TDC A/S

Update

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F3
Senior unsecured	BBB

Outlook

Foreign-Currency Long-Term IDR	Stable

Financial Data

TDC A/S

	Dec 13	Dec 12
Revenue (DKKm)	24,605	26,116
Revenue growth (%)	-5.8	-0.7
EBITDA (DKKm)	10,149	10,320
EBITDA margin (%)	41.2	39.5
FFO (DKKm)	7,139	6,748
FFO margin (%)	29.0	25.8
Capex (DKKm)	3,696	3,492
Capex to sales (%)	15.0	13.4
EBITDA minus capex (DKKm)	6,453	6,828
EBITDA minus capex margin (%)	26.2	26.1
Net debt/EBITDA (x)	2.1	2.1
FFO adjusted net leverage (x)	3.3	3.5

Related Research

2014 Outlook: European Telecoms and Cable (November 2013)

Western European Telecoms Peer Study (January 2013)

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Key Rating Drivers

Strong Credit Profile: TDC A/S's credit profile is underpinned by its strong domestic position, particularly in the fixed-line business. Its ability to reduce costs has allowed it to limit the decline in EBITDA over the past few years, despite intense competition and increased regulatory costs. While these competitive and regulatory drags should ease, Fitch Ratings anticipates that the pace of efficiency gains will also slow.

Strong Fixed-Line Market Position: TDC owns both the Danish incumbent copper network and the majority of the cable infrastructure in the country. This gives it an exceptionally strong fixed-line position compared with all other European incumbents and helps it to generate best-in-class EBITDA margins. Excluding the Nordic business, the company's 2013 EBITDA margin was 46.1%. Reflecting the company's strong operating profile, Fitch has increased the funds from operations (FFO) adjusted net leverage downgrade guidance to 3.75x from 3.5x.

Potential Competitive Threat: In recent years, TDC's fixed-line market share has been partly eroded by the aggressive fibre rollout and the competitive moves of utility operators. The future strategy of these utility providers remains uncertain. In addition, the impact of the acquisition of Denmark's only other main cable operator by one of these utility providers could pose a risk to TDC's strong fixed line position. This acquisition occurred at end-2012, so any impact may only begin to materialise within the next few years.

Comfortable Headroom: TDC's EBITDA fell to DKK10.15bn in 2013, from DKK10.3bn in 2012 and DKK10.5bn in 2011. Most other European incumbents suffered more severe declines within the same period. The company's guidance is for a further decline in EBITDA in 2014 but for it to remain above DKK9.8bn. Such a decline would be compatible with the 'BBB rating', which is also supported by the company's leverage policy limit of 2.2x net debt/EBITDA on average over the financial year.

Cost Base Flexibility: Despite TDC suffering from difficult competitive and regulatory drags, the company's ability to reduce costs has allowed it to limit the decline in EBITDA over the past few years. TDC's cost base flexibility is amongst the strongest in its peer group, although Fitch expects that the pace of these cost reductions might diminish over the coming few years.

Increased Fixed-to-Mobile Substitution: As TDC's flat-rate mobile telephony packages have proliferated, the company has seen an increase in fixed-to-mobile substitution, with low average revenue per-user (ARPU) landline subscribers choosing to drop their landline voice product in favour of mobile only. Landline telephony contributed 17% of the company's gross profit in 2013, so a further acceleration in this trend is likely to put additional pressure on group EBITDA.

Rating Sensitivities

Increased Leverage: A negative rating action could occur if FFO adjusted net leverage exceeds 3.75x over a sustained period of time. A marked deterioration in TDC's operating environment or adverse regulatory decisions could also lead to a downgrade.

For the rating to be upgraded, TDC must demonstrate that its strong qualitative factors translate into improved financial performance, in addition to maintaining FFO adjusted net leverage below 3.0x.

Peer Group

Issuer	Country
BBB	
BT Group plc	United Kingdom
BBB−	
Royal KPN N.V.	Netherlands

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
10 Mar 14	BBB	Stable
13 Mar 13	BBB	Stable
20 Dec 12	BBB	Stable
17 Sep 12	BBB	Stable
13 Dec 11	BBB	Stable
14 Dec 10	BBB	Stable
3 Dec 10	BB	RWP
23 Sep 10	BB	Positive
26 Nov 09	BB	Positive
20 Jan 09	BB−	Positive
20 Jun 07	BB−	Stable
25 Apr 07	BB−	RWN
8 May 06	BB−	Stable
19 Apr 06	BB−	Stable
12 Apr 06	BB−	Stable
14 Feb 06	NR	
7 Feb 06	BBB+	RWN
7 Oct 05	BBB+	RWN
28 Jun 05	BBB+	Stable

"RW" denotes Rating Watch

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating factor	Status[a]	Trend
Operations	Average	Improving
Market position	Strong	Improving
Finances	Average	Neutral
Governance	Average	Neutral
Geography	Weak	Neutral

[a] Relative to other 'BBB' rated telecom issuers
Source: Fitch

Related Criteria

Corporate Rating Methodology (August 2013)

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Incumbent telecom operators have mature but relatively stable cash flows in their home markets. In most cases this is complemented by a degree of diversification, developed either in adjacent or emerging markets. Domestic-market growth is mature, both in fixed and mobile segments, where market saturation and competition make further subscriber growth difficult. There is some decoupling between northern and southern European markets, with southern European revenue appearing under greater pressure.

Financial Risks

In fixed line, maturing broadband markets and continued competition from alternative networks and cable TV providers across western Europe are putting pressure on top-line growth. Incumbents have been investing in their networks so that they can offer high-speed broadband and IPTV (internet protocol TV) products.

Mobile revenue is proving more susceptible to the economic downturn than previously expected. Convergence and multimedia services will continue to keep capex and investments in subscriber acquisition and retention high. Over the longer term, the industry needs to find ways to monetise the strong growth in data traffic to avoid continued erosion in revenue and margins, while keeping investment in new technologies high.

Peer Group Analysis

	BT BBB/Stable	TDC BBB/Stable	KPN BBB−/Stable	Telecom Italia BBB−/Negative
Revenue growth (%)	-0.4	-5.8	-9.3	-9.1
EBITDA (EURm)	7,224	1,361	3,005	9,540
EBITDA margin (%)	33	41	36	41
EBITDA minus Capex margin (%)	20	26	16	22

Source: Fitch, companies. Financials are for LTM Dec 2013. KPN values are pro forma for expected E-plus disposal

Key Credit Characteristics

Fitch expects anaemic revenue growth in the mature western markets, but growth from international assets combined with cost-cutting measures should minimise the decline in profitability. Cash-flow growth remains limited, and Fitch expects most incumbents to remain cautious on dividend distributions, while seeking to keep leverage at the current levels.

Overview of Companies

BT Group plc (BBB/Stable) – is facing strong broadband and triple-play competition. BT's fibre roll-out should help service differentiation, but execution risks remain, especially around the company's content and TV strategy. The company has demonstrated a very strong ability to cut costs, which supports the rating. Fitch expects the continuing cost-efficiency savings and the turnaround of Global Services to help with the absorption of ongoing content costs.

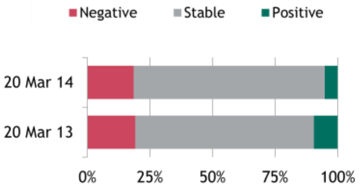
Royal KPN N.V. (BBB−/Stable) – is the Dutch incumbent with leading domestic positions and operations in Germany and Belgium. The ratings have been weakened by intensifying domestic competition. The company's 2013 rights and hybrid issuances, as well as the pending disposal of E-plus strengthen the balance sheet.

Telecom Italia SpA (BBB−/Negative) – has a strong domestic position, despite facing intense competitive pressure in its mobile business. High profitability and strong cash-flow generation in Italy are complemented by the attractive growth potential of its Brazilian mobile operations, although that growth slowed in 2013

TDC A/S — Telecommunications Median — Developed BBB Median — Source: Company data; Fitch

Distribution of Sector Outlooks

Directional Outlooks and Rating Watches



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

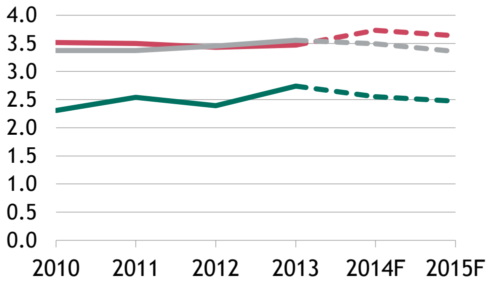
- continued pressure on EBITDA, due to the competitive and regulatory drags;
- this pressure partially mitigated by continued cost savings;
- dividends to be maintained in line with management's approximate 90% payout ratio;
- net debt/EBITDA likely to remain within the company's policy of 2.2x on average throughout the year.

Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid minus interest received plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "*Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format*" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

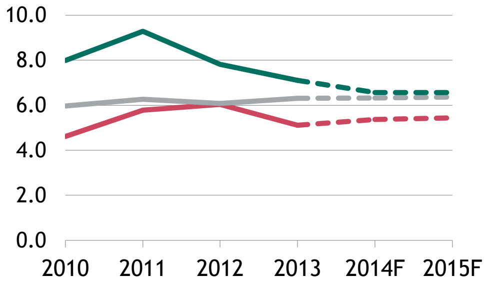
Leverage

including Fitch expectations



Interest Cover

including Fitch expectations



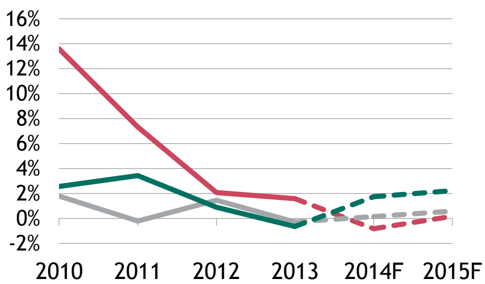
Debt Maturities and Liquidity at Dec 2013

Debt maturities	**(DKKm)**
2014	0
2015	8,009
2016	0
2017	0
After 2017	14,627
Cash and equivalents	1,172
Undrawn committed facilities (expiry)	
EUR200m facility due 2014	0
EUR500m facility due 2016	0

Source: Fitch

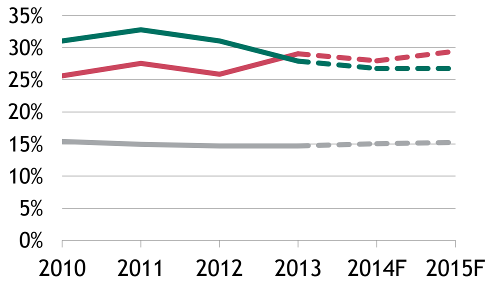
FCF/Revenues

including Fitch expectations



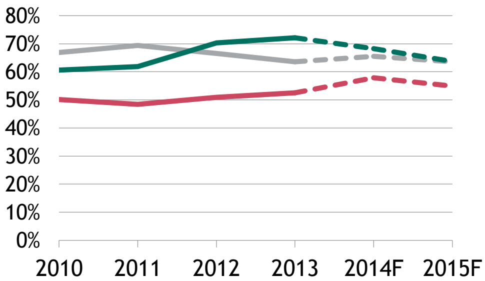
FFO Profitability

including Fitch expectations

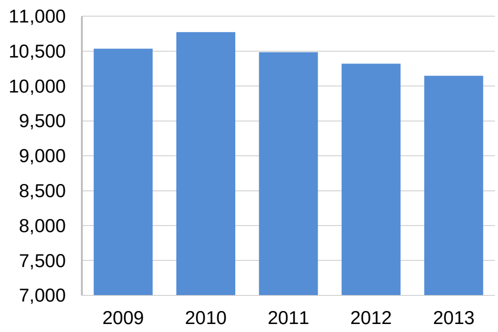


Capex/CFO

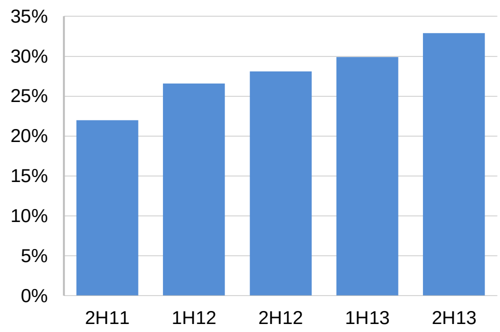
including Fitch expectations



TDC EBITDA
(DKKm)



TDC/Fullrate Tripleplay Penetration



TDC
FINANCIAL SUMMARY

	31 Dec 2013 DKKm Year End	31 Dec 2012 DKKm Year End	31 Dec 2011 DKKm Year End	31 Dec 2010 DKKm Year End	31 Dec 2009 DKKm Year End
Profitability					
Revenue	24,605	26,116	26,304	26,167	26,079
Revenue Growth (%)	(5.79)	(0.72)	0.52	0.34	(26.76)
Operating EBIT	5,111	5,269	5,274	4,981	5,590
Operating EBITDA	10,149	10,331	10,501	10,337	10,249
Operating EBITDA Margin (%)	41.25	39.56	39.92	39.50	39.30
FFO Return on Adjusted Capital (%)	18.73	18.16	18.08	17.94	15.42
Free Cash Flow Margin (%)	1.57	1.70	7.33	13.59	(17.14)
Coverages (x)					
FFO Gross Interest Coverage	5.11	4.21	5.79	4.61	3.67
Operating EBITDA/Gross Interest Expense	6.33	5.60	7.69	5.87	4.22
FFO Fixed Charge Coverage (inc. Rents)	3.45	3.01	3.66	3.22	2.85
FCF Debt-Service Coverage	1.15	1.14	0.64	2.69	(0.33)
Cash Flow from Operations/Capital Expenditures	1.91	1.91	2.07	2.00	1.90
Debt Leverage of Cash Flow (x)					
Total Debt with Equity Credit/Operating EBITDA	2.31	2.24	2.16	2.29	3.36
Total Debt Less Unrestricted Cash/Operating EBITDA	2.20	2.14	2.02	2.21	3.28
Debt Leverage Including Rentals (x)					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	1,085	1,099	1,093	1,099	1,081
Gross Lease Adjusted Debt/Operating EBITDAR	2.86	2.79	2.72	2.84	3.80
Gross Lease Adjusted Debt /FFO+Int+Rentals	3.47	3.60	3.50	3.52	4.31
FFO Adjusted Net Leverage	3.34	3.49	3.33	3.43	4.23
FCF/Lease Adjusted Debt (%)	1.20	1.40	6.12	10.96	(10.39)
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	2.83	2.76	2.68	2.80	3.80
Balance Sheet Summary					
Cash and Equivalents (Unrestricted)	1,172	973	1,489	831	763
Restricted Cash and Equivalents	n.a.	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	133	170	3,816	216	3,787
Long-Term Senior Debt	23,356	22,922	18,912	23,430	30,611
Subordinated debt	n.a.	n.a.	n.a.	n.a.	n.a.
Equity Credit	n.a.	n.a.	n.a.	n.a.	n.a.
Total Debt with Equity Credit	23,489	23,092	22,728	23,646	34,398
Off-Balance-Sheet Debt	8,680	8,792	8,744	8,792	8,648
Lease-Adjusted Debt	32,169	31,884	31,472	32,438	43,046
Fitch- identified Pension Deficit	n.a.	n.a.	n.a.	n.a.	n.a.
Pension Adjusted Debt	32,169	31,884	31,472	32,438	43,046
Cash Flow Summary					
Operating EBITDA	10,149	10,331	10,501	10,337	10,249
Gross Cash Interest Expense	(1,603)	(1,844)	(1,365)	(1,761)	(2,429)
Cash Tax	(1,508)	(1,555)	(1,715)	(1,500)	(434)
Associate Dividends	14	7	4	34	7
Other Items before FFO (incl. interest receivable)	101	(184)	(170)	(409)	(93)
Funds from Operations	**7,153**	**6,755**	**7,255**	**6,701**	**7,300**
Change in Working Capital	49	130	(67)	571	147
Cash Flow from Operations	**7,202**	**6,885**	**7,188**	**7,272**	**7,447**
Total Non-Operating/Non-Recurring Cash Flow	n.a.	758	n.a.	n.a.	n.a.
Capital Expenditures	(3,779)	(3,606)	(3,481)	(3,646)	(3,928)
Dividends Paid	(3,036)	(3,592)	(1,780)	(70)	(7,990)
Free Cash Flow	**387**	**445**	**1,927**	**3,556**	**(4,471)**
Net (Acquisitions)/Divestitures	(337)	(165)	(260)	(285)	(923)
Net Equity Proceeds/(Buyback)	0	(750)	0	(9,000)	0
Other Cash Flow Items	604	(410)	(91)	16,549	6,791
Total Change in Net Debt	654	(880)	1,576	10,820	1,397
Working Capital					
Accounts Receivable Days	60	64	63	77	105
Inventory Days	67	43	56	83	83
Accounts Payable Days	886	1,000	1,047	1,229	1,128

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