverage (x)	10.7	6.6	30.1	6.2	26.5
Debt/EBITDA (x)	2.5	3.2	1.9	3.1	2.0
FFO/debt (%)	35.3	27.7	44.6	26.5	48.2
Cash flow from operations/debt (%)	33.0	27.4	41.6	24.9	41.2
Free operating cash flow/debt (%)	12.0	12.0	21.7	0.2	2.1
Discretionary cash flow/debt (%)	7.5	5.3	2.3	(1.8)	(6.5)

Financial Risk: Intermediate

Telekom Austria's financial risk primarily reflects our view of meaningful M&A event risk and that FOCF remains constrained by significant network investments and restructuring payments. In our view, Telekom Austria remains determined to pursue acquisitions to consolidate its operations within the current footprint and, potentially, to expand opportunistically into new markets. Since the company's financial policy targets a 'BBB' rating and sets no quantitative caps or target ranges for its leverage, we think this implies a potential risk of incremental debt to fund M&A activity. As a result, we think the debt-to-EBITDA ratio could rise to 3.0x, or moderately higher, in the event of large acquisitions. This is higher than the 2.4x–2.7x range we forecast over the next three years without such deals. We consider it increasingly likely, however, that further sustainable improvements in FOCF generation, paired with the material headroom within Telekom Austria's current leverage, could help Telekom Austria to reduce its adjusted leverage to less than 3.0x sufficiently quickly after making a significant acquisition. Therefore, sustainably better FOCF could balance our concerns emanating from the flexibility afforded by the company's financial policy targets. At this point, we still expect that FOCF will remain at 8%-11% over the next two years, burdened by high cash outflows of €90 million-€105 million per year for restructuring and substantial capex (excluding spectrum) of 16%-18% (€720 million-€820 million per year) of sales, plus our expectation for some spending on new spectrum.

We note that our debt-to-EBITDA and FFO-to-debt figures for 2017 and beyond are enhanced by about 0.1x and one percentage point, respectively, following our adjustments for captive finance operations, which we apply to Telekom Austria's equipment installment plans (see "The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers," published on Dec. 14, 2015).

Financial summary

Table 2

Telekom Austria AG Financial Summary					
	--Fiscal year ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Revenues	4,382.5	4,211.5	4,026.6	4,018.0	4,183.9
EBITDA	1,357.9	1,319.0	1,300.7	1,212.9	1,217.4
Funds from operations (FFO)	1,178.4	1,137.9	1,058.4	979.7	998.0
Net income from continuing operations	344.5	412.8	392.6	(185.6)	52.1
Cash flow from operations	1,100.9	1,054.7	1,057.5	914.0	1,078.6
Capital expenditures	699.6	809.7	715.7	747.0	1,777.4
Free operating cash flow	401.3	245.0	341.8	167.0	(698.8)
Discretionary cash flow	251.3	194.6	291.5	127.9	(720.9)
Cash and short-term investments	202.4	464.2	911.5	1,032.5	211.2
Debt	3,338.7	3,337.7	3,570.2	3,476.7	4,521.3
Equity	2,604.1	2,443.3	2,126.0	1,918.0	1,159.1
Adjusted ratios					
EBITDA margin (%)	31.0	31.3	32.3	30.2	29.1
Return on capital (%)	6.1	7.2	8.5	5.9	6.5
EBITDA interest coverage (x)	10.1	7.6	6.3	5.9	6.6
FFO cash interest coverage (x)	10.7	6.9	6.8	6.2	5.2
Debt/EBITDA (x)	2.5	2.5	2.7	2.9	3.7
FFO/debt (%)	35.3	34.1	29.6	28.2	22.1
Cash flow from operations/debt (%)	33.0	31.6	29.6	26.3	23.9
Free operating cash flow/debt (%)	12.0	7.3	9.6	4.8	(15.5)
Discretionary cash flow/debt (%)	7.5	5.8	8.2	3.7	(15.9)

Liquidity: Strong

We assess Telekom Austria's liquidity as strong, based on our expectation that liquidity sources will cover uses by about 1.6x in the 12 months from April 1, 2018. In addition, we assess Telekom Austria's financial risk management as prudent, and we think that the company has well-established, solid relationships with its banks and a high standing in capital markets, as is demonstrated by a long track record of issuance using a variety of instruments, including hybrid debt, as well as low credit default swap spreads compared with peers.

Principal Liquidity Sources	Principal Liquidity Uses
For the 12 months started March 31, 2018: • Cash and liquid investments of about €57 million. • Availability of a €1 billion committed revolving credit facility due November 2019. • Sizable FFO of about €1.2 billion–€1.3 billion.	For the 12 months started March 31, 2018: • Short-term debt maturities of about €404 million. • Restructuring-related cash outflows and other modest working capital needs totaling €130 million-€150 million. • Capex (including spectrum payments) of €770 million-€840 million. • Dividends of €133 million. Telekom Austria is currently not subject to any covenants for any of its credit facilities.

Debt maturities

- 2021: €750 million
- 2022: €750 million
- 2023: €300 million
- 2026: €750 million

As of March 31, 2018. Excluding commercial paper, short-term debt, and minor amounts of finance leases.

Other Credit Considerations

The rating is currently constrained by our view that Telekom Austria's financial policy, which targets a 'BBB' rating, may not sufficiently limit the build-up of additional debt in the event of material M&A, creating a risk that leverage may deviate meaningfully from our base-case forecast. However, we think this risk could be offset over time by further improvements in FOCF.

Group Influence

The 'BBB' rating includes a one-notch uplift to reflect the potential for financial support from AMX. We think that Telekom Austria remains a vehicle for a potential expansion of AMX in Europe, particularly in CEE. Therefore, we anticipate that Telekom Austria will continue to be important to AMX's long-term strategy, is unlikely to be sold in the near-term, and that AMX is likely to support it, should it fall into financial difficulty.

Government Influence

We continue to regard Telekom Austria as a government-related entity. Our 'BBB' rating on Telekom Austria, which includes group support, is not enhanced further for potential government support, however. This is because we see a low likelihood of timely and sufficient extraordinary support for Telekom Austria from its 28.4% shareholder, the Republic of Austria, in the event of financial distress.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Positive/A-2

Business risk: Satisfactory

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Negative (-1 notch)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

- **Group credit profile:** a-
- **Entity status within group:** Moderately strategic (+1 notch from SACP)
- **Related government rating:** AA+
- **Likelihood of government support:** Low (no impact)

Subordination Risk

Virtually none of the €2.9 billion of debt reported by the Telekom Austria group on March 31, 2018, was issued by operating subsidiaries, and the vast majority of all debt is located at the group's financing entity, Telekom

Finanzmanagement GmbH. Therefore, we assess the subordination risk for group-level creditors as limited.

Reconciliation

Telekom Austria offers customers equipment installment plans to finance the cost of their mobile handsets. These plans qualify as captive finance operations under our criteria (see "Standard & Poor's Analytical Approach To Wireless Equipment Installment Plans," published March 30, 2016). In line with our captive finance methodology, we exclude the imputed debt and equity associated with the installment plans from Telekom Austria's consolidated financials. For this purpose, we use our view of the quality of the receivables portfolio to derive an appropriate debt-to-equity ratio and apply this to the company's total current and non-current installment plan receivables of about €166 million as of Dec. 31, 2017. For more details, please see paragraph 82 of "The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers," published Dec. 14, 2015. We currently do not make adjustments to revenues or EBITDA because we estimate the impact to be immaterial.

At year-end 2017, Telekom Austria reported a provision of about €630 million related to various restructuring measures. This figure reflects the net present value of social plans for employees, the estimated future personnel expenses of redundant civil servants until their retirement, and salary expenses for civil servants transferred to the government. The provision incurs interest, but we don't treat it as debt. Rather, we remove newly recorded provisions or reversals from reported EBITDA (about an €18 million negative effect on EBITDA in 2017, after about a €7 million positive effect in 2016) and, at the same time, deduct restructuring-related cash outflows (about €102 million in 2017).

For the purpose of calculating surplus cash, we deduct from reported cash our estimate of €30 million of cash typically held at the company's operations in what we assess as higher-risk countries, particularly Belarus and Macedonia.

Table 3

Reconciliation Of Telekom Austria AG Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2017--								
Telekom Austria AG reported amounts									
(Mil. €)	**Debt**	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	2,534.2	2,934.6	1,397.3	443.9	82.2	1,397.3	1,174.8	166.9	705.4
S&P Global Ratings' adjustments									
Interest expense (reported)	--	--	--	--	--	(82.2)	--	--	--
Interest income (reported)	--	--	--	--	--	14.8	--	--	--
Current tax expense (reported)	--	--	--	--	--	(61.1)	--	--	--
Operating leases	373.3	--	74.5	21.1	21.1	53.4	53.4	--	--
Intermediate hybrids reported as equity	300.0	(300.0)	--	--	16.9	(16.9)	(16.9)	(16.9)	--
Postretirement benefit obligations/deferred compensation	178.8	--	(1.9)	(1.9)	3.1	(5.0)	(3.3)	--	--

Table 3

Reconciliation Of Telekom Austria AG Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)

Surplus cash	(172.4)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	5.8	(5.8)	(5.8)	--	(5.8)
Share-based compensation expense	--	--	2.8	--	--	2.8	--	--	--
Captive finance operations	(133.1)	(33.3)	--	--	--	--	--	--	--
Asset retirement obligations	205.7	--	--	--	4.7	(4.0)	(1.4)	--	--
Non-operating income (expense)	--	--	--	14.1	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(99.8)	--	--
Non-controlling interest/minority interest	--	2.7	--	--	--	--	--	--	--
Debt--accrued interest not included in reported debt	30.0	--	--	--	--	--	--	--	--
Debt--unamortized capitalized borrowing costs	16.7	--	--	--	--	--	--	--	--
Debt--contingent considerations	5.6	--	--	--	--	--	--	--	--
EBITDA--gain/(loss) on disposals of PP&E	--	--	5.7	5.7	--	5.7	--	--	--
EBITDA--restructuring costs	--	--	(120.6)	(120.6)	--	(120.6)	--	--	--
Total adjustments	804.6	(330.5)	(39.5)	(81.5)	51.6	(218.9)	(73.9)	(16.9)	(5.8)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditures
Adjusted	3,338.7	2,604.1	1,357.9	362.4	133.9	1,178.4	1,100.9	150.0	699.6

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Corporates - General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22,

2014

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of June 28, 2018)

Telekom Austria AG	
Corporate Credit Rating	BBB/Positive/A-2
Corporate Credit Ratings History	
23-May-2017	BBB/Positive/A-2
11-Aug-2014	BBB/Stable/A-2
02-May-2014	BBB-/Watch Pos/A-3
23-Oct-2013	BBB-/Stable/A-3
Related Entities	
Telekom Finanzmanagement GmbH	
Issuer Credit Rating	BBB/Positive/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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