June 14, 2023

Mr. Martin Mayr
Telekom Austria AG
Lassallestrasse 9
Vienna, 1020
Austria

Dear Mr. Mayr:

Re: Indicative Rating Letter for Telekom Austria AG, Telekom Finanzmanagement GmbH

Fitch (see definition below) assigns the following ratings.

Telekom Austria AG	LT IDR	A- (Outlook Positive)	New Rating
	ST IDR	F1	New Rating

Telekom Finanzmanagement GmbH

Debt	Issue	Rating Type	Rating	Rating Action	RR	Identifiers
senior unsecured	EUR 300 mln 3.5% bond/note 04-Jul-2023	LT	A-	New Rating		XS0950055359(ISIN)
senior unsecured	EUR 750 mln 1.5% bond/note 07-Dec-2026	LT	A-	New Rating		XS1405762805(ISIN)

RATINGS KEY	OUTLOOK	WATCH
Positive	⊕	◆
Negative	⊖	◆
Evolving	⊙	◆
Stable	●	

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Applicable Criteria: Corporate Rating Criteria, Corporates Recovery Ratings and Instrument Ratings Criteria, Government-Related Entities Rating Criteria, Parent and Subsidiary Linkage Rating Criteria

Fitch Assigns Telekom Austria First-Time 'A-' Rating; Outlook Positive

Fitch Ratings has assigned Vienna-based Telekom Austria AG (TKA) a first-time Long-Term Foreign-Currency Issuer Default Rating (IDR) and a senior unsecured rating of 'A-'. The Outlook is Positive.

Fitch has also assigned a first-time Short-Term IDR of 'F1', reflecting our assessment of TKA's robust financial flexibility and financial structure. The ratings are provided on a private point in time basis.

TKA's ratings reflect its leading position in its domestic telecoms market which drives over 50% of total EBITDA and a portfolio of international assets in Central and Eastern Europe that provide some geographical diversification. TKA has one of the lowest leverage profiles in the European telecoms sector, supported by a conservative financial policy. Like many of its peers in Europe, the scale of free cash flows (FCF) is likely to remain constrained in the short to medium as the company invests in its fiber and 5G network infrastructure.

The Positive Outlook reflects the possibility of a rating upgrade of its parent America Movil (AMX, A-/Positive), which owns 51% of TKA. We assess TKA has moderate strategic links to AMX based on Fitch's Parent Subsidiary Linkage (PSL) Criteria which enables the company's rating to benefit from a one-notch uplift in the event that AMX was rated at a higher level. TKA's current rating is based on its Standalone Credit Profile (SCP) which is in line with AMX at 'A-'.

Key Rating Drivers

Solid Position in a Rational Domestic Market: Telekom Austria holds a mobile subscriber market share of around 38% and a leading position in its domestic fixed line market. It is one of three main mobile network operators and one of two principal local access network infrastructure providers in the country. TKA operates across retail, business, wholesale and PayTV segments enabling the company to provide convergent products and services that help drive economies of scale.

Geographic Diversification: Telekom Austria's CEE operations are in Bulgaria, Croatia, Belarus, Slovenia, Serbia and North Macedonia. Most of the company's international markets are two or three operator markets, that have already undergone some degree of consolidation. 5G spectrum allocations have been completed in all markets, except Serbia (revenue contribution of 7%) reducing the potential threat of new entrants.

Most of the markets are Euro denominated or pegged/linked to the Euro, and do not have meaningful foreign exchange exposure. TKA is exposed to political, economic and FX risks regarding its exposure to Belarus which contributes about 12% to group EBITDA. So far, the group has been able to repatriate dividends from the country.

Low Leverage and Conservative Financial Policy: Telekom Austria has a publicly committed financial policy to target leverage below 1.4x (based on company definition of net debt to EBITDA after leases). Leverage that is managed close to this level falls comfortably within the leverage thresholds of TKA's current 'A-' rating. The company has scope to deleverage further while growing dividends if desired. A track record or expectations that leverage is managed significantly lower in combination with improving FCF could drive a higher SCP rating.

Fitch's Base Case forecasts indicate that TKA's net debt to EBITDA after leases will decline to below 1.0x at the end of 2023 and will stay below this level over the next three years organically, ie. without higher-than-anticipated shareholder remuneration.

Tower Sale: TKA has announced plans to divest its tower assets. We consider mobile towers as non-core and believe that any divestment will not weaken the operating profile of the company. The impact on leverage will depend on the final transaction structure.

Moderate Strategic Links to Parent: TKA is currently rated on a standalone basis as its SCP is the same as the IDR of its parent AMX at 'A-'. However, based on Fitch's PSL criteria, TKA's rating would benefit from a one-notch uplift due to our assessment of strategic operational incentives of the parent to support TKA, if AMX's ratings were upgraded. This is reflected in the Positive Outlook for TKA's rating.

We view the strategic incentives for AMX to support TKA as medium. This reflects that TKA, represents around 15% of consolidated EBITDA for AMX and is a source of hard currency cash flows for AMX. We view the legal and operational incentives for AMX to support TKA as low. This reflects a lack of legal guarantees or cross defaults issued by the parent and operational synergies e.g. from procurement and knowledge sharing, that, are somewhat limited due to the differences in the markets in which AMX and TKA operate.

AMX acts in concert with Österreichische Beteiligungs AG (OBAG, a state fund) which owns 28% of TKA. Both parties have a shareholder agreement which we believe does not detract from AMX's strategic incentives to support TKA. The states ownership of TKA through OBAG does not warrant rating support on a standalone basis due to a low support score derived from our Government Related Entities (GRE) Criteria.

Peer Derivation Summary

TKA's rating is anchored around its domestic operations which drive over 50% of total EBITDA from a structurally stable and rationale market. The company's CEE operations are broadly neutral to the rating with benefits of geographic diversification being offset by dilution from more volatile cashflows from markets like Belarus and markets with

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predominantly mobile network only operations (Serbia , Slovenia and Belarus) that account for about 20% of total EBITDA.

TKA is rated on par with its European incumbent telecoms peer group such as Royal KPN NV (BBB/Stable). TKA's higher SCP rating reflects its more conservative leverage profile and financial policy. Competitor, PPF Telecom Group (BBB-/Stable) which also operates in CEE markets manages leverage at a higher level but also has a lower leverage capacity due to the partial sale of its network infrastructure to minority investors which weakens the operating profile.

TKA has slightly lower debt capacity than larger diversified western European telecom operators such as Deutsche Telekom AG (BBB+/Stable), Orange SA (BBB+ / Stable), and Vodafone Group Plc. (BBB / Stable) because of significantly smaller FCF scale.

The debt capacity of Telekom Austria is also set lower compared to larger global peers such as Verizon Communications Inc (A-/Stable), America Movil (parent) and Comcast (A-/Stable) that operate at the scale of 10-30x of Telekom Austria's EBITDA, while generating higher FCF margins.

Key Assumptions

- Low single digits revenue growth between 2023 and 2026
- Fitch-defined EBITDA margin (before restructuring), of 33% - 34% between 2023 and 2026
- Total cash tax of EUR185 million in 2023, with a broadly static effective tax rate over the next three years
- Capex to sales (excluding spectrum costs) of 19% -20% of revenues between 2023-2026
- Dividend payout of EUR213 million (EUR0.32 per share) for 2023 and EUR230 million (EUR0.34 per share) for 2024

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade in the IDR of parent AMX to 'A'.
- The SCP could be upgraded if:

1) Fitch-defined EBITDA net leverage was managed sustainably below 0.8x
2) Sustained growth in FCF leading to maintenance of FCF margins in mid-single digits.

Factors that could, individually or collectively, lead to a stable outlook:

- A stabilization in the Outlook of AMX without a rating upgrade.
- A one or two notch downgrade in the IDR of parent AMX

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Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A more than two-notch deterioration in the IDR of parent AMX assuming no change in Fitch assessment of PSL ties.
- The SCP could be downgraded if:

1) Fitch-defined EBITDA net leverage exceeded 1.5x on a sustained basis

2) Material deterioration in its domestic market position, group free cashflow generation and or operating environment of CEE operations.

3) Change in financial policy that targets leverage above the thresholds consistent with the rating.

Liquidity and Debt Structure

Robust Liquidity: At end-March 2023, Telekom Austria had EUR134 million of cash and cash equivalents and EUR1 billion undrawn revolving credit facility maturing in 2026. In addition, the company has access to EUR815 million of revolving bilateral credit lines under which EUR440 million was available at end of March-2023. Combined with good access to capital markets, this provides sufficient cover for near-term cash requirements. We note that EUR300 million bonds fall due in July 2023, which we expect will be refinanced with existing bilateral credit lines with end dates spread over 2024 and 2025.

A strong liquidity profile is a key driver to the company's financial flexibility and, in turn, its 'F1' Short-Term IDR. Essential to this is preclusion of the need to use external funding, except for already committed facilities in the next 24 months.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact Adrien Berby, Senior Analyst at +49 69 768076 136.

Sincerely,

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