

Corporates Ratings Navigator			
Publish Date:	12-Dec-14		
Sector Details:			
Sector:	Telecommunications		
Region:	Developed Markets - Europe		
Country:	Germany		
Country IDR:	AAA Stable		
Country IDR Action:	Affirmed		
Country Action Date:	18-Jul-14		
Country Ceiling:	AAA		
Ratings History			
Date	IDR	Stable	Action
01-Dec-14	BBB	Stable	Affirmed
14-Jan-14	BBB	Stable	Affirmed
23-Jul-13	BBB	Stable	Affirmed
13-Mar-13	BBB	Stable	Affirmed
16-Jan-13	BBB	Stable	New Rating

Factor Levels	Business Profile				Financial Profile			Issuer Default Rating			
	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Competitive Position	Diversification	Technology and Infrastructure	Regulatory Environment		Profitability	Financial Structure	Financial Flexibility
aaa											AAA
aa+											AA+
aa											AA
aa-											AA-
a+											A+
a											A
a-											A-
bbb+											BBB+
bbb											BBB Stable
bbb-											BBB-
bb+											BB+
bb											BB
bb-											BB-
b+											B+
b											B
b-											B-
ccc											CCC
cc											CC
c											C
d or rd											D or RD

Bar Chart Legend:			
Vertical Bars = Range of Rating Factor			
Bar Colors = Relative Importance			
<span style="color: red;">■</span>	Higher Importance		
<span style="color: blue;">■</span>	Average Importance		
<span style="color: lightblue;">■</span>	Lower Importance		
Bar Arrows = Rating Factor Outlook			
↑	Positive	↓	Negative
↕	Evolving	□	Stable
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Relevant Criteria & References			
<a href="#">Introducing Ratings Navigators for Corporates</a>			
<a href="#">Corporate Rating Methodology</a>			
<a href="#">Telecommunications: Ratings Navigator Companion</a>			

Direct Peer Group				
Company Name	IDR	Action	Action Date	
Deutsche Telekom AG	BBB+ Stable	Affirmed	31-Oct-2014	
Vodafone Group Plc	BBB+ Stable	Affirmed	12-Nov-2014	
Orange S.A.	BBB+ Neg.	Affirmed	14-Jan-2014	
Telefonica SA	BBB+ Neg.	Affirmed	12-Nov-2014	
BT Group plc	BBB Positive	Affirmed	12-Nov-2014	
TDC A/S	BBB Stable	Affirmed	02-Dec-2014	
Royal KPN N.V.	BBB- Stable	Affirmed	12-Nov-2014	
Telecom Italia SpA	BBB- Neg.	Affirmed	08-Sep-2014	
Sunrise Communications Holdings S.A.	BB- Stable	Affirmed	12-Nov-2014	
Wind Telecomunicazioni SpA	B+ Stable	Downgrade	24-Jun-2014	

Drivers & Sensitivities	
<b>E-Plus Adds Scale and Synergies</b>	The E-Plus acquisition closed in October 2014, making Telefonica Deutschland (TEF DE) Germany's largest mobile operator by customers and the market number two/three by revenue. Margins should improve with scale and planned synergies.
<b>High Dividends and Operating Leases</b>	Fitch considers the intended EUR700m 2015 dividend payment a floor for future payouts. High operating leases mean that leased-adjusted metrics are significantly affected.
<b>Ratings Less Constrained</b>	The leverage-neutral structure of the E-Plus deal, the company's enhanced operating profile and better economies of scale improve ratings upside. Integration challenges, restructuring and spectrum costs provide near-term constraints.
<b>Challenging Operating Conditions</b>	Despite operating in Europe's largest telecoms market, revenue and EBITDA pressures have been driven by prudent consumption trends and a competitive market. Competitors are likely to seek to take advantage of the company's integration challenges.
<b>Weak Parent-Subsidiary Links</b>	TEF DE is rated on a stand-alone basis due to its independent management, governance and financial policy. Fitch believes it could be rated up to two notches higher than its parent; this factor was more important during the eurozone crisis.
<b>Medium-Term Upside</b>	Ratings pressure is likely if FFO-net adjusted leverage was expected consistently to exceed 3.25x. A metric consistently around 2.5x or below along with delivery of planned operational and cash flow improvements could lead to an upgrade.

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc			

Competitive Position

a	Market Position	a	Very strong and sustainable market share in primary markets (> 30%).
a-	Competition	bbb	Primary markets characterized by medium competitive intensity and/or moderate barriers to entry.
bbb+	Scale - \$ EBITDAR	bbb	>1 billion
bbb			
bbb-			

Technology and Infrastructure

a	Ownership of Network	a	Owns almost all of its infrastructure.
a-	Network and Service Quality	bbb	Solid network coverage and capacity, using some up-to-date technology, with average service quality.
bbb+			
bbb			
bbb-			

Profitability

a-	Volatility of Cash Flow	bbb	Volatility and visibility of cash flow in line with industry average.
bbb+	EBITDAR Margin	bbb	30%
bbb	FFO Margin	bbb	24%
bbb-			
bb+			

Financial Flexibility

aa-	Financial Discipline	a	Clear commitment to maintain a conservative policy with only modest deviations allowed.
a+	Liquidity	a	Very comfortable liquidity. Well-spread debt maturity schedule. Diversified sources of funding.
a	FFO Fixed Charge Cover	bbb	4.0x
a-	FX Exposure	aa	No material FX mismatch.
bbb+			

Management and Corporate Governance

a	Management Strategy	a	Coherent strategy and good track record in implementation.
a-	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb+	Group Structure	a	Group structure shows some complexity but mitigated by transparent reporting.
bbb	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bbb-			

Diversification

bbb	Service Platform Diversification	bbb	Operates several service platforms in primary markets but one is dominant.
bbb-	Geographic Diversification	bb	Limited geographic diversification.
bb+			
bb			
bb-			

Regulatory Environment

a-	Regulatory Risk	bbb	Moderate.
bbb+			
bbb			
bbb-			
bb+			

Financial Structure

aa-	Lease Adjusted FFO Gross Leverage	a	2.2x
a+	Lease Adjusted FFO Net Leverage	a	2.0x
a	Net Debt/(CFO - Capex)	a	4.0x
a-	Total Adjusted Debt/Operating EBITDAR	a	2.0x
bbb+			

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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