TDC A/S

Update

Ratings

Foreign Currency

Long Term IDR	BBB
Short Term IDR	F3
Senior unsecured	BBB
Subordinated	BB+

Outlook

Long Term IDR	Negative

Financial Data

TDC A/S

	Dec 14	Dec 13
Gross revenues (DKKm)	23,344	23,986
EBITDA (DKKm)	9,804	9,979
Operating EBITDA margin (%)	42.0	41.6
Funds flow from operations (DKKm)	6,961	7,153
FFO fixed charge coverage (x)	4.34	4.57
FFO adjusted leverage (x)	5.21	3.34
FFO adjusted net	4.65	3.18

Related Research

Telecoms Rating Navigator Companion Report (November 2014)

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Key Rating Drivers

Slower Pace of Deleveraging: TDC A/S's rating is underpinned by the group's strong operating profile in Denmark. The change to a Negative Outlook in February 2015 reflects a potentially slower pace of deleveraging than originally anticipated following the acquisition of Norwegian cable operator GET in 4Q14. Competitive and regulatory pressures are likely to weigh on EBITDA and the rate at which TDC can reduce leverage. Fitch now expects FFO adjusted net leverage to fall below 3.75x (a key leverage threshold for the 'BBB' rating) in 2017.

Strong Domestic Position: TDC owns both the Danish incumbent copper network and the majority of the cable infrastructure in the country. This gives the company a strong fixed-line position compared with all other European incumbents and helped the company to generate domestic EBITDA margins of 46% in 2014 including headquarter costs. This is reflected in the FFO-adjusted net leverage downgrade guidance of 3.75x, which is at the higher end of the rating category.

Increasing Competition and Regulation: Competition and regulation are expected to have a significant negative impact on TDC's domestic business over the next three years. The main points of pressure are likely to be driven by a loss of mobile virtual network operator (MVNO) contracts, continued losses in fixed-line telephony and competitive pressure in the B2B segment.

Fitch expects regulatory pressure on broadband wholesale prices and retail roaming is expected to amount to a gross profit loss of DKK100m-DKK150m by 2015 or approximately 0.5% of 2014 group revenues. Cable TV regulation could add to this from 2016.

GET Acquisition: In September 2014 TDC announced the acquisition of the Norwegian cable operator GET for EUR1.69bn. The acquisition was funded through a combination of debt, hybrids and a reduction in dividend payments. The transaction aims to improve TDC's growth profile, increase diversification and gain greater exposure to cable. TDC also aims to generate revenue and cost synergies of EUR22m per annum by 2017.

Managing a Leverage Spike: The debt-funded nature of the GET transaction increased leverage, lifting the group's FFO adjusted net debt to 4.7x at end-2014 from 3.4x in September 2014. Fitch expects TDC's leverage will decline to 3.7x by 2017 and further thereafter. We expect deleveraging to be achieved through a combination of operating cash flow, lower dividends and EUR750m of recently issued hybrid securities. Execution of both the company's operational and financial strategy is key to meeting its deleveraging trajectory.

Rating Sensitivities

Leverage High: FFO-adjusted net leverage continuing to exceed 3.75x on a sustained basis due to a lack of progress in deleveraging during 2015 would probably lead to a downgrade. Any deterioration in TDC's operating environment or unfavourable regulation would also be seen negatively.

The Outlook would be revised to Stable on expectations that FFO-adjusted net leverage will fall to below 3.75x on a sustained basis, combined with stabilisation EBITDA trends and no further deterioration in competitive and regulatory environment. An upgrade is currently unlikely over the short to medium term. However, FFO-adjusted sustainably below 3.0x could lead to an upgrade to ‘BBB+’.

Peer Group

Issuer	Country
BBB	
BT Group plc	United Kingdom
BBB−	
Royal KPN N.V.	Netherlands
Telecom Italia SpA	Italy

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
17 Mar 15	BBB	Negative
9 Feb 15	BBB	Negative
2 Dec 14	BBB	Stable
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

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

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

[a] Relative to Peer Group
Source: Fitch

Related Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (May 2014)

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 ongoing erosion in revenue and margins, while keeping investment in new technologies high.

Peer Group

2014	BT plc BBB/Positive	TDC A/S BBB/Negative	Royal KPN BBB−/Positive	Telecom Italia BBB−/Negative
Gross revenue (EURm)	22,687	3,130	8,083	21,573
EBITDA margin (%)	33.5	42.0	31.8	38.0
FFO (EURm)	5,696	933	1,399	5,197
FFO adj. net leverage	1.82	4.65	3.83	4.26

Source: Fitch, companies, Figures in Euros, translated using average FX rates

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

Telecom Italia SpA (BBB−/Negative) – has a strong domestic position, despite facing intense competitive pressure in its mobile business. High leverage and developments in the Italian market underpin the Negative Outlook.

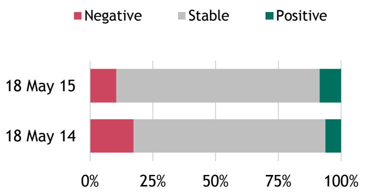
Royal KPN N.V (BBB−/Positive) – is the Dutch incumbent with a leading market position in the Netherlands. The ratings have been previously weakened by intensifying domestic competition with significant market share loss to cable operators. Recent operational trends are improving, suggesting a stabilisation in EBITDA by 2016. In conjunction with the sale of its Belgian mobile subsidiary BASE, this has triggered a change in Outlook to Positive.

BT Group plc (BBB/Positive) – is the UK fixed-line incumbent, facing strong broadband and triple-play competition. BT's fibre investment and sports TV strategy help provide service differentiation. The planned acquisition of EE adds scale and a strong mobile brand, although there is execution risk.

TDC A/S – is the Danish incumbent, with a strong domestic position in a mature market, despite facing significant competitive pressures in its mobile business. TDC's ownership of both the incumbent infrastructure and the majority of the cable infrastructure in Denmark is a key differentiator from its peers

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:

- an improvement in the rate of revenue decline within TDC Denmark from 4% yoy in 2014 to 1% by 2016;
- a contraction of approximately 1.5 percentage points in EBITDA margin in 2015;
- capital intensity of 17%-18%;
- a reduction in dividends in line with the company's new dividend policy of approximately 60% of equity free cash flow;
- we do not assume any improvement in operating performance as a result of potential market consolidation.

Definitions

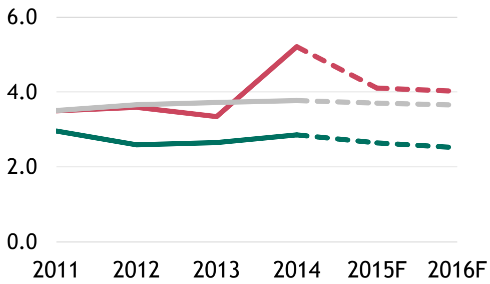
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid minus interest received plus preferred 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.

TDC A/S — Telecommunications Median — Developed BBB Median —

Source: Company data; Fitch

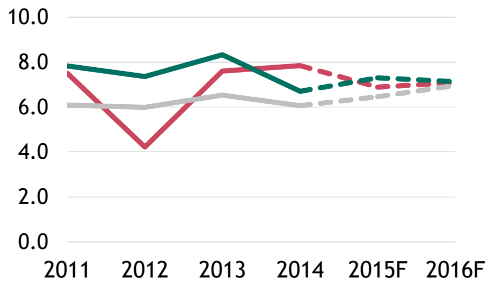
Leverage

including Fitch expectations

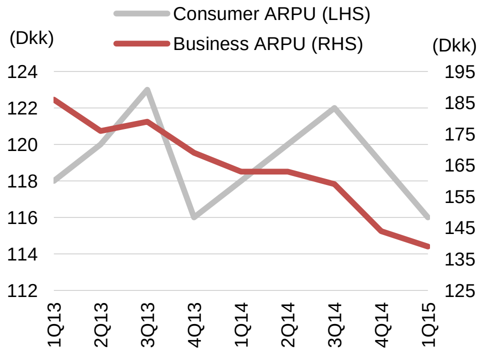


Interest Cover

including Fitch expectations

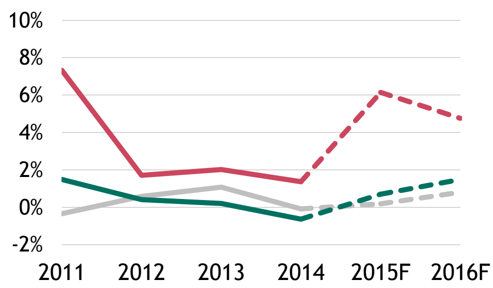


Domestic Average Revenue Per Month



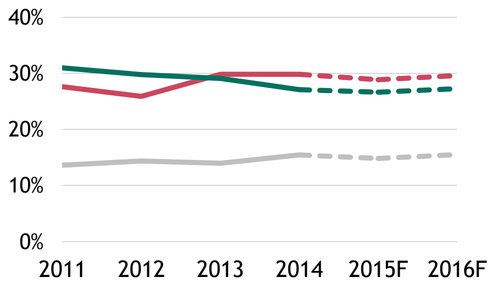
FCF/Revenues

including Fitch expectations



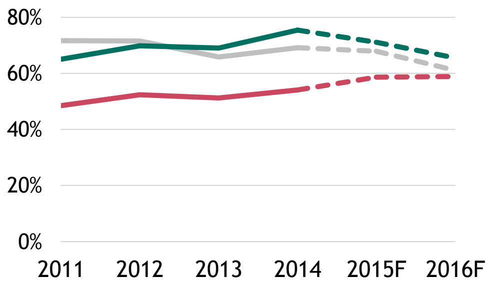
FFO Profitability

including Fitch expectations



Capex/CFO

including Fitch expectations



Debt Maturities

As at FYE 14	(DKKm)
Feb 2015 fixed 3.5% bond	5,957
Sep 2015 floating loan	11,914
Dec 2015 fixed 5.875% bond	2,037
Feb 2018 fixed 4.375% bond	5,957
Dec 2019 floating loan	2,979
Mar 2022 fixed 3.75% bond	3,723
Feb 2023 fixed 5.625%bond	5,241
Total	**37,808**

Liquidity Analysis

	(DKKm)
Unrestricted cash	4,746
Committed bank facilities	5,215
Available undrawn portion	5,215
FCF post dividend (forecast)	1,520
Short term debt	(19,900)
Liquidity/(shortfall)	(8,419)
Liquidity score (x)	0.6

Reconciliation of Key Financial Metrics for TDC

			31 Dec 14 (DKKm) original	31 Dec 13 (DKKm) original
Current		As reported	20,051	133
Non-current		As reported	18,630	23,356
Effect of derivatives on debt		Fitch Adjustment	-711	-399
Interest bearing loans and borrowings			**37,970**	**23,090**
Subordinated debt				
Other debt		As reported	7	3
Less: Equity credit				
Total debt with equity credit			**37,977**	**23,093**
Lease expense[a]	(c)	Estimated	1,050	915
Lease multiple			8	8
Total off-balance sheet debt (8 x long-term leases)		Calculated	8,400	7,320
Total lease-adjusted debt			**46,377**	**30,413**
Cash and cash equivalents		As reported	-4,746	-1,172
Investments				
Less: Restricted cash				
Less: Other adjustments		Fitch Adjustment	-307	-267
Cash and equivalents (unrestricted)			**-5,053**	**-1,439**
Net debt	(e)	Calculated	32,924	21,654
Net lease-adjusted debt	(a)		**41,324**	**28,974**
Cash flow statement per annual accounts				
EBITDA		As Reported	**9,804**	**9,979**
Adjustment for non-cash items		As Reported	157	226
Pension contributions		As Reported	-140	-92
Payments related to provisions		As Reported	-20	-9
Special items		As Reported	-735	-583
Change in working capital		As Reported	172	57
Interest received		As Reported	690	569
Interest paid		As Reported	-1,576	-1,602
Realised currency translation adjustments		As Reported	-7	21
Income tax paid		As Reported	-1,214	-1,508
Operating activities in continuing operations		**Calculated**	**7,131**	**7,058**
Operating activities in discontinued operations		As reported	3	150
Total cash flow from operating activities		**Calculated**	**7,134**	**7,208**
Investment in property, plant and equipment			-2,957	-2,801
Investment in intangible assets			-896	-889
Total CAPEX	(h)		**-3,853**	**-3,690**
EBITDA	(f)	Above	**9,804**	**9,979**
Interest received		Above	690	569
Interest paid		Above	-1,576	-1,602
Net interest received		As reported	-115	-45
Cash interest		Calculated	-1,001	-1,078
Cash tax received (paid)		Above	-1,214	-1,508
Dividends received from joint ventures and associates			1	2
Adjustment for non-cash items		Above	157	226
Pension contributions		Above	-140	-92
Payments related to provisions		Above	-20	-9
Cash flow related to special items		Above	-735	-583
Realized currency translation adjustments		Above	-7	21
Profit from discontinued operations		Above	3	150
Net interest received		As reported	115	45
Other items before FFO		Calculated	-627	-242
Funds from operations	(b)	**Calculated**	**6,961**	**7,153**
Change in working capital		Above	172	57
Cash from operations	(g)	**Calculated**	**7,133**	**7,210**
Net interest received	(i)	Reported	115	45
Interest received			690	569
Interest paid			-1,576	-1,602
Gross interest	(d)		-886	-1,033

Reconciliation of Key Financial Metrics for TDC (Cont.)

	31 Dec 14 (DKKm) original	31 Dec 13 (DKKm) original
FFO adjusted net debt (a/b + c - d)	**4.65**	**3.18**
Net lease-adjusted debt/(FFO + net interest paid + LT leases)		
Net debt/EBITDA (e)/(f)	**3.36**	**2.17**
Net debt/CFO - CAPEX ((e)/(g) + (h))	**10.04**	**6.15**
Fixed charge cover (b + d + c)/(d + 'i + c)	**4.34**	**4.57**
(FFO + net interest paid + LT leases)/(gross interest paid + LT leases)		

[a] Blue = Fitch Estimates
Source: Fitch

TDC A/S

FINANCIAL SUMMARY

	31 Dec 2014 DKKm Year End	31 Dec 2013 DKKm Year End	31 Dec 2012 DKKm Year End	31 Dec 2011 DKKm Year End	31 Dec 2010 DKKm Year End
Profitability					
Revenue	23,344	23,986	26,116	26,304	26,167
Revenue Growth (%)	(2.7)	(8.2)	(0.7)	0.5	0.3
Operating EBIT	5,076	5,047	5,269	5,274	4,981
Operating EBITDA	9,804	9,979	10,331	10,501	10,337
Operating EBITDA Margin (%)	42.0	41.6	39.6	39.9	39.5
FFO Return on Adjusted Capital (%)	13.9	18.0	18.2	17.5	18.1
Free Cash Flow Margin (%)	1.4	2.0	1.7	7.3	13.6
Coverages (x)					
FFO Gross Interest Coverage	7.84	7.59	4.21	7.50	4.46
Operating EBITDA/Gross Interest Expense	9.79	9.26	5.60	9.97	5.67
FFO Fixed Charge Coverage (inc. Rents)	4.34	4.57	3.01	4.19	3.16
FCF Debt-Service Coverage	0.06	1.29	1.14	0.61	2.64
Cash Flow from Operations/Capital Expenditures	1.85	1.95	1.91	2.07	2.00
Debt Leverage of Cash Flow (x)					
Total Debt with Equity Credit/Operating EBITDA	3.87	2.31	2.24	2.16	2.29
Total Debt Less Unrestricted Cash/Operating EBITDA	3.36	2.17	2.14	1.95	2.21
Debt Leverage Including Rentals (x)					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	1,050	915	1,099	1,093	1,099
Gross Lease Adjusted Debt/Operating EBITDAR	4.27	2.79	2.79	2.72	2.84
Gross Lease Adjusted Debt /FFO+Int+Rentals	5.21	3.34	3.60	3.50	3.52
FFO Adjusted Net Leverage	4.65	3.18	3.49	3.25	3.43
FCF/Lease Adjusted Debt (%)	0.7	1.6	1.4	6.1	11.0
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	4.27	2.75	2.76	2.68	2.80
Balance Sheet Summary					
Readily Available Cash	5,053	1,439	973	2,209	831
Restricted/Not Readily Available Cash	n.a.	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	20,058	136	170	3,816	216
Long-Term Senior Debt	17,919	22,957	22,922	18,912	23,430
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	37,977	23,093	23,092	22,728	23,646
Off-Balance-Sheet Debt	8,400	7,320	8,792	8,744	8,792
Lease-Adjusted Debt	46,377	30,413	31,884	31,472	32,438
Fitch- identified Pension Deficit	n.a.	n.a.	n.a.	n.a.	n.a.
Pension Adjusted Debt	46,377	30,413	31,884	31,472	32,438
Cash Flow Summary					
Operating EBITDA	9,804	9,979	10,331	10,501	10,337
Gross Cash Interest Expense	(1,001)	(1,078)	(1,844)	(1,053)	(1,823)
Cash Tax	(1,214)	(1,508)	(1,555)	(1,715)	(1,500)
Associate Dividends	1	2	7	4	34
Other Items before FFO (incl. interest receivable)	(629)	(242)	(184)	(482)	(347)
Funds from Operations	**6,961**	**7,153**	**6,755**	**7,255**	**6,701**
Change in Working Capital	172	57	130	(67)	571
Cash Flow from Operations	**7,133**	**7,210**	**6,885**	**7,188**	**7,272**
Total Non-Operating/Non-Recurring Cash Flow	n.a.	n.a.	758	n.a.	n.a.
Capital Expenditures	(3,853)	(3,690)	(3,606)	(3,481)	(3,646)
Dividends Paid	(2,961)	(3,036)	(3,592)	(1,780)	(70)
Free Cash Flow	**319**	**484**	**445**	**1,927**	**3,556**
Net (Acquisitions)/Divestitures	(12,676)	(241)	(113)	(160)	(237)
Net Equity Proceeds/(Buyback)	n.a.	0	(750)	0	(9,000)
Other Cash Flow Items	1,084	188	(462)	(191)	16,501
Total Change in Net Debt	(11,273)	431	(880)	1,576	10,820
Working Capital					
Accounts Receivable Days	n.a.	34	64	63	77
Inventory Days	78	(46)	(9)	(13)	83
Accounts Payable Days	1,686	1,258	1,000	1,047	1,229

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