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## TDC A/S

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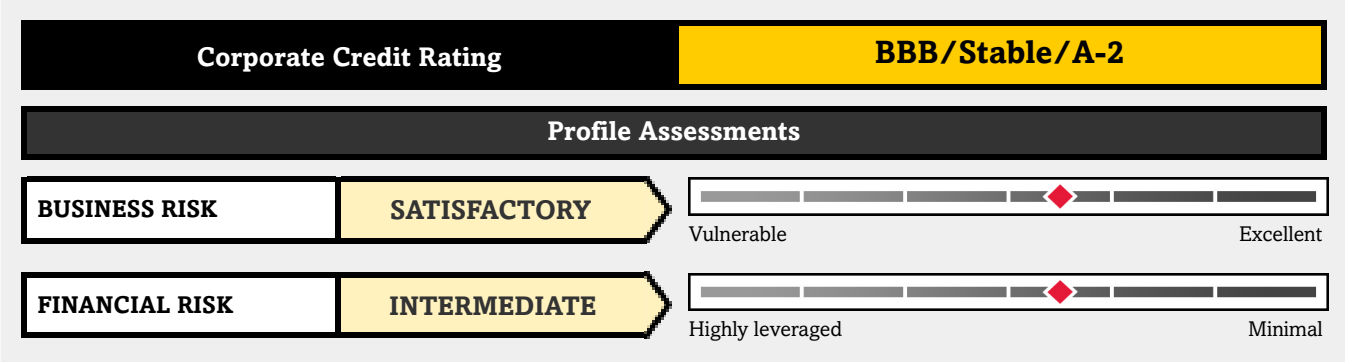
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# TDC A/S



## Initial Analytical Outcome ("Anchor") And Rating Result

Our 'BBB' rating on TDC A/S is derived from:

- Our anchor of 'bbb', based on our "satisfactory" business risk and "intermediate" financial risk profile assessments for the company. Under our criteria, there are two possible anchor outcomes for this combination of the business and financial risk assessments. We use a 'bbb' anchor instead of 'bbb-' in TDC's case, based on our view of TDC's strong market positions and solid margins.

## Rationale

Business Risk: Satisfactory	Financial Risk: Intermediate
<ul style="list-style-type: none"> <li>• Strong position as the leading operator in the Danish fixed-line, cable, and mobile telecommunications markets.</li> <li>• Good track record of profitability improvement through cost cutting.</li> <li>• Extensive and well-invested copper, cable, fiber, and mobile networks.</li> <li>• Limited growth in the mature and competitive Danish telecom market.</li> </ul>	<ul style="list-style-type: none"> <li>• Solid free operating cash flow (FOCF) generation.</li> <li>• Moderately conservative financial policy guidelines, which target a maximum unadjusted net debt to EBITDA of 2.2x on average throughout the year.</li> <li>• Modest discretionary cash flow generation limiting deleveraging potential.</li> </ul>

**Outlook: Stable**

The stable outlook reflects our expectation that TDC's revenues and EBITDA will decline only modestly in 2014-2015.

**Upside scenario**

We could raise the ratings if we revised our assessment of TDC's business risk profile upward to "strong." This might occur if TDC's revenues stabilized and it maintained its market shares and current profitability, while the company maintains an adjusted debt to EBITDA ratio of about 2.7x. Alternatively, given the current business risk profile assessment, we could also raise the rating if TDC's credit metrics strengthened, notably if the Standard & Poor's-adjusted debt to EBITDA were to decrease sustainably to 2.5x or lower, although we see this as unlikely in the near term given the company's relatively high shareholder payout.

**Downside scenario**

A downgrade is unlikely over the next 24 months, given our current assessment of TDC's business risk profile as "satisfactory" and the company's current financial policy and leverage targets. Rating pressure could build up, however, if TDC materially increased leverage closer to an adjusted debt-to-EBITDA ratio at 3x.

**Standard & Poor's Base-Case Scenario**

Our base-case scenario includes a modest revenue decline in 2014-2015 caused by the continued decline in fixed telephony and further negative effect of regulatory changes, followed by stabilization and potentially some modest growth in following years. We believe the adjusted EBITDA margin could improve further in 2014-2015 but not enough to offset the revenue decline. We expect lower adjusted EBITDA and free operating cash flow (FOCF) in 2014 compared with 2013, and that the adjusted debt-to-EBITDA ratio will slightly increase to about 2.7x-2.8x in the same period.

Assumptions	Key Metrics			
<ul style="list-style-type: none"> <li>• Modest revenue decline in 2014 and 2015, followed by flat to modest revenue growth in following years.</li> <li>• Improved EBITDA margin through a further reduction in operating expenditures.</li> <li>• Capital expenditures at about Danish krone (DKK)3.5 billion-DKK4.0 billion (about €0.5 billion).</li> <li>• Stable dividends at about DKK3 billion.</li> </ul>		<b>2013A</b>	<b>2014E</b>	<b>2015E</b>
	EBITDA margin* (%)	39.9	40.0-41.0	40.0-42.0
	Funds from operations/Debt* (%)	26.3	26.0-28.0	26.0-28.0
	Debt/EBITDA* (x)	2.7	2.7-2.8	2.7-2.8
	*Fully Standard & Poor's-adjusted. A--Actual. E--Estimate.			

## Company Description

TDC is the leading provider of telecom solutions in Denmark and is present in other Nordic countries.

## Business Risk: Satisfactory

### TDC is the leading operator in the Danish telecom market and maintains solid margins

Our assessment of TDC's business risk profile as "satisfactory" is supported by its strong domestic position in the telecom business and residential customer segments, a strong cost-cutting track record, and well-invested networks.

As of year-end 2013, TDC had relatively high and sustainable market shares in fixed-line telephony (69%), fixed-line broadband Internet (60%), mobile services (43%), mobile broadband (34%) subscriptions, and pay-TV services through its Internet protocol TV and cable operations (53%), according to company estimates.

The company has a strong cost-cutting track record. A flexible domestic labor market, technological expertise, and strong brand recognition enable TDC to achieve solid operating margins and sustainable free cash flow, in our view. We believe that TDC could further improve profitability over the next few years.

TDC owns copper pair, cable, fiber, and mobile networks, and is one of the few telecoms incumbents to own the leading domestic cable network. We consider this important for the company's business risk profile, because cable platforms represent an attractive alternative infrastructure competing with telephony lines in the provision of TV, broadband, and fixed-line telephony services.

These strengths are constrained by limited growth prospects in the mature and competitive Danish telecom market, as well as TDC's limited geographic diversification and relatively small customer base. Our anticipation of declining revenues over the next two years also weighs on the business risk profile assessment.

### S&P Base-Case Operating Scenario

- Annual GDP growth in Denmark of 1.3%-1.5% in 2014 and 2015, after flat GDP growth in 2012 and 2013.
- Revenue decreases of 3.5% in 2014 and 1.5% in 2015 because of a continued decline in fixed telephony and the effect of regulatory changes.
- Beyond 2015, stable or slightly higher revenues as fixed telephony declines and negative regulatory pressure eases, if there is growth in the TV, Nordic, and mobile operations. In the mobile operations notably, revenues could increase, owing to increasing mobile data traffic supported by the company's roll-out of its long-term evolution (LTE) network, with the target of 99% population coverage by the end of 2015.
- Gradual improvement in the adjusted EBITDA margin, because we anticipate further reductions of operating expenditures and a gradual decrease in restructuring costs.

### Peer comparison

We think TDC's business risk profile benefits from strong profitability--given the adjusted EBITDA margin at or above 40%--and high market shares in all business lines in Denmark. We note, for instance, that TDC holds a higher market share in Denmark in fixed segments than any other Nordic incumbents' in their respective markets, and one of the

highest market shares in the mobile operations.

We view TDC's business risk profile weaker than that of the largest diversified operators with broader scales, including Deutsche Telekom and TeliaSonera. However, we view its business risk profile in the upper range of the satisfactory category because its market share is stronger than that of some peers, such as Elisa, and its profitability exceeds that of many European peers.

We view TDC's financial risk profile in the lower range of the "intermediate" category despite its stable FOCF generation and that most of its ratios are commensurate with an "intermediate" financial risk profile. This is because certain ratios (specifically, adjusted funds from operations to debt and FOCF to debt) indicate a weaker financial risk profile, and debt to EBITDA is relatively high at 2.7x-2.8x.

**Table 1**

TDC A/S--Peer Comparison				
Industry Sector: Diversified Telecom				
	TDC A/S	TeliaSonera AB	Elisa Corp.	Deutsche Telekom AG
Rating as of March 28, 2014	BBB/Stable/A-2	A-/Stable/A-2	BBB/Positive/A-2	BBB+/Stable/A-2
(Mil. €)	--Fiscal year ended Dec. 31, 2013--		12 months ended Sept. 30, 2013	
Revenues	3,298	11,492	1,547	59,174
EBITDA	1,315	4,352	534	19,627
Funds from operations (FFO)	938	3,558	444	15,582
Net income from continuing operations	418	1,692	197	2,475
Cash flow from operations	1,021	3,730	421	14,292
Capital expenditures	507	1,657	213	10,012
Free operating cash flow	515	2,072	208	4,280
Discretionary cash flow	108	534	4	2,047
Cash and short-term investments	0	215	0	(113)
Debt	3,513	8,144	1,044	63,866
Equity	2,732	12,762	862	31,981
<b>Adjusted ratios</b>				
EBITDA margin (%)	39.9	37.9	34.5	33.2
Return on capital (%)	8.5	14.3	15.6	8.1
EBITDA interest coverage (x)	7.3	9.2	15.8	5.2
FFO cash int. cov. (X)	5.2	11.2	13.7	6.7
Debt/EBITDA (x)	2.7	1.9	2.0	3.3
FFO/debt (%)	26.7	43.7	42.5	24.4
Cash flow from operations/debt (%)	29.1	45.8	40.3	22.4
Free operating cash flow/debt (%)	14.7	25.4	20.0	6.7
Discretionary cash flow/debt (%)	3.1	6.6	0.4	3.2

## Financial Risk: Intermediate

### TDC's financial policy is relatively conservative, but its discretionary cash flow generation is modest

We think TDC will continue to generate solid FOCF despite that it has made sizable capital expenditures to maintain its competitive position in the Danish telecoms market. We expect capital expenditures to remain relatively high over the next few years because of the group's ongoing investments in fixed and mobile networks.

TDC has relatively conservative financial policy guidelines, in our view, which target a maximum 2.2x unadjusted net debt to EBITDA on average over the financial year. The actual ratio on Dec. 31, 2013, was 2.1x, while adjusted leverage was 2.7x. We think TDC's dividend policy to distribute approximately 90% of free cash flow after special items restricts its ability to deleverage. We expect the adjusted debt-to-EBITDA ratio will be about 2.7x-2.8x in 2014.

### S&P Base-Case Cash Flow And Capital Structure Scenario

- Annual capital spending of about DKK3.7 billion.
- Annual FOCF between DKK3.1 billion and DKK3.5 billion.
- Annual dividends of about DKK3 billion.

## Financial summary

Table 2

TDC A/S--Financial Summary					
Industry Sector: Diversified Telecom					
	--Fiscal year ended Dec. 31--				
(Mil. DKK)	2013	2012	2011	2010	2009
Revenues	24,605	26,116	26,304	26,167	35,939
EBITDA	9,813	10,289	10,440	10,212	12,957
Funds from operations (FFO)	6,995	7,282	8,506	7,717	10,431
Net income from continuing operations	3,119	3,593	2,813	1,804	2,788
Cash flow from operations	7,619	8,224	7,705	8,051	11,214
Capital expenditures	3,779	3,606	3,481	3,646	4,893
Free operating cash flow	3,840	4,618	4,224	4,405	6,321
Discretionary cash flow	804	1,026	2,444	4,335	(1,669)
Cash and short-term investments	0	0	0	0	763
Debt	26,211	27,074	27,064	28,104	53,541
Equity	20,384	21,513	22,244	20,855	27,078
<b>Adjusted ratios</b>					
EBITDA margin (%)	39.9	39.4	39.7	39.0	36.1
Return on capital (%)	8.5	10.2	8.6	6.0	8.6
EBITDA interest coverage (x)	7.3	7.2	6.7	6.3	5.5
FFO cash int. cov. (x)	5.2	4.7	7.4	5.3	4.9
Debt/EBITDA (x)	2.7	2.6	2.6	2.8	4.1
FFO/debt (%)	26.7	26.9	31.4	27.5	19.5

**Table 2**

<b>TDC A/S--Financial Summary (cont.)</b>					
Cash flow from operations/debt (%)	29.1	30.4	28.5	28.6	20.9
Free operating cash flow/debt (%)	14.7	17.1	15.6	15.7	11.8
Discretionary cash flow/debt (%)	3.1	3.8	9.0	15.4	(3.1)

DKK--Danish krone.

## Liquidity: Adequate

The short-term rating is 'A-2'. We assess TDC's liquidity as "adequate," according to our criteria, because we expect liquidity sources to amount to at least 1.2x over the next 12 months. For our analysis we consider debt and the undrawn portion of committed bank lines maturing over the next six months. This is because we regard TDC as having strong credit characteristics, including good access to capital markets and solid relationships with its core banks.

We estimate TDC's key liquidity sources at about DKK13.2 billion over the next 12 months, comprising:

- Consolidated cash and equivalents of DKK1.2 billion;
- An undrawn committed unsecured revolving credit facility of €500 million (about DKK3.7 billion) due February 2016;
- Two €100 million (about DKK1.5 billion) committed, unsecured bilateral facilities due December 2016 (of which about DKK1.3 billion is currently undrawn); and
- Funds from operations of about DKK7 billion.

Against these sources, we anticipate liquidity uses of about DKK7 billion during the next 12 months:

- Annual capital spending of about DKK3.7 billion; and
- Annual dividends of about DKK3 billion.

TDC has a €800 million (about DKK6 billion) bond maturing in February 2015, which we expect to be refinanced during 2014, and a €274 million (DKK2 billion) bond that matures in December 2015.

### Debt maturities

(As of Dec. 31, 2013)

2014: None.

2015: DKK8 bil.

2016: None.

2017: None.

2018: DKK6 bil.

Thereafter: DKK8.6 bil.

## Covenant Analysis

Back-up facilities include a maintenance financial covenant that would be triggered only if the long-term rating were lowered to below 'BBB-'.

## Ratings Score Snapshot

Corporate Credit Rating: BBB/Stable/A-2

Business risk: Satisfactory

- Country risk: Very Low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk:

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

## Reconciliation

**Table 3**

### Reconciliation Of TDC A/S Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. DKK)

--Fiscal year ended Dec. 31, 2013--

#### TDC A/S reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Dividends paid	Capital expenditures
Reported	23,489	20,384	24,605	10,149	5,111	1,021	10,149	7,208	3,036	3,779
<b>Standard &amp; Poor's adjustments</b>										
Interest expense (reported)	--	--	--	--	--	--	(1,021)	--	--	--
Interest income (reported)	--	--	--	--	--	--	--	--	--	--



**Table 3**

<b>Reconciliation Of TDC A/S Reported Amounts With Standard &amp; Poor's Adjusted Amounts (Mil. DKK) (cont.)</b>										
Current tax expense (reported)	--	--	--	--	--	--	(1,461)	--	--	--
Operating leases	4,169	--	--	652	315	315	336	336	--	--
Postretirement benefit obligations/deferred compensation	--	--	--	10	10	--	(10)	61	--	--
Surplus cash	(1,172)	--	--	--	--	--	--	--	--	--
Dividends received from equity investments	--	--	--	14	--	--	14	--	--	--
Asset retirement obligations	124	--	--	--	--	--	--	--	--	--
Non-operating income (expense)	--	--	--	--	41	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	14	--	--
Debt - Derivatives	(399)	--	--	--	--	--	--	--	--	--
Restructuring costs	--	--	--	(1,012)	(1,012)	--	(1,012)	--	--	--
Total adjustments	2,722	0	0	(337)	(646)	315	(3,154)	411	0	0

**Standard & Poor's adjusted amounts**

	<b>Debt</b>	<b>Equity</b>	<b>Revenues</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Funds from operations</b>	<b>Cash flow from operations</b>	<b>Dividends paid</b>	<b>Capital expenditures</b>
Adjusted	26,211	20,384	24,605	9,813	4,465	1,336	6,995	7,619	3,036	3,779

DKK--Danish krone.

**Related Criteria And Research**

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Key Credit Factors For The Telecommunications And Cable Industry, Dec. 12, 2013

**Ratings Detail (As Of April 1, 2014)****TDC A/S**

Corporate Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB

**Corporate Credit Ratings History**

18-Mar-2014	BBB/Stable/A-2
16-Mar-2012	BBB/Positive/A-2
15-Dec-2010	BBB/Stable/A-2
20-Sep-2010	BB/Watch Pos/B
14-Jun-2010	BB/Positive/B
26-Nov-2009	BB-/Positive/B

## Ratings Detail (As Of April 1, 2014) (cont.)

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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