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TDC A/S

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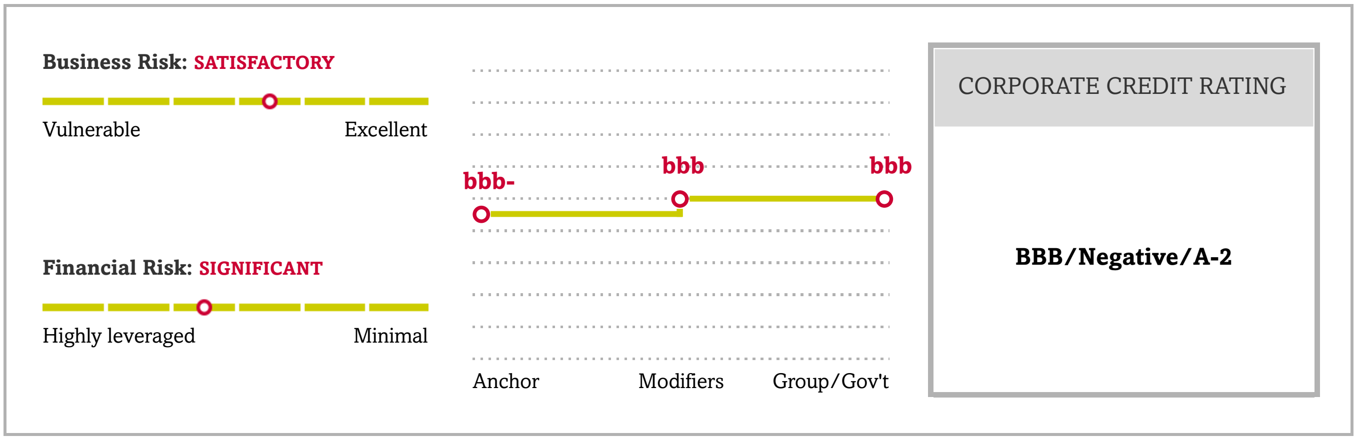

Rationale

Business Risk: Satisfactory	Financial Risk: Significant
• Strong position as the leading operator in the Danish fixed-line, cable, and mobile telecommunications markets. • Good track record of profitability improvement through cost cutting. • Extensive and well-invested copper, cable, fiber, and mobile networks. • Limited growth in the mature and competitive Danish telecoms market. • Larger presence in Norway after acquiring the Norwegian cable operator Get.	• Significant debt burden caused by the acquisition of Get. • Solid free operating cash flow generation. • Positive discretionary cash flow generation, supporting gradual debt reduction.

Outlook: Negative

The negative outlook on Danish telecoms operator TDC A/S reflects the possibility of a one-notch downgrade over the next 18 months if the company's performance in Denmark fails to stabilize in 2016, weakening its business risk profile. A downgrade could also occur if TDC's credit metrics do not strengthen as we foresee, due to either weaker operational performance than in our base case, or additional debt-financed mergers and acquisitions.

Downside scenario

Specifically, we could downgrade TDC by one notch if it does not deleverage over the next 18 months such that its Standard & Poor's-adjusted debt to EBITDA remains sustainably above 3.2x, funds from operations (FFO) to debt falls below 20%, or free operating cash flow (FOCF) to debt falls below 10%. Additionally, weaker performance than we forecast, and a failure to stabilize the Danish operations in 2016 after the loss of contracts in 2015, could weigh on our assessment of TDC's business risk profile and trigger a downgrade.

Upside scenario

We could revise the outlook to stable if TDC's adjusted debt to EBITDA declines to about 3x; FOCF to debt remains at about 10%; and discretionary cash flow (DCF) remains between Danish krone (DKK) 1 billion and DKK1.3 billion.

Standard & Poor's Base-Case Scenario

Our base-case scenario assumes a 5% revenue increase and a 2% EBITDA increase in 2015 thanks to the inclusion of Norwegian cable operator Get offsetting an organic decline in Denmark. In the following years, we expect flat-to-modest growth in consolidated revenue and EBITDA as the competitive environment in Denmark gradually stabilizes, or even improves on the formation of a joint venture in Denmark between Swedish telecoms operator TeliaSonera and Norwegian telecoms operator Telenor.

Despite our downward revision of our forecasts for TDC's EBITDA and cash flow in 2015 compared with September 2014, we still expect the company to reduce its debt. This is because TDC has lowered dividends to approximately 60% of equity free cash flow after special items, from 90% in previous years, and has issued €750 million hybrid securities that we classify as having "intermediate" equity content until 2021. Consequently, we still expect that TDC's credit ratios will strengthen gradually, notably with a decline in adjusted debt to EBITDA to about 3.00x in 2016 from 3.85x in 2014.

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Assumptions

- A revenue increase of 5% in 2015, followed by flat–to-modest revenue growth in the following years.
- An adjusted EBITDA margin of between 40% and 43% in 2015-2016.
- Capital expenditures of about DKK4.3 billion (about €0.6 billion).
- Dividends of about DKK1.6 billion–DKK1.8 billion per year.

Key Metrics

	2014A	2015E	2016E
EBITDA margin* (%)	42.2	40.0-42.0	41.0-43.0
Funds from operations to debt* (%)	20.5	>21.0	>22.0
Debt to EBITDA* (x)	3.85	3.3-3.5	3.0-3.3

*Fully Standard & Poor's-adjusted. A--Actual. E--Estimate.

Company Description

TDC is the leading provider of telecoms services in Denmark, and is also present in Norway and Sweden.

Business Risk: Satisfactory

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

TDC's business risk profile is supported by its strong domestic position as telecoms provider in the residential customer segment, its strong cost-cutting track record, well-invested networks, and ownership of Norwegian cable operator Get.

As of year-end 2014, TDC had relatively high and sustainable market shares in fixed-line telephony services (67%), fixed-line broadband Internet (58%), mobile services (40%), and pay-TV services through its Internet protocol TV and cable operations (54%), according to company estimates.

TDC 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. A further profitability improvement could be difficult to achieve, but we expect TDC's adjusted EBITDA margin to remain above 40% over the next few years.

TDC owns copper pair, 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 to telephony lines in the provision of TV, broadband, and fixed-line telephony services.

TDC's ownership of Get provides it with additional scale, diversification, and growth opportunities. Get, the second-largest fixed-line broadband and TV operator in Norway, has an advanced network offering speeds of up to 200 megabits per second to broadband customers, and good digital-TV products likely to support further growth.

These strengths are constrained by limited growth prospects and intense competition in Denmark, although the announcement of a joint venture between TeliaSonera and Telenor (which we understand could take place in the end of 2015) could ease competitive pressure. Other weaknesses include TDC's limited geographic diversification (even after the inclusion of Get), a relatively small customer base, and our forecast of declining revenues and EBITDA in Denmark in 2015.

S&P Base-Case Operating Scenario

- Consolidated revenue growth of 5% in 2015 thanks to the inclusion of Get (which adds about 9% to TDC's revenues on an annual basis), and flat revenues in 2016.
- Revenue pressure in Denmark caused by a continued decline in fixed-line telephony and the effect of regulatory changes. Additionally, in 2015, TDC revenues will be reduced by the loss of two mobile virtual network operator contracts and one large contract serving the public sector. However, we expect revenue stabilization in Denmark from 2016 or 2017, as TDC's domestic TV and mobile operations revenues grow, while declines in fixed-line telephony revenues and negative regulatory pressure ease.
- Growth in TDC's revenues in Norway, as we expect Get's organic revenue growth to be about 5% per year, and in Sweden, where TDC is focused on the small and midsize corporate segment.
- A stable adjusted EBITDA margin in the coming years, including a temporary decline in 2015 on account of Get's integration costs, and our forecast of lower restructuring costs over time.

Peer comparison

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

We view TDC's business risk profile as weaker than that of the largest diversified operators with broader scales, including Deutsche Telekom and TeliaSonera. However, we view TDC's business risk profile in the upper range of the "satisfactory" category, and stronger than that of some peers, such as Dutch telecoms operator Koninklijke KPN N.V. (KPN).

TDC currently has weak credit ratios for the rating, but we expect a gradual improvement thanks to the company's robust cash flow generation. We expect TDC's credit ratios (notably FOCF to debt) to be stronger than those of its peers that we rate 'BBB-' and that have similar business and financial risk profile assessments to TDC, including Telekom Austria (excluding any parent support) and KPN.

Table 1

TDC A/S -- Peer Comparison
Industry Sector: Diversified Telecom

Table 1

TDC A/S -- Peer Comparison (cont.)				
	TDC A/S	**Elisa Corp.**	**Koninklijke KPN N.V.**	**TeliaSonera AB**
Rating as of March 20, 2015	**BBB/Negative/A-2**	**BBB+/Stable/A-2**	**BBB-/Stable/A-3**	**A-/Stable/A-2**
	--Fiscal year ended Dec. 31, 2014--	**--Fiscal year ended Dec. 31, 2014--**	**--Fiscal year ended Dec. 31, 2014--**	**--Fiscal year ended Dec. 31, 2014--**
(Mil. €)				
Revenues	3,134.6	1,535.2	7,999.0	10,658.9
EBITDA	1,324.2	550.9	2,772.9	4,079.2
Funds from operations (FFO)	1,043.4	467.7	2,016.7	3,383.6
Net income from cont. oper.	330.7	224.9	225.0	1,529.5
Cash flow from operations	1,023.5	436.7	1,693.7	3,287.1
Capital expenditures	517.4	197.8	1,473.0	1,701.4
Free operating cash flow	506.1	238.9	220.7	1,585.8
Discretionary cash flow	108.5	32.2	126.7	95.2
Cash and short-term investments	0.0	0.0	0.0	181.8
Debt	5,101.4	1,069.1	9,558.8	9,100.7
Equity	2,503.9	878.6	4,542.5	12,273.1
Adjusted ratios				
EBITDA margin (%)	42.2	35.9	34.7	38.3
Return on capital (%)	8.4	16.1	4.5	12.8
EBITDA interest coverage (x)	7.2	17.1	4.0	9.8
FFO cash int. cov. (X)	5.8	14.3	3.8	11.0
Debt/EBITDA (x)	3.9	1.9	3.4	2.2
FFO/debt (%)	20.5	43.7	21.1	37.2
Cash flow from operations/debt (%)	20.1	40.8	17.7	36.1
Free operating cash flow/debt (%)	9.9	22.3	2.3	17.4
Discretionary cash flow/debt (%)	2.1	3.0	1.3	1.0

N.M. - Not Meaningful.

Financial Risk: Significant

TDC's credit metrics are high, but management is committed to reducing debt

TDC's financial risk profile is supported by our forecast of robust FOCF generation and increasing annual DCF of at least DKK1 billion from 2015, following the company's revision to its dividend policy, compared with DKK318 million in 2014.

This is partly offset by TDC's significant debt burden following its acquisition of Get, although nearly half of the acquisition was financed through the issuance of €750 million hybrid notes, which we assess as having "intermediate" equity content. After the issuance of the hybrid notes and the inclusion of Get's EBITDA, we expect TDC's adjusted debt to EBITDA to decline to 3.4x in 2015 from 3.85x in 2014, alongside adjusted FFO to debt of 21%-22% and FOCF to debt of about 10%. We expect these ratios to strengthen further in the coming years, in the absence of additional acquisitions or shareholder remuneration.

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

- Annual capital spending of about DKK4.3 billion.
- Annual FOCF of between DKK2.7 billion and DKK3.0 billion.
- Annual dividends of about DKK1.6 billion–DKK 1.8 billion.

Financial summary

Table 2

TDC A/S Financial Summary

	--Fiscal year ended Dec. 31--				
(Mil. DKK)	**2014**	**2013**	**2012**	**2011**	**2010**
Rating history	BBB/Negative/A-2	BBB/Positive/A-2	BBB/Positive/A-2	BBB/Stable/A-2	BBB/Stable/A-2
Revenues	23,344.0	24,605.0	26,116.0	26,304.0	26,167.0
EBITDA	9,862.5	10,014.5	10,289.0	10,440.0	10,211.5
Funds from operations (FFO)	7,770.5	7,164.6	7,247.4	8,506.2	7,717.5
Net income from continuing operations	2,463.0	3,119.0	3,593.0	2,813.0	1,804.0
Cash flow from operations	7,623.1	7,710.0	8,223.7	7,704.5	8,051.2
Capital expenditures	3,853.0	3,779.0	3,606.0	3,481.0	3,646.0
Free operating cash flow	3,770.1	3,931.0	4,617.7	4,223.5	4,405.2
Discretionary cash flow	809.1	895.0	1,025.7	2,443.5	4,335.2
Cash and short-term investments	0.0	0.0	0.0	0.0	0.0
Debt	37,991.4	27,133.4	27,074.5	27,064.2	28,103.9
Equity	18,647.0	20,384.0	21,513.0	22,244.0	20,855.0
Adjusted ratios					
EBITDA margin (%)	42.2	40.7	39.4	39.7	39.0
Return on capital (%)	8.4	8.5	10.3	8.6	6.0
EBITDA interest coverage (x)	7.2	7.3	7.0	6.7	6.3
FFO cash interest coverage (x)	5.8	5.3	4.7	7.4	5.3
Debt/EBITDA (x)	3.9	2.7	2.6	2.6	2.8
FFO/debt (%)	20.5	26.4	26.8	31.4	27.5
Cash flow from operations/debt (%)	20.1	28.4	30.4	28.5	28.6
Free operating cash flow/debt (%)	9.9	14.5	17.1	15.6	15.7

Liquidity: Adequate

We assess TDC's liquidity as "adequate," according to our criteria, because we expect that liquidity sources will cover uses at least by 1.2x over the next 12 months. The short-term rating is 'A-2'.

Principal Liquidity Sources	Principal Liquidity Uses
• Consolidated cash and equivalents of DKK4.7 billion; • An undrawn committed unsecured revolving credit facility of €500 million (about DKK3.7 billion) due September 2019; • Two €100 million (about DKK1.5 billion) committed, unsecured bilateral facilities due December 2017 (of which about DKK1.3 billion is currently undrawn); • Annual FFO of DKK7.0 billion–DKK7.2 billion; • Proceeds from bonds and loans issued in February 2015, with long-term maturities totaling €1.8 billion (DKK13 billion); and • A committed unsecured loan from the European Investment Bank of €100 million, which can be drawn until December 2015 and has a three-to-five year maturity schedule.	• Debt repayment of DKK19.9 billion in 2015, including a €1.6 billion credit facility for the acquisition of Get, a €800 million bond that matured in February 2015, and a €273 million bond maturing in December 2015. • Annual capital spending of about DKK4.3 billion; and • Annual dividends of about DKK1.6 billion in 2015 and DKK1.7 billion in 2016.

Debt maturities

Table 3

TDC A/S Debt Maturities*	
2015	DKK8 bil.
2016	DKK11.9 bil.
2017	None
2018	DKK6 bil.
2019	DKK3 bil.
Thereafter	DKK8.6 bil.

*As of Dec. 31, 2014.

Covenant Analysis

TDC's back-up facilities include a maintenance financial covenant that would be triggered only if the long-term corporate credit rating went below 'BBB-'. Even if this covenant was triggered, we estimate that headroom would be about 10% in 2015 and about 15% in 2016.

Other Credit Considerations

Under our criteria, we have two possible anchor outcomes ('bbb-' or 'bb+') for our combination of the "satisfactory" business risk and "significant" financial risk profile assessments. We assess TDC's anchor at 'bbb-', based on our view that the company's business risk profile is at the high end of the "satisfactory" category.

We apply a one-notch positive adjustment to the anchor for our comparable rating analysis, whereby we review an issuer's credit characteristics in aggregate. We base this adjustment on our view that TDC's financial risk profile will strengthen by 2016, with adjusted debt to EBITDA of about 3x.

Reconciliation

Table 4

Reconciliation Of TDC A/S Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. DKK)										
	--Fiscal year ended Dec. 31, 2014--									
TDC A/S reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	38,681.0	18,543.0	23,344.0	9,804.0	5,076.0	1,033.0	9,804.0	7,131.0	2,961.0	3,853.0
Standard & Poor's adjustments										
Interest expense (reported)	--	--	--	--	--	--	(1,033.0)	--	--	--
Interest income (reported)	--	--	--	--	--	--	115.0	--	--	--
Current tax expense (reported)	--	--	--	--	--	--	-818	--	--	--
Operating leases	4,632.9	--	--	784.5	340.4	340.4	444.1	444.1	--	--
Postretirement benefit obligations/deferred compensation	--	--	--	9.0	9.0	--	(6.6)	46.9	--	--
Surplus cash	(4,746.0)	--	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	51.0	--	--	51.0	--	--	--
Dividends received from equity investments	--	--	--	1.0	--	--	1.0	--	--	--
Asset retirement obligations	134.6	--	--	--	--	--	--	--	--	--
Non-operating income (expense)	--	--	--	--	105.0	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	--	1.0	--	--

Table 4

Reconciliation Of TDC A/S Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. DKK) (cont.)										
Non-controlling Interest/Minority interest	--	104.0	--	--	--	--	--	--	--	--
Debt - Derivatives	(711.0)	--	--	--	--	--	--	--	--	--
EBITDA - Other	--	--	--	(787.0)	(787.0)	--	(787.0)	--	--	--
Total adjustments	(689.6)	104.0	0.0	58.5	(332.6)	340.4	(2,033.5)	492.1	0.0	0.0
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	37,991.4	18,647.0	23,344.0	9,862.5	4,743.4	1,373.4	7,770.5	7,623.1	2,961.0	3,853.0

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013

Related Research

- Danish Telecom Operator TDC Proposed Subordinated Hybrid Securities Due 3015 Rated 'BB+', Feb. 13, 2015

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of March 20, 2015)	
TDC A/S	
Corporate Credit Rating	BBB/Negative/A-2
Junior Subordinated	BB+
Senior Unsecured	BBB
Corporate Credit Ratings History	
19-Sep-2014	BBB/Negative/A-2
18-Mar-2014	BBB/Stable/A-2

Ratings Detail (As Of March 20, 2015) (cont.)	
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

*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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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