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Rating Action: Moody's affirms DKT's B1 ratings and upgrades to Ba3 the ratings on TDC's senior unsecured notes and MTN programme; outlook stable

22 Oct 2018

Madrid, October 22, 2018 -- Moody's Investors Service, ("Moody's") has today affirmed the B1 corporate family rating (CFR) and B1-PD probability of default rating (PDR) of DKT Holdings ApS ("DKT"), the indirect parent of Danish telecom operator TDC A/S ("TDC" or "the company"). Moody's has also affirmed the Ba3 ratings on the Term Loan B and revolving credit facility (RCF) raised by TDC, as well as the B3 ratings on the senior secured notes issued by DKT Finance ApS (a subsidiary of DKT and indirect parent company of TDC). Concurrently, Moody's has upgraded to Ba3/(P)Ba3 from B1/(P)B1 the rating on TDC's senior unsecured notes and MTN programme, respectively, and aligned them with the ratings on TDC's Term Loan B and RCF. The outlook on all ratings is stable.

The rating action follows TDC's announcement that it plans to use a substantial part of the cash proceeds from the completed sale of its Norwegian business Get (Get AS and its subsidiaries including the Norwegian B2B business, TDC Norway) to Telia Company AB (Baa1, stable) to partially prepay at par its Term Loan B under TDC's senior secured credit facilities. Out of the DKK 17.0 billion cash consideration, TDC said it will use approximately DKK 15 billion (equivalent) to repay its Term Loan B. The company also said that it is currently reviewing its capital structure and governing documents related to the outstanding debt of TDC and that it will make a final determination of the application of the remaining proceeds of around DKK 2 billion (equivalent) in the coming months. The company further noted that any sales proceeds not applied towards debt reductions at the level of TDC or DKT Finance ApS may be applied for reinvestment in TDC's Danish activities and other general corporate purposes.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RATIONALE FOR AFFIRMATION OF DKT's B1 RATINGS

Moody's has affirmed DKT's B1 CFR with a stable outlook to reflect that while the use of a substantial amount of the proceeds from the sale of Get to repay debt is credit positive, as the group's adjusted debt/EBITDA will reduce to 5.0x on a pro-forma basis (an improvement of around 1.2x), its credit metrics will remain within the expectations for the current B1 rating and the debt reduction offsets the company's weakened business profile following the sale of TDC's only international asset.

The ratings of DKT reflect the combination of the group's strong business profile and expectation of improved operating performance, offset by the impact on the group's credit metrics from the substantial debt incurred to finance the buyout by a consortium of Danish pension funds and Macquarie Infrastructure and Real Assets in May 2018, despite the proposed partial repayment of its bank facility. Moody's expects that the group will continue to be managed with a somewhat aggressive financial profile under its current ownership structure with limited expected deleveraging given limited free cash flow generation.

The rating also reflects the strength of TDC's market position in Denmark, as demonstrated by a 63% market share in landline telephony (retail and wholesale), 51% in broadband, 56% in TV (combining CATV, PayTV and internet protocol TV) and 41% in mobile voice services. Competition in the Danish mobile market remains intense but TDC has sustained price increases while maintaining relatively stable churn levels and defending its market share. TDC has strong fixed and mobile network platforms owing to high capex levels in recent years and is the owner of the majority of the critical telecom infrastructure in Denmark, including cable assets, a differentiating factor compared to other European telecom peers.

The rating also takes into consideration the expectation that the company's EBITDA will stabilize in 2018 and 2019, building on the recovery of its organic EBITDA in 2017. Moody's expects revenue declines to persist in 2018, but growth to reach near stabilization in 2019. This will be supported by the continued recovery in consumer mobile ARPU trends amid growth in demand for data and market repair, and a gradual recovery in its small and medium-sized business segment in Denmark, under pressure for a number of years due to intense competition. Moody's expects further upside to be provided by the cost-saving initiatives implemented

by management, designed to maintain margins at or above 40%.

RATIONALE FOR UPGRADE TO Ba3 OF TDC's SENIOR UNSECURED NOTES AND MTN PROGRAMME

TDC's senior unsecured notes and MTN programme are now rated Ba3, at the same level as TDC's €3.9 billion Term Loan B and €500 million revolving credit facility. Moody's said that the previous rating differentiation reflected the benefits of the security package, including a pledge over the shares of Get. Following the sale of Get, the benefit provided by the Norwegian security package of the credit facilities falls away and therefore Moody's has aligned the ratings on the Term Loan B, revolving credit facility and TDC's senior unsecured notes and MTN programme.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that TDC's operating performance will gradually improve through a combination of an improving pricing environment in mobile, more focused and agile marketing strategy, efficiency gains and capital spending optimisation. The outlook also reflects Moody's expectation that TDC will execute its strategy, which will enable the company to stabilise its operating performance in 2018 and deliver growth from 2019 onwards. It also takes into account Moody's expectation that the group's leverage is likely to remain stable at around 5.0x over time.

WHAT COULD CHANGE THE RATING UP/DOWN

DKT's ratings could be upgraded as a result of improvements in the company's credit metrics, such as adjusted debt/ EBITDA improving to below 5.0x on a sustainable basis, and adjusted retained cash flow/gross debt improving sustainably to a level in the mid-teens, in an improved business environment.

DKT's ratings could be lowered if: (1) the company was to deviate from the execution of its new strategy; (2) the company was to embark on an aggressive expansion/acquisition programme, most likely outside its existing footprint, leading to higher financial, business and execution risk; or (3) its credit metrics were to deteriorate, including adjusted retained cash flow/gross debt falling to below 8% or adjusted gross debt/EBITDA trending towards 6.0x on an ongoing basis.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Telecommunications Service Providers published in January 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: DKT Holdings ApS

.... Probability of Default Rating, Affirmed B1-PD

.... Corporate Family Rating, Affirmed B1

..Issuer: DKT Finance ApS

....BACKED Senior Secured Global Notes, Affirmed B3

..Issuer: TDC A/S

....Senior Secured Bank Credit Facility, Affirmed Ba3

Upgrades:

..Issuer: TDC A/S

....Senior Unsecured Regular Bond Debenture, Upgraded to Ba3 from B1

....Senior Unsecured MTN Program, Upgraded to (P)Ba3 from (P)B1

Outlook Actions:

..Issuer: DKT Holdings ApS

....Outlook, Remains Stable

..Issuer: DKT Finance ApS

....Outlook, Remains Stable

..Issuer: TDC A/S

....Outlook, Remains Stable

COMPANY PROFILE

TDC A/S is the principal provider of fixed-line, mobile, broadband data and cable television services in Denmark. In 2017, the company generated revenue and EBITDA of DKK20.3 billion and DKK8.2 billion, respectively.

In May 2018, TDC was acquired by DKT, a company controlled by a consortium of Danish pension funds (PFA, PKA, ATP) and Macquarie Infrastructure and Real Assets.

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