MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades TDC's ratings to Baa3; stable outlook

Global Credit Research - 16 Sep 2014

Madrid, September 16, 2014 -- Moody's Investors Service has today downgraded to Baa3 from Baa2 the long-term issuer rating and senior unsecured ratings of all debt issued by TDC A/S. The outlook on all the ratings is stable.

"We are downgrading TDC's ratings because of its announced predominantly debt-funded acquisition of GET AS for a total consideration of NOK 13.8bn (~DKK 12.5bn) on a cash and debt free basis. We expect the deal will weaken its credit metrics beyond levels commensurate with the previous rating," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for TDC. "While the proposed acquisition of GET will provide growth opportunities for TDC in its core Nordic market, it will involve a higher level of financial risk that is more consistent with credits in the Baa3 rating category."

The transaction announced today is only subject to competition approval from the Norwegian competition authorities and it is expected to close in Q4 2014.

Although no final decision has been made regarding the financing for the acquisition, Moody´s expects it to include a minimum EUR 500 million hybrid bond issue with a substantial equity credit, and the remaining amount to be funded with long dated senior unsecured bonds drawn under the existing rated EMTN.

A full list of ratings is provided towards the end of this press release.

RATINGS RATIONALE

Today's rating action primarily reflects TDC's announcement on 15 September 2014, that it will acquire GET AS for an amount equivalent to EUR1.67 billion. While TDC's management plans to reduce the dividend payout to c. 60% from c. 90% and issue hybrid bonds with a significant equity credit, these credit supportive actions do not fully offset the higher financial risk attendant to the transaction. Financial metrics will deteriorate with the acquisition, with leverage measured by the ratio of adjusted gross debt to EBITDA increasing to around 3x in 2015, which is above the threshold previously defined for downgrade of TDC's ratings.

The action also reflects the increasing pressure on the company's domestic operations as a result of intensifying competition in the Danish mobile market.

Management has commenced a number of actions including accelerated cost cutting and the implementation of a new marketing strategy to contain market share erosion. However, even with these actions Moody's expects revenue erosion in the mid-single-digit percentage points this year, which will negatively affect cash flow. The rating agency anticipates that these declines, in conjunction with the greater debt load incurred to fund the GET acquisition will weaken financial metrics and increase the group's risk profile to levels best associated with a Baa3 rating.

Moody's believes that the acquisition will enhance TDC's existing operations in Norway which are currently mostly focused on the B2B segment and will enable the company to leverage its current business. It will also diversify TDC's business model to create potential growth opportunities outside Denmark where it holds a 42% market share in the mobile segment and an established presence in the CATV business through its YouSee offering.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that TDC will maintain strong cash flow generation after capex through a combination of operating stability, efficiency gains and capex optimisation. The rating agency has also taken into consideration the dividend reduction. The outlook also reflects Moody's expectation that TDC will retain financial metrics that are commensurate with a Baa3 rating, including an adjusted RCF/gross debt ratio around 18% and a gross adjusted debt/EBITDA ratio of below 3x.

WHAT COULD CHANGE THE RATING UP/DOWN

Although not currently expected in view of recent rating action, Moody's could consider a rating upgrade if TDC's debt protection ratios were to strengthen significantly as a result of improvements in its operational cash flows and a reduction in debt. The rating could come under positive pressure if it became clear that the company would achieve improvements in its debt protection ratios, such as adjusted RCF/gross debt ratio above 20% and a gross adjusted debt/EBITDA ratio trending to 2.5x, and these improvements appeared to be sustainable based on a better business environment.

Moody's could downgrade TDC's rating if (1) the company were to embark on an aggressive expansion/acquisition programme (most likely outside of its existing footprint), leading to higher financial, business and execution risk; or (2) its credit metrics were to deteriorate, including adjusted RCF/gross debt falling to below 15% or and adjusted gross debt/EBITDA trending towards 3.5x on an ongoing basis.

List of affected ratings:

..Issuer: TDC A/S

.... Issuer Rating, Downgraded to Baa3 from Baa2

....Senior Unsecured Medium-Term Note Program, Downgraded to (P)Baa3 from (P)Baa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2

Outlook Actions:

..Issuer: TDC A/S

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Global Telecommunications Industry published in December 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Headquartered in Copenhagen, Denmark, TDC A/S is the leading integrated telecommunications provider and cable TV offerings in Denmark. The company also provides telecom services to business customers throughout the Nordic region. TDC's revenues for the twelve months to 31 December 2013 amounted to some DKK24.6 billion (approximately EUR3.3billion) and EBITDA of DKK10.1 billion (around EUR1.4billion). The company's main market is Denmark, although it also has operations in Norway and Sweden through its subsidiary TDC Nordic.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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