

# Financial Report July – September 2016

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November 2<sup>nd</sup>, 2016

TDC Group

# Disclaimer

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This Report may include statements about TDC's expectations, beliefs, plans, objectives, assumptions or future events or performance that are not historical facts and may be forward-looking. These statements are often, but not always, formulated using words or phrases such as "are likely to result", "are expected to", "will continue", "believe", "is anticipated", "estimated", "intends", "expects", "plans", "seeks", "projection" and "outlook" or similar expressions or negatives thereof. These statements involve known and unknown risks, estimates, assumptions and uncertainties that could cause actual results, performance or achievements or industry results to differ materially from those expressed or implied by such forward-looking statements.

Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this financial report. Key factors that may have a direct bearing on TDC's results include: the competitive environment and the industry in which TDC operates; contractual obligations in TDC's financing arrangements; developments in competition within the domestic and international communications industry; information technology and operational risks including TDC's responses to change and new technologies; introduction of and demand for new services and products; developments in demand, product mix and prices in the mobile and multimedia services market; research regarding the impact of mobile phones on health; changes in applicable legislation, including but not limited to tax and telecommunications legislation and anti-terror measures; decisions made by the Danish Business Authority; the possibility of being awarded licences; increased interest rates; the status of important intellectual property rights; exchange-rate fluctuations; global and local economic conditions; investments in and divestment of domestic and foreign companies; and supplier relationships.

As the risk factors referred to in this Report could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Report, undue reliance is not to be placed on any of these forward-looking statements. New factors will emerge in the future that TDC cannot predict. In addition, TDC cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements.

The Market shares included in this report are estimated by TDC Market Intelligence and may change with retrospective effect as increased knowledge of the market is obtained. The total market is defined to include residential and business. Market shares for landline voice, broadband and TV are based on number of lines and mobile voice is based on the number of SIM cards, excluding Prepaid cards and Data only SIM cards.

# Introduction

## Positive aspects in Q3

- Strong EBITDA growth in **Norway** (10.8% YoY) adjusted for a large one-off in Q3 2015
- Organic gross profit from **mobility services** up by 2.9% YoY; retail mobile voice subscribers up by 6k vs. Q2, and B2C mobile voice ARPU at 2015 level despite decrease in roaming revenues
- Spectrum acquired in the **1800 MHz** auction at a lower cost than expected, ensuring continued ability to provide 'Denmark's best mobile network'
- Launch of **Get mobile**, providing full-scale B2C solutions in Norway
- **Simplification of the organisation** in DK including 130 positions closed
- **Divestment of TDC Sweden** to Tele2 completed for DKK 2.3bn on a cash and debt free basis

## Negative aspects in Q3

- **EBITDA** decline of 11.6 YoY driven by the development in Denmark (-13.1% YoY)
- **Opex** in Denmark increased 6.9% YoY due to different phasing with a low comparable in Q3 2015; **YTD Group opex** up by 1.6% due to strategic investments (TDC and YouSee brand merger and B2B simplification) and increased staff at call centres
- YTD **EFCF** down by 728m or 30.4% driven by EBITDA decline of 760m
- Loss of 9k **broadband customers** vs. Q2 in Consumer and Business due to pressure from competing infrastructure
- Following the **brand merger** of TDC and YouSee and related **IT migrations** in Q2 2016, support calls have increased leading to more negative customer experiences; however recommend score was up 1 index point YoY

### Guidance improved:

EBITDA<sup>1</sup> of >DKK 8.4bn, EFCF of >DKK 1.7bn and DPS of DKK 1.00 per share<sup>2</sup>

1. Assuming NOK/DKK of ~0.80
2. Will be paid out in Q1 2017

## Q3 update on strategic initiatives

### Always Simpler and Better



**Simplified organisation**  
structure in DK  
closing down +130  
positions



**Simplification of YouSee's outbound commercial setup** to focus more on building loyalty in customer base



**Main B2C IT migrations in the 2018 strategy now completed** enabling increased agility and simplification

### Better connectivity



**Launch of Hybrid-fiber in Fullrate** completed and now account for a substantial part of BB sales



**Successful completion of 1800 MHz frequency auction** ensuring that we maintain current spectrum coverage

### Better offerings



**Relaunch of Telmore Play 2.0** product portfolio with two new entertainment offerings to create stickiness and attract a broader segments



**Successfully added Get Safe** as new commercial product to MDUs in Norway, and launched **Get Mobile** enabling increased cross-sales



**Launch of new simplified YouSee mobile portfolio** with attractive double data for existing TV and BB customers

### Better customer experience



**Early indication of improved service levels** in call centres by focusing on broad skill-sets and opening new locations with additional employees

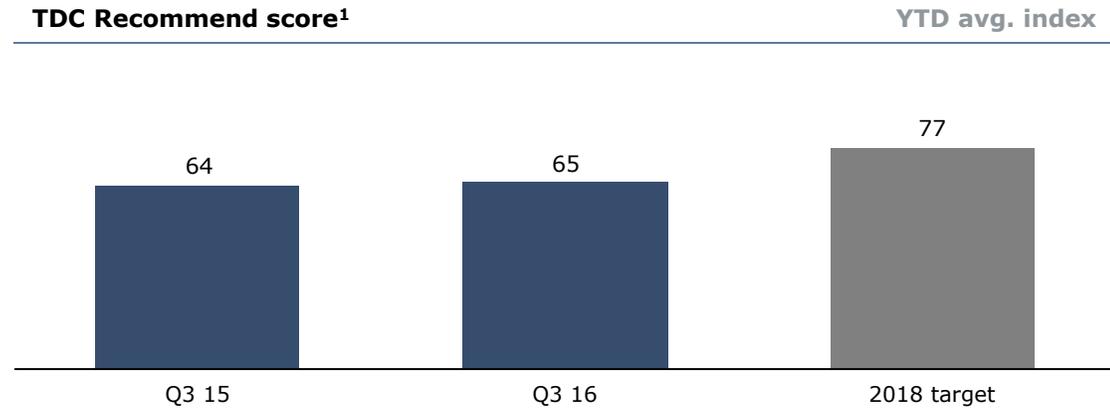


**Optimisation of online flow in Telmore** has significantly reduced time needed for sign-up and product changes and led to improved customer experience

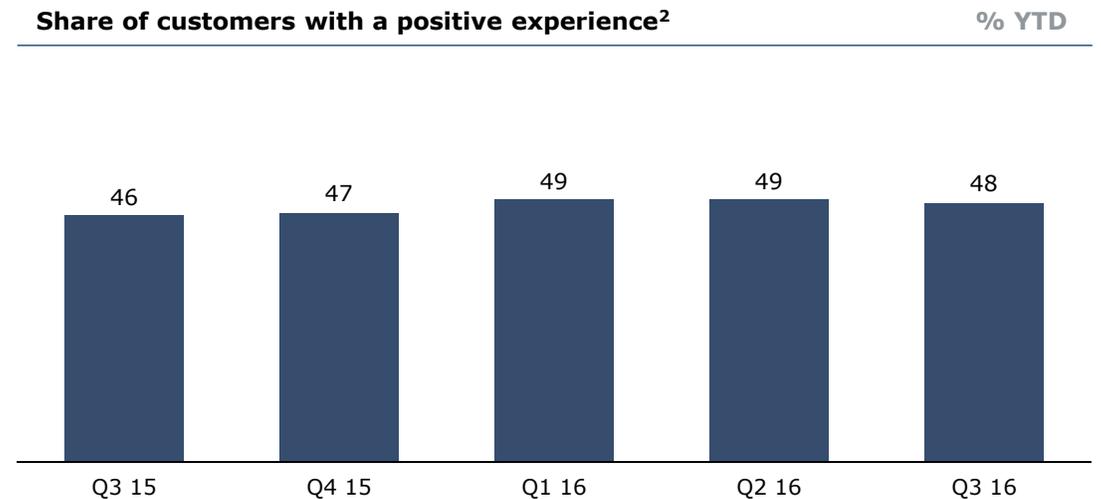
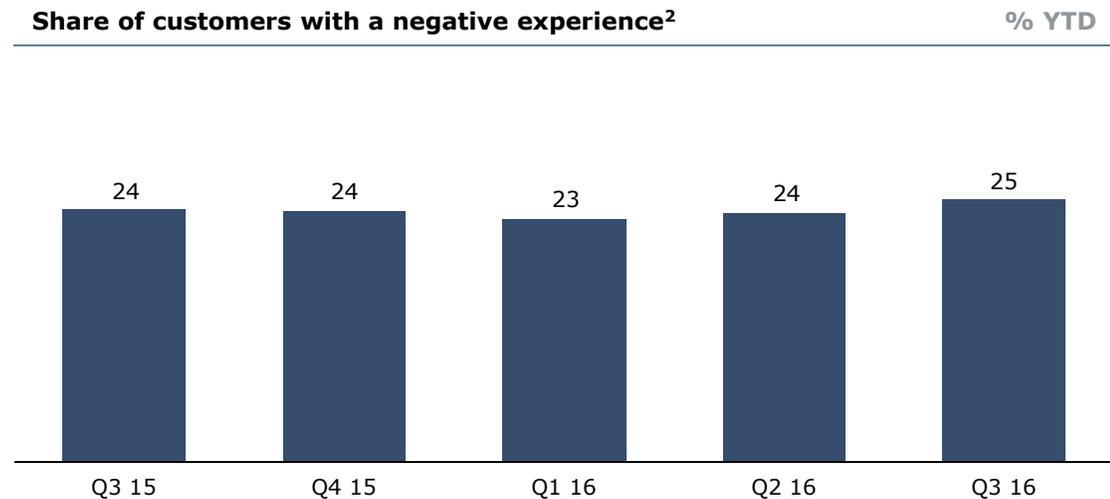


**Launch of new customer SPOC setup for the delivery in Business**

# Customer satisfaction scores



- **Brand merger and IT migrations** have in H1 2016 created pressure on support touch points, which continued in Q3. Unfortunately this has resulted in some service level KPIs have been unsatisfactory
- **Recommend score** up by 1 index point YoY, due to customer appreciation of 'Denmark's best mobile network', accompanied by increased awareness of YouSee brand as a unified provider of premium household solutions in the Danish B2C market



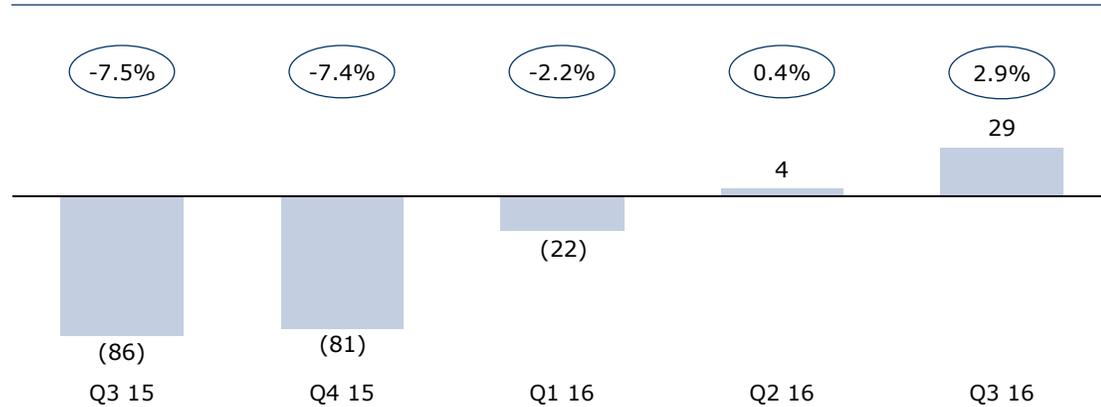
1. Recommend score is TDC's variant of the Net Promoter Score (Would you recommend TDC to family and friends/colleagues and business associates). 100 is maximum score (0-100 scale)  
 2. Customer experiences are measured on a scale from 1-10, the score of 1-5 is rated as a negative experience and a score of 9-10 is rated as a positive experience

# Mobility services in Denmark

TDC Group Denmark Consumer Business<sup>2</sup> YoY growth

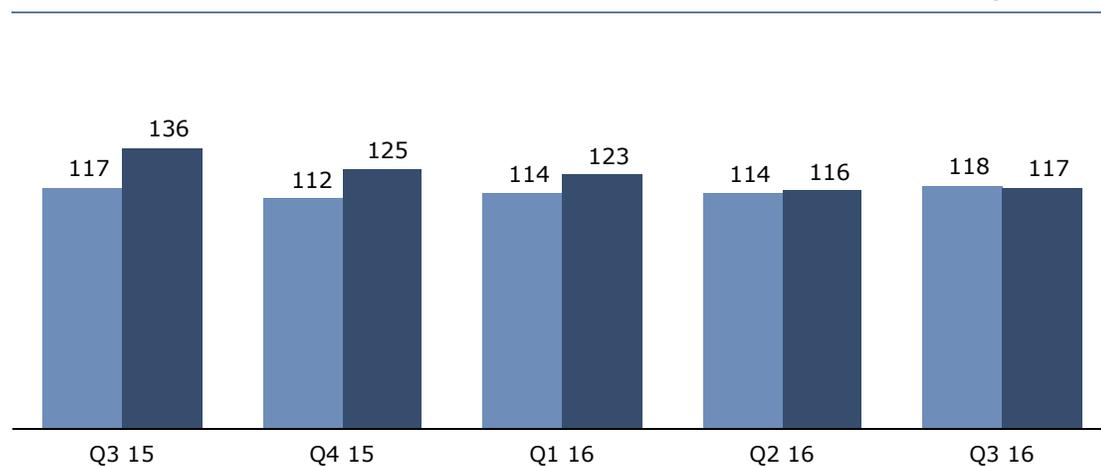
## Organic<sup>1</sup> YoY gross profit development

DKK/m



## Mobile voice ARPU

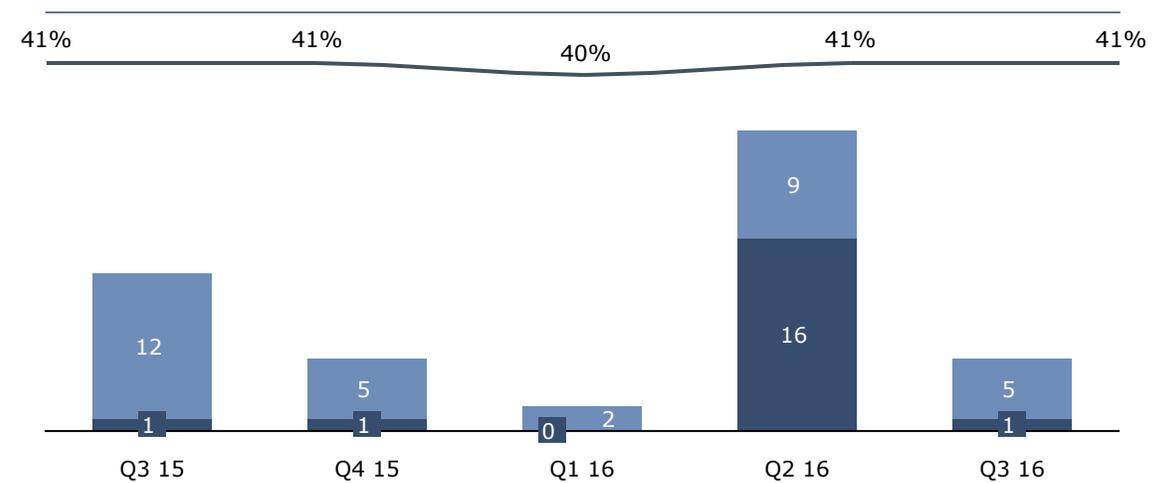
DKK/month



- Organic **gross profit** growth for the 2<sup>nd</sup> consecutive quarter driven by Consumer; Consumer mobile voice **net adds** 5k in Q3 and 21k since Q3 2015 supported by YoY improvements in churn rates
- B2C mobile voice ARPU** at 2015 level as price increases cushioned the lower roaming revenues caused by EU regulation (Roam Like at Home)
- Business ARPU** down 14% YoY driven mainly by lower roaming revenues and continued price pressure
- Business customer base** in Q3 increased by 1k. Positive development in the public segment offset by loss of customers in other segments

## Mobile voice RGU net adds & market share<sup>3</sup>

'000

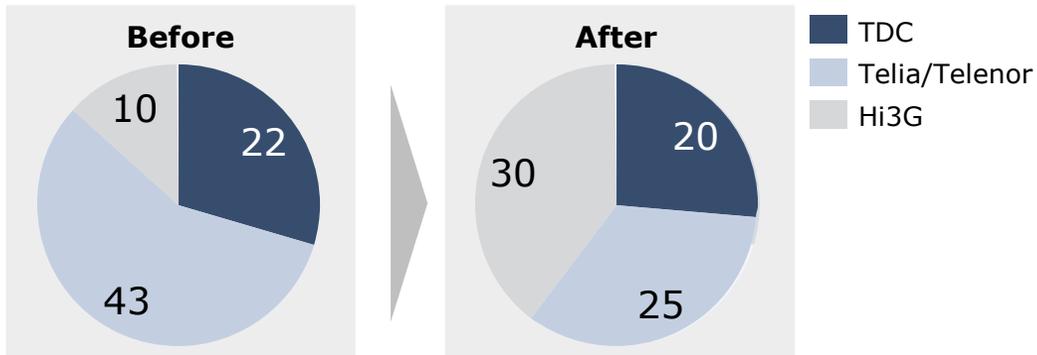


1. Adjusted for regulation and acquisitions/divestments  
 2. Cirque included in RGU (12k) from Q2 2016  
 3. TDC Residential and Business market share (Denmark)

# Deep dive: 1800 MHz auction finalised

## Auction followed TDC's expectations

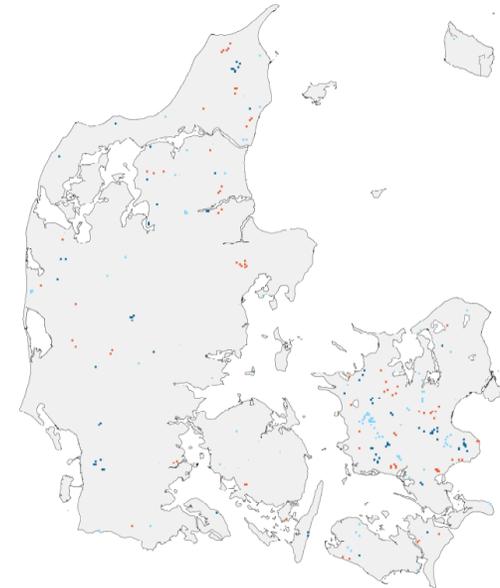
- TDC won 2 x 20 MHz at **DKK 300m**
- **20% to be paid in Q4 2016**, 10%/year in next 8 years
- **Level amount of MHz** vs. before auction



- Existing frequency band **already in use for 2G and 4G**
- 1800 MHz is in the sweet-spot providing both significant **capacity as well as adequate in-door coverage capabilities**

## Coverage obligation will require capex

- TDC incurs a coverage obligation to supply **~700 buildings with 30/3 mbps outdoor coverage** by the mid of 2019

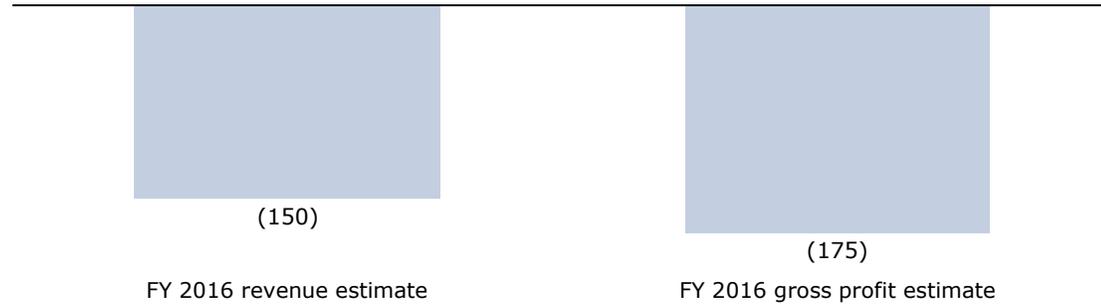


- Early estimates show the need of a new mobile mast to cover each quadrant

# Deep dive: Roaming - TDC Group Denmark

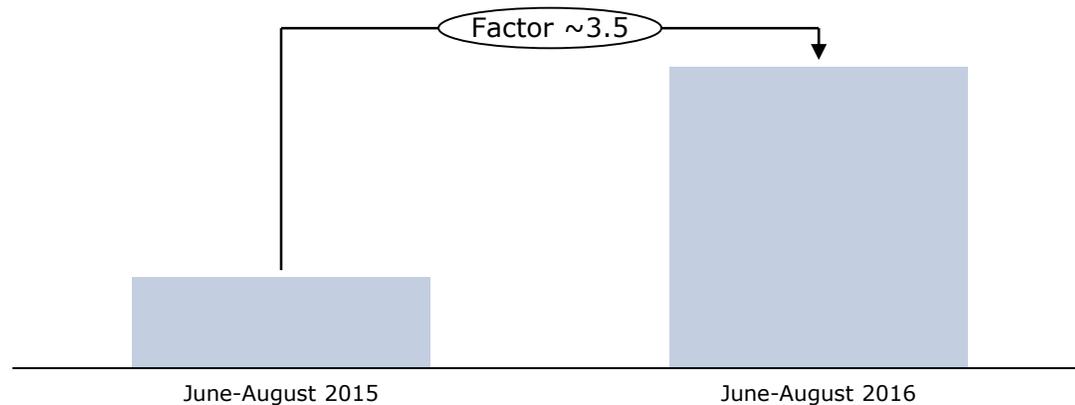
## Roaming regulation effect on revenue and gross profit

DKKm



## EU Roaming volume

Index



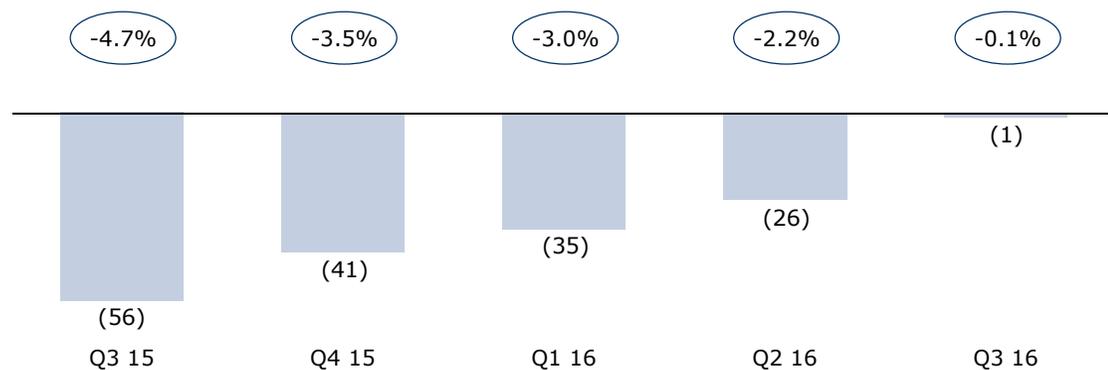
- New EU regulation proposed with **100 pct. Roam Like at Home** 365/year with implementation in June 2017; ongoing commercial pressure on roaming and the transition phase have already impacted 2016 financials
- **EU roaming regulation** on end-user pricing expected to affect TDC gross profit negatively by DKK 175m in 2016. This development is driven by a higher share of subscriptions with roaming included as well as increased volume leading to higher costs
- Looking into 2017, there is a substantial **uncertainty** concerning wholesale prices as well as roaming volumes

# Internet & network in Denmark

TDC Group Denmark Consumer Business<sup>2</sup> YoY growth

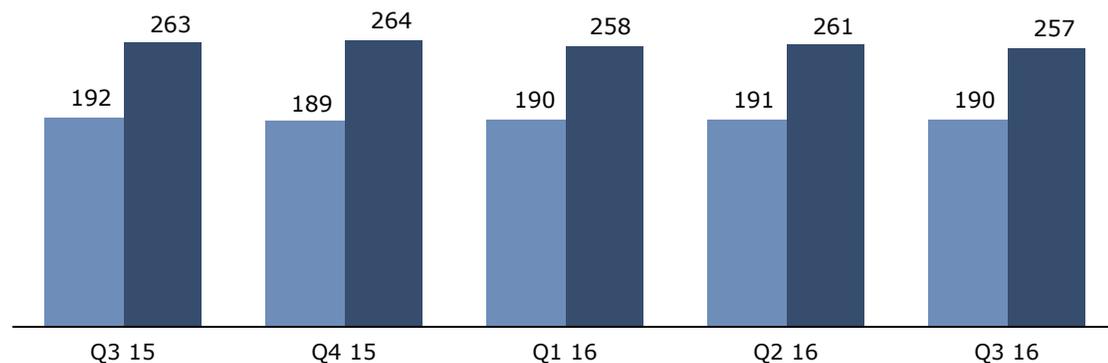
## Organic<sup>1</sup> YoY gross profit development

DKKkm



## Broadband ARPU

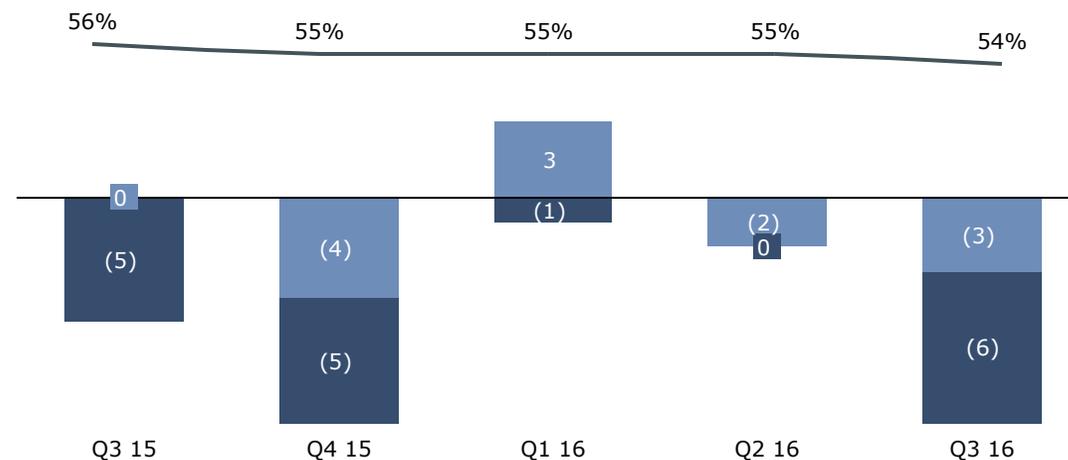
DKK/month



- Continued positive trend in organic **gross profit** across business lines
- Consumer** net loss of 3k broadband customers vs. Q2 2016 due to the ongoing competition especially in the lower end of the market
- Both **Business ARPU and net adds** decreased YoY and vs. Q2 2016

## Broadband RGU net adds & total DK market share<sup>3</sup>

'000



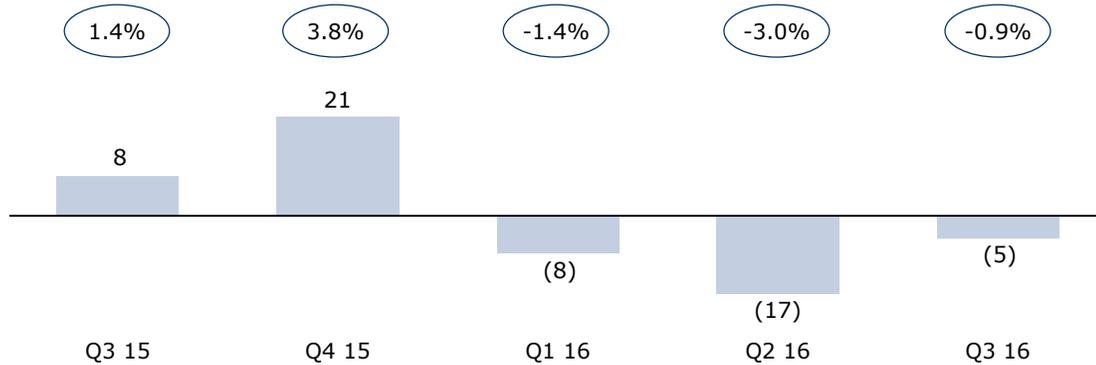
1. Adjusted for regulation and acquisitions/divestments  
 2. Cirque included in RGU (1k) from Q2 2016  
 3. TDC Residential and Business market share (Denmark)

# TV in Denmark

TDC Group Denmark Consumer YoY growth

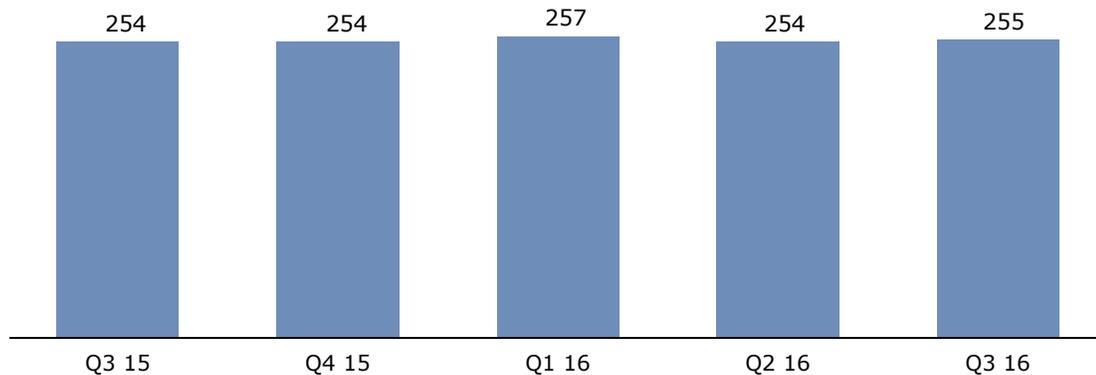
## Organic<sup>1</sup> YoY gross profit development

DKK M



## ARPU

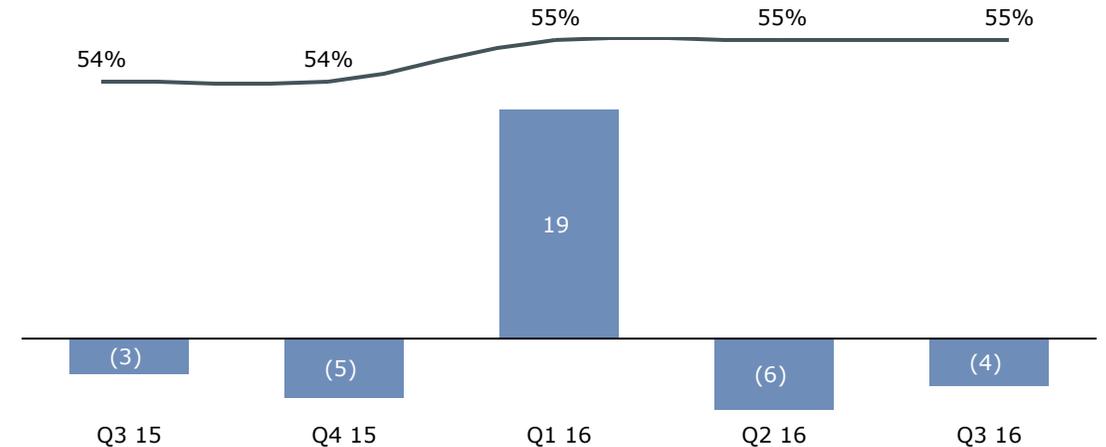
DKK/month



- Negative organic TV **gross profit** development YoY driven by increased content cost due to more value-added services being included (e.g. TV on-the-go)
- New box** well received by the first 39k customers finding the user interface quick and intuitive to navigate
- Flattish **TV ARPU** development YoY due to continued downward migrations offset by price initiatives during the year including Fullrate in Q3
- TV net loss** of 4k customers vs. Q2 2016 driven by cable-cutting in the SDU segment

## RGU net adds & total DK market share<sup>2</sup>

'000



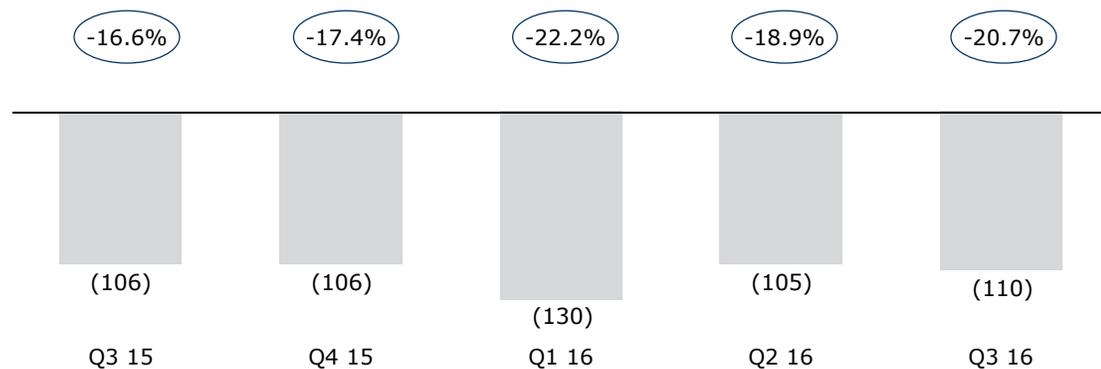
1. Adjusted for acquisitions/divestments  
 2. TDC Residential and Business market share (Denmark)

# Landline voice in Denmark

■ TDC Group Denmark ■ Consumer ■ Business<sup>2</sup> ○ YoY growth

## Organic<sup>1</sup> YoY gross profit development

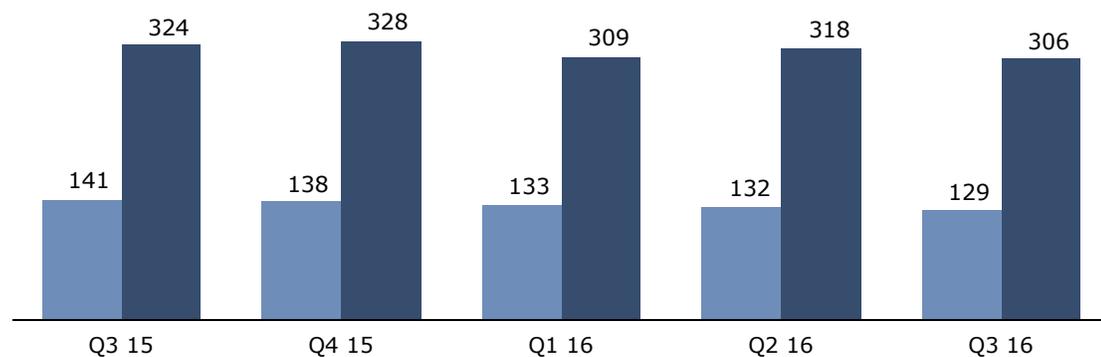
DKKm



- **Organic gross profit** development driven by both Consumer and Business
- Improved **B2C customer net loss** driven by less PSTN churn
- **Consumer ARPU decline** of DKK 12 in Q3 YoY, slightly higher level than Q2 decrease. This is related to a continued lower revenue from traffic as well as an increasing share of low ARPU VoIP customers
- **Business net adds** down by 5k vs. Q2 2016 continuing less negative trends from Q2, driven by improved churn in the public segment
- **Business ARPU** down by DKK 18 YoY in line with recent quarters

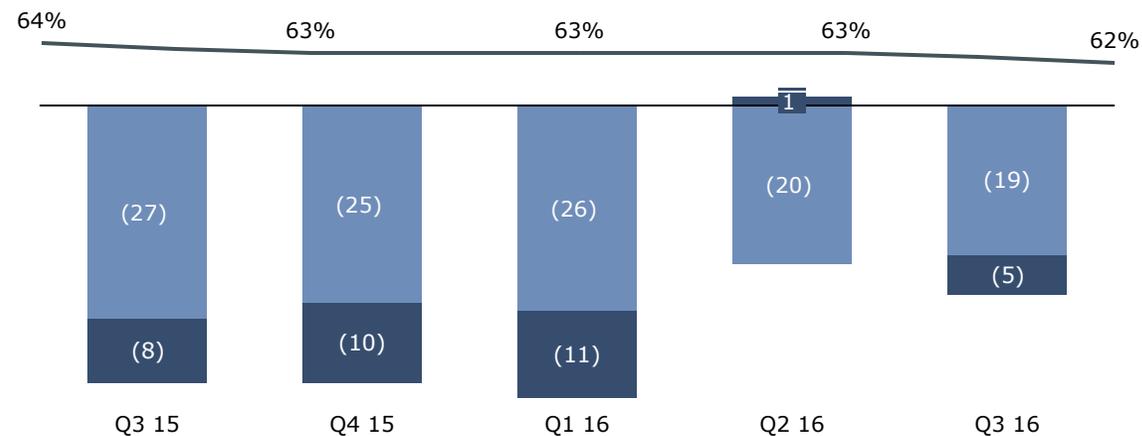
## ARPU

DKK/month



## RGU net adds & total DK market share<sup>3</sup>

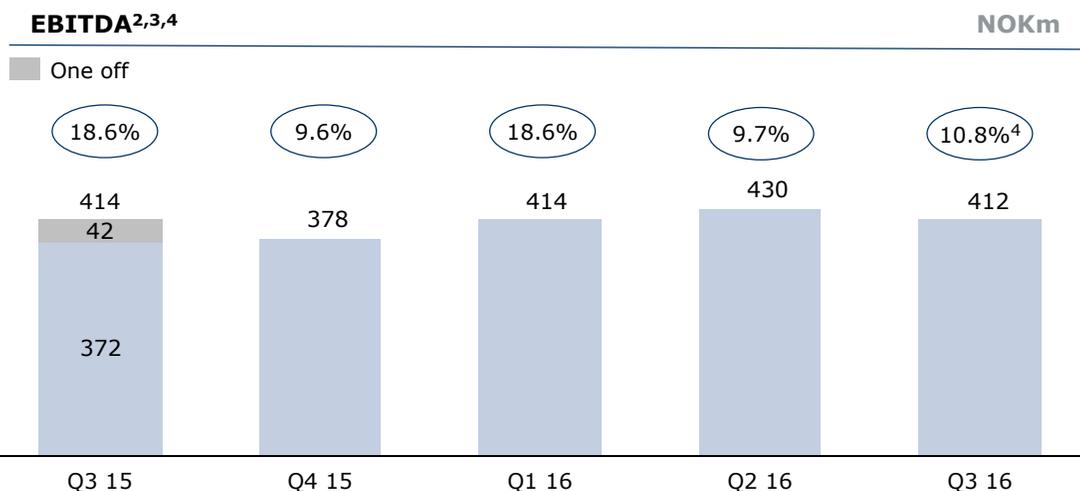
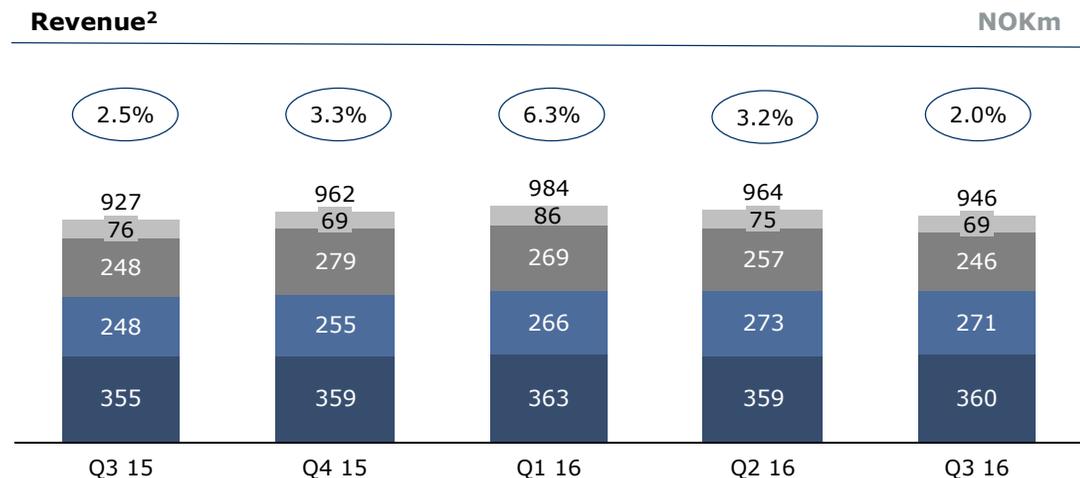
'000



1. Adjusted for regulation and acquisitions/divestments  
 2. Cirque included in RGU (8k) from Q2 2016  
 3. TDC Residential and Business market share (Denmark)

# Norway financials

Other Business Broadband TV YoY growth<sup>1</sup>



- Q3 **revenue growth** mainly driven by broadband in Get
- **EBITDA growth of 10.8%** when adjusted for a large one-off in TDC Norway in Q3 2015<sup>3</sup>. Growth generated mainly by broadband in Get and strategic execution in TDC Norway with synergy realisation from the Get acquisition
- **Get Household ARPU** up 2% YoY driven by higher broadband penetration and broadband ARPU
- Launch of **Get mobile B2C offering** on October 18 (see next page)

1. Including Get's historical data before the acquisition as of November 2014

2. Q1 2016 affected positively by one-offs (Revenue: NOK 13m and Operational expenses: NOK 5m)

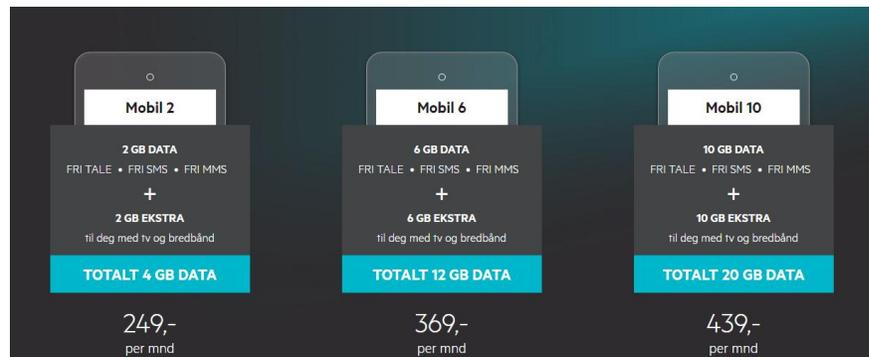
3. In Q3 2015, other income was affected positively by a one-off from closing down one of TDC Norway's defined benefit plans (NOK 42m)

4. Q3 2016 EBITDA growth adjusted for one-off in TDC Norway in Q3 2015. Reported EBITDA growth of -0.5%.

# Deep dive: Fuel growth through product launches in Get

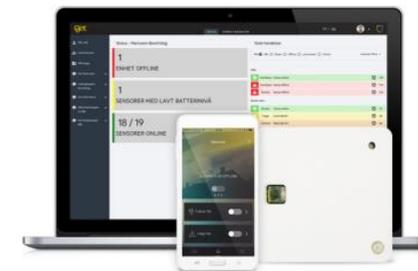
## Get Mobile

- **Launched October 2016**
- Three basic price plans with unlimited voice/SMS/MMS and large data packages; **Norway's best 4G coverage**<sup>1</sup>
- Targeting **existing Get customers**; double data to TV and broadband customers
- Over **60%** of Get customers find a mobile offering from Get interesting<sup>2</sup>



## Get Safe

- **Collective fire alarm system**, targeting the MDU segment
  - Overview and control via smartphone or alarm portal
  - Connected to alarm central (open 24/7)
  - Fire warning via sms
  - Personal burglar alarm for individual households
- **Sales off to a good start** with first contracts signed and pilot MDUs up and running in Q2 and Q3 2016



1. Source: Tek.no "Den store dækningstesten 2016": <http://www.tek.no/artikler/test-dekningstest-norges-storste-test-av-mobildekning/277366/6>  
2. Get market survey (2,500 customers)

# TV in Norway

○ YoY growth<sup>1</sup>

## Revenue

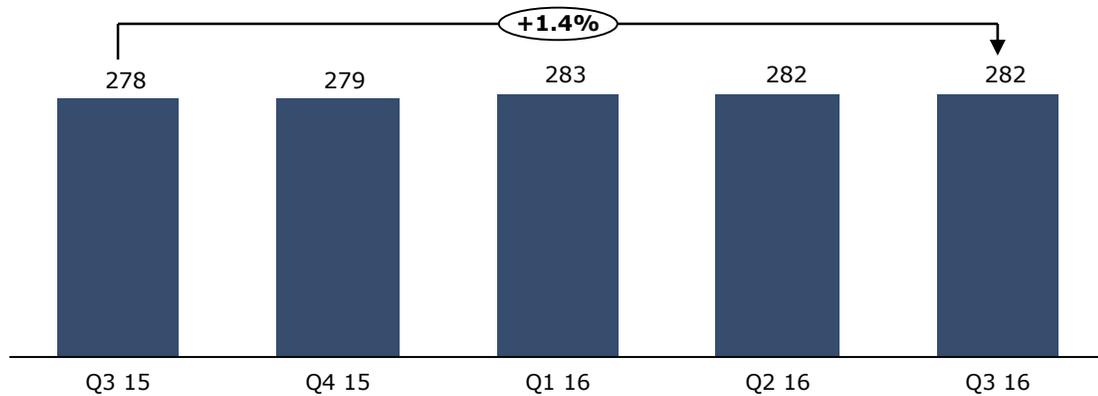
NOKm



- TV revenue growth driven by **ARPU increase** of NOK 4 YoY following the annual price increases in January
- **Flat subscriber development** YoY and vs. Q2 2016 mainly as a result of higher competition
- **Box penetration** up 3 percentage point YoY to 93% of TV customers

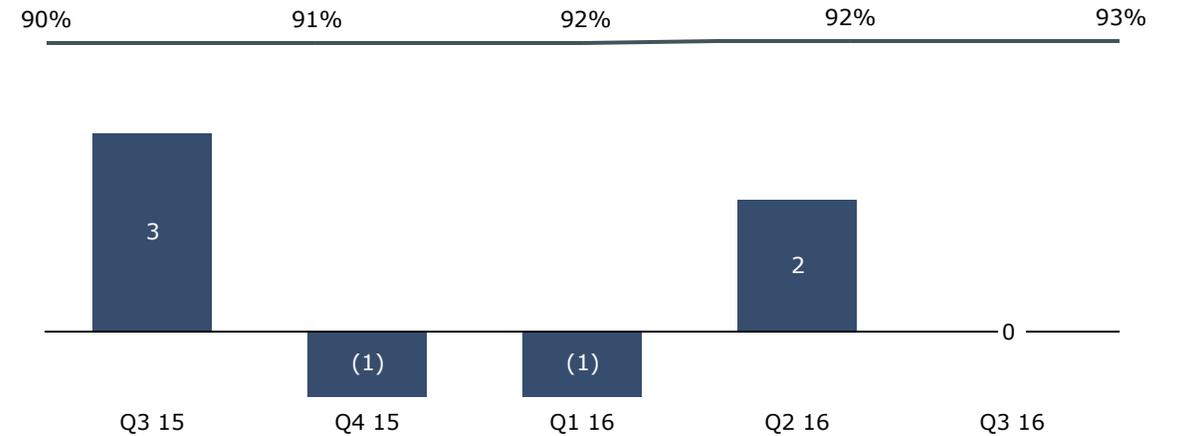
## Residential ARPU

NOK/month



## RGU net adds<sup>2</sup> and box penetration

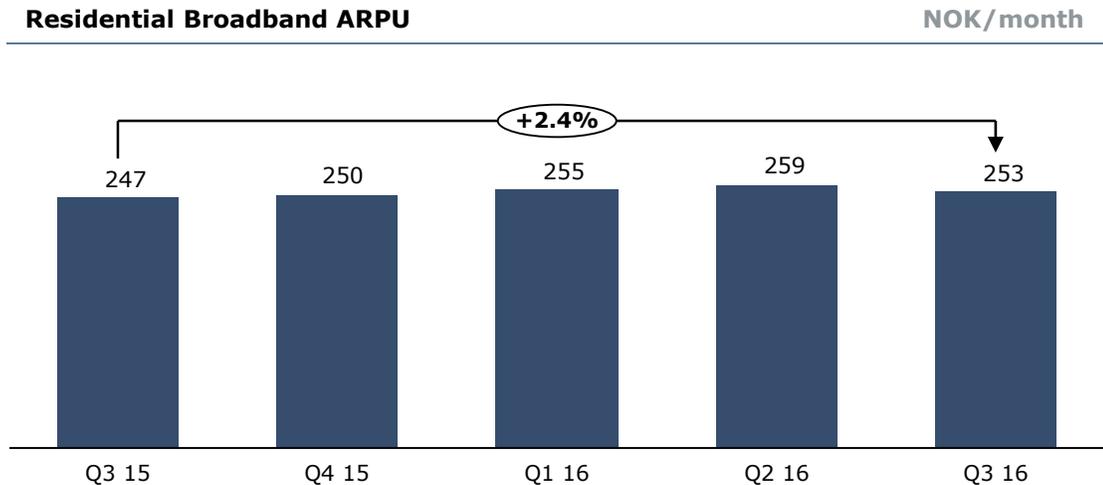
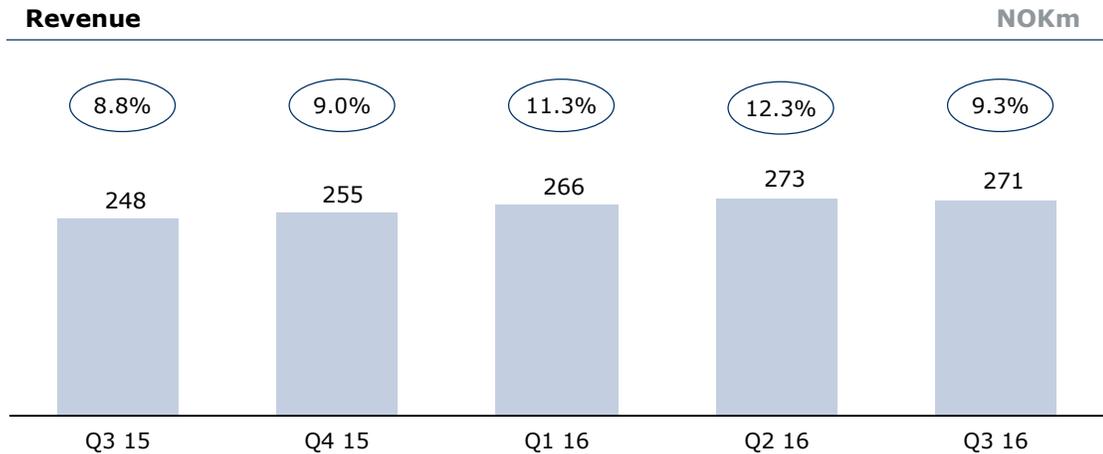
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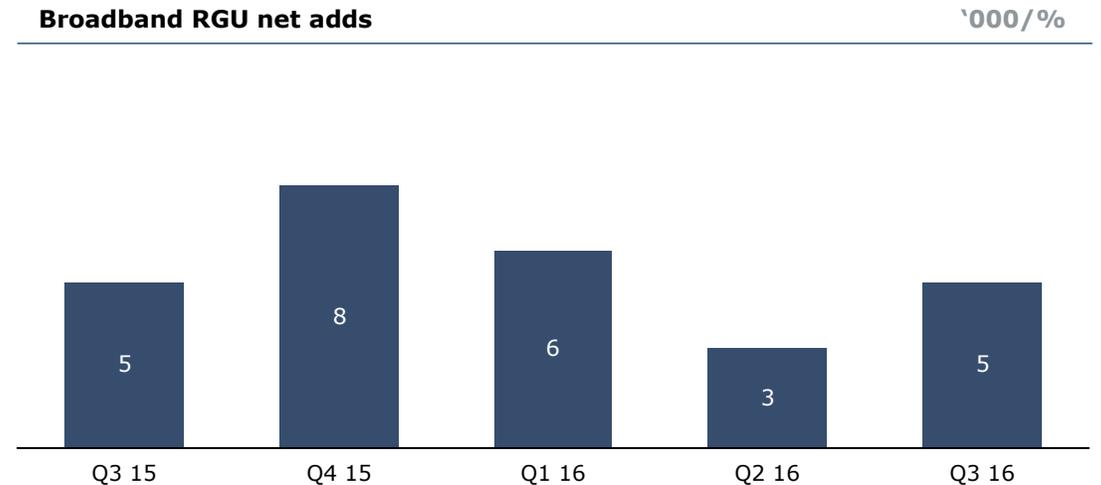
1. Including Get's historical data before the acquisition as of November 2014  
 2. TV RGU net adds includes B2B TV RGUs

# Broadband in Norway

○ YoY growth<sup>1</sup>



- Continued **strong broadband performance** in Get driven by both ARPU and RGU growth
- Broadband net adds** of 5k vs. Q2 2016 driven by a successful summer campaign and 22k net adds YoY; broadband penetration up 4 percentage points YoY
- ARPU up NOK 6** (2.4%) YoY as a result of migration of customers to higher speeds at higher prices; Q3 ARPU decrease of NOK 6 vs Q2 due to customers on campaign prices and changed mix of collective and stand alone customers



1. Including Gets historical data before the acquisition as of November 2014

# Financials



## Financial highlights – TDC Group

	Q3 2016			YTD 2016		
	DKKm	Growth, %		DKKm	Growth, %	
	Reported	Reported	Organic	Reported	Reported	Organic
<b>Revenue</b>	<b>5,235</b>	<b>(2.3)</b>	<b>(1.5)</b>	<b>15,616</b>	<b>(4.7)</b>	<b>(3.4)</b>
<b>Gross Profit</b>	<b>3,939</b>	<b>(3.9)</b>	<b>(2.0)</b>	<b>11,734</b>	<b>(5.5)</b>	<b>(3.8)</b>
<b>Opex</b>	<b>(1,774)</b>	<b>(7.6)</b>	<b>(7.3)</b>	<b>(5,304)</b>	<b>(1.6)</b>	<b>(2.1)</b>
<b>EBITDA</b>	<b>2,165</b>	<b>(11.6)</b>	<b>(8.5)</b>	<b>6,430</b>	<b>(10.6)</b>	<b>(8.1)</b>
<b>Profit for the period</b>	<b>773</b>	<b>49.5</b>		<b>1,962</b>	<b>22.8</b>	
<b>- hereof discontinued operations &amp; SI</b>	<b>28</b>			<b>(91)</b>	<b>52.4</b>	
<b>Capex</b>	<b>(940)</b>	<b>3.8</b>		<b>(2,964)</b>	<b>3.3</b>	
<b>EFCF</b>	<b>687</b>	<b>(49.4)</b>		<b>1,666</b>	<b>(30.4)</b>	
<b>Adjusted NIBD/EBITDA<sup>1</sup></b>	<b>3.1</b>					

1. Hybrid bonds are accounted for as equity and are not included in NIBD. The hybrid bonds are assigned 50% equity credit from rating agencies. Adjusted NIBD is calculated by adding 50% of the hybrid capital. On a proforma basis, if EBITDA for TDC Sweden is included, adjusted NIBD/EBITDA would have been 3.0 at the end of Q3 2016

# Q3 2016 performance per business line

DKKkm/ Growth in local currency		Denmark					Norway	
TDC Group		Consumer	Business	Wholesale	Other operations	Denmark in total	Get	TDC Norway
<b>Revenue<sup>1</sup></b>	<b>5,235</b> -2.3%	<b>2,701</b> -2.7%	<b>1,261</b> -8.6%	<b>447</b> +1.6%	<b>148</b> +35.8%	<b>4,510</b> -3.2%	<b>580</b> +3.9%	<b>181</b> -3.8%
<b>Gross profit<sup>1</sup></b>	<b>3,939</b> -3.9%	<b>2,043</b> -3.9%	<b>1,014</b> -9.3%	<b>281</b> -3.1%	<b>102</b> +39.7%	<b>3,404</b> -4.9%	<b>462</b> +5.3%	<b>65</b> -3.6%
<b>EBITDA<sup>1</sup></b>	<b>2,165</b> -11.6%	<b>1,590</b> -5.5%	<b>741</b> -14.3%	<b>242</b> -2.0%	<b>-737</b> -7.9%	<b>1,834</b> -13.1%	<b>299</b> +9.0%	<b>31</b> -46.5%

- 1 Consumer:** EBITDA decline driven by gross profit decline in landline voice and non-services (including fees) as well as FTE up-manning in customer support
- 2 Business:** Continued EBITDA decline across segments and products with impact from roaming regulation
- 3 Other operations:** Savings on facility management and faults handling hours were more than outweighed by investments in strategic initiatives
- 4 Norway:** Growth continues at a high level in Get; TDC Norway negatively affected by one-off from Q3 2015 (adjusted EBITDA growth of 31.0%)

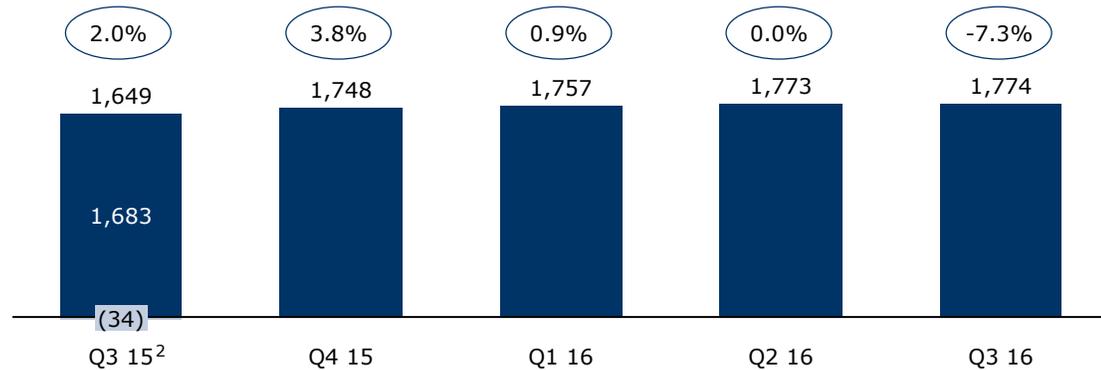
1. Business line absolute figures and growth rates exclude eliminations and therefore do not amount to the total Group figures

# Opex & capex

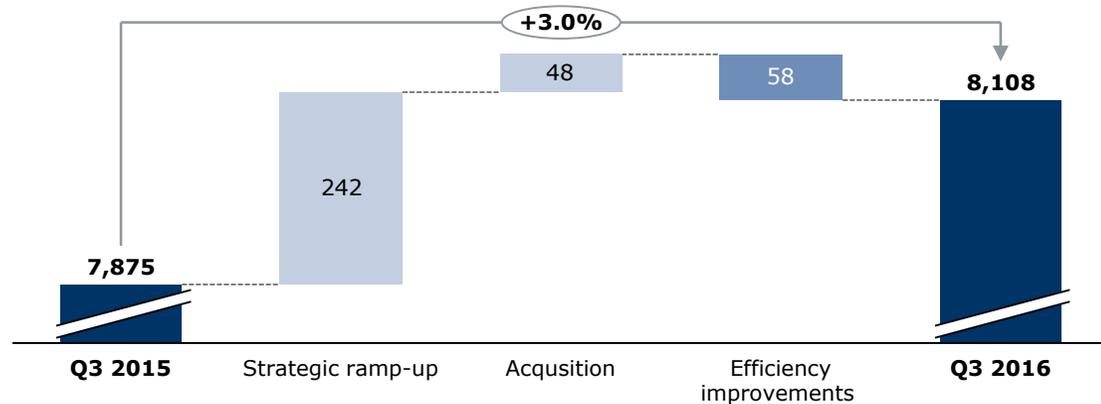
○ YoY organic growth<sup>1</sup> ■ Opex ■ Norway one-off

## Opex development

DKKbn



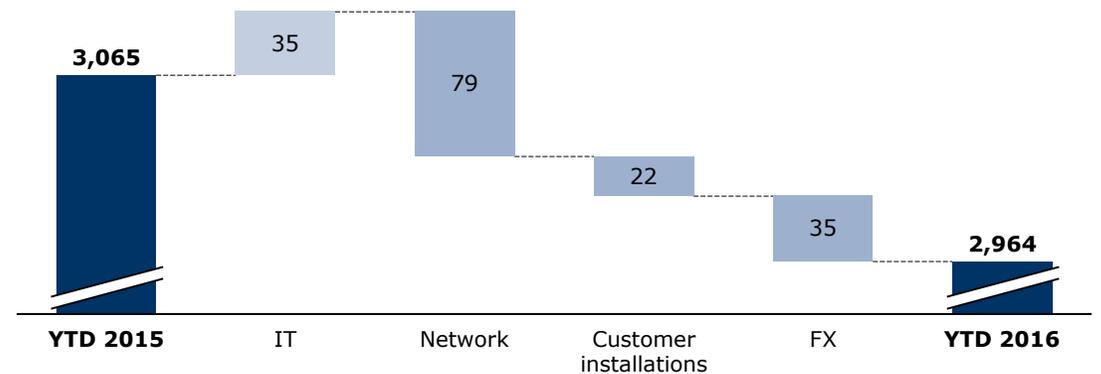
## FTE development



- Q3 **opex spend** remained level with recent quarters (DKK ~1.7-1.8bn) with a negative organic development of 7.3% YoY in Q3 due to low Q3 2015. YTD saving initiatives in Denmark were offset by investments in strategic initiatives and higher bonus related to the share based incentive programme for the management of TDC Group's Norwegian business
- Number of **FTEs up by 3.0%** YoY in Q3 driven by strategic initiatives, e.g. Giga-speed project, IT migration as well as increase in Consumer customer support due to more calls on the back of the TDC and YouSee brand merger
- YTD 2016 **investment spending** decreased compared with the same period last year due to large investments in the Danish mobile network in 2015 as part of the nationwide upgrade. IT investments was increased to support strategic initiatives

## Capex, YoY development

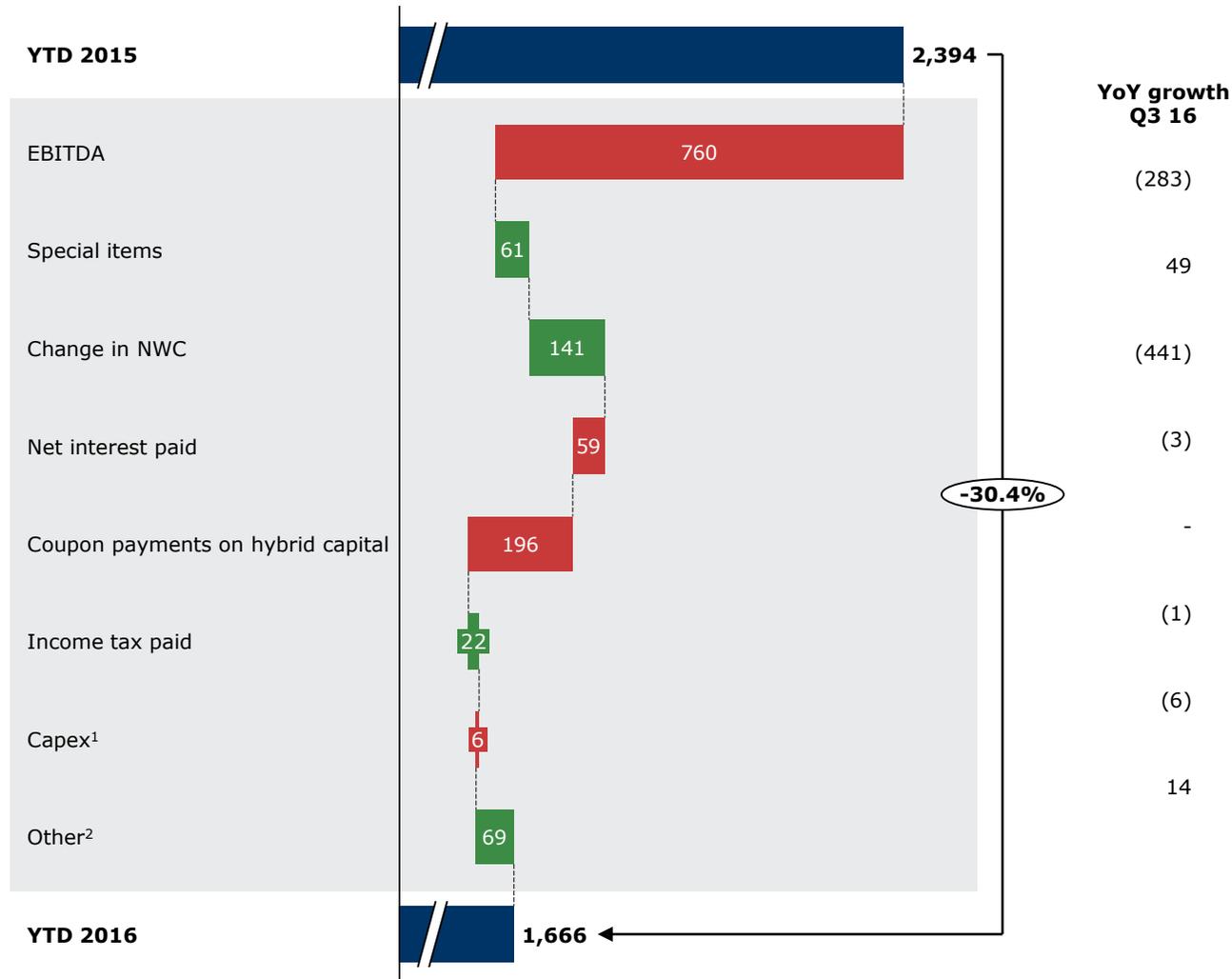
DKKbn



1. Adjusted for acquisitions/divestments and foreign exchange  
 2. One-off in Norway related to closing down one of TDC Norway's defined benefit plans in Q3 2015

# Equity Free Cash Flow

DKKm



- YoY decline in **EFCF** of DKK 728m YTD 2016, driven by a decrease in the Danish EBITDA (12.6%) and the first annual coupon payments on hybrid capital issued in Q1 2015. This was partly offset by NWC growth due to different timing compared with 2015
- In Q3, the 1800 MHz auction was concluded and TDC obtained further spectrum. TDC will pay the first annual installment in Q4 which will affect EFCF negatively by DKK 60m

1. Investment in PPE and intangible assets including mobile licenses

2. Including adjustment for non-cash items, pension contributions, payments related to provisions and finance lease repayments

# Guidance 2016 improved

*TDC Group's guidance for 2016 is improved on the back of successful completion of the majority of the large transformation projects that was planned for 2016*

**EBITDA<sup>1</sup>**

**2016 guidance**

>DKK 8.4bn  
(previous ~DKK 8.4bn)<sup>2</sup>

**YTD status**

DKK 6.4bn

**EFCF**

>DKK 1.7bn  
(previous ~DKK 1.7bn)<sup>2</sup>

DKK 1.7bn

**DPS<sup>3</sup>**

DKK 1.00 per share

Supported by EFCF YTD

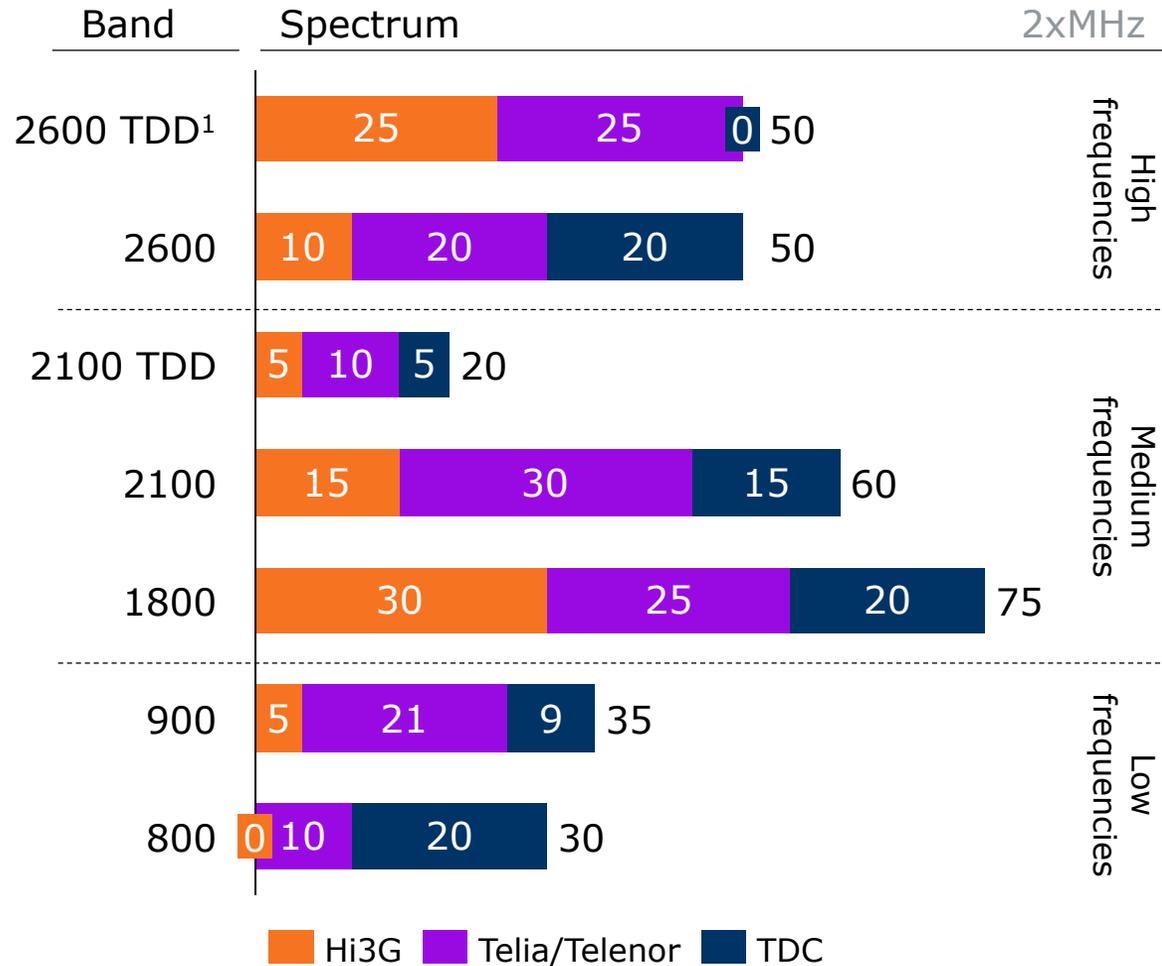
1. Assuming NOK/DKK exchange rate of 0.80
2. TDC Group expectations as of 21 June 2016 following the announcement of the disposal of TDC Sweden
3. Will be paid out in Q1 2017

A woman with long blonde hair, wearing a black blazer over a blue patterned top and a headset, is seated at a desk in a call center. She is looking at a large black Lenovo monitor. The background shows a busy office environment with other employees at their desks, computer monitors, and a whiteboard. A blue circular graphic is overlaid in the upper left corner.

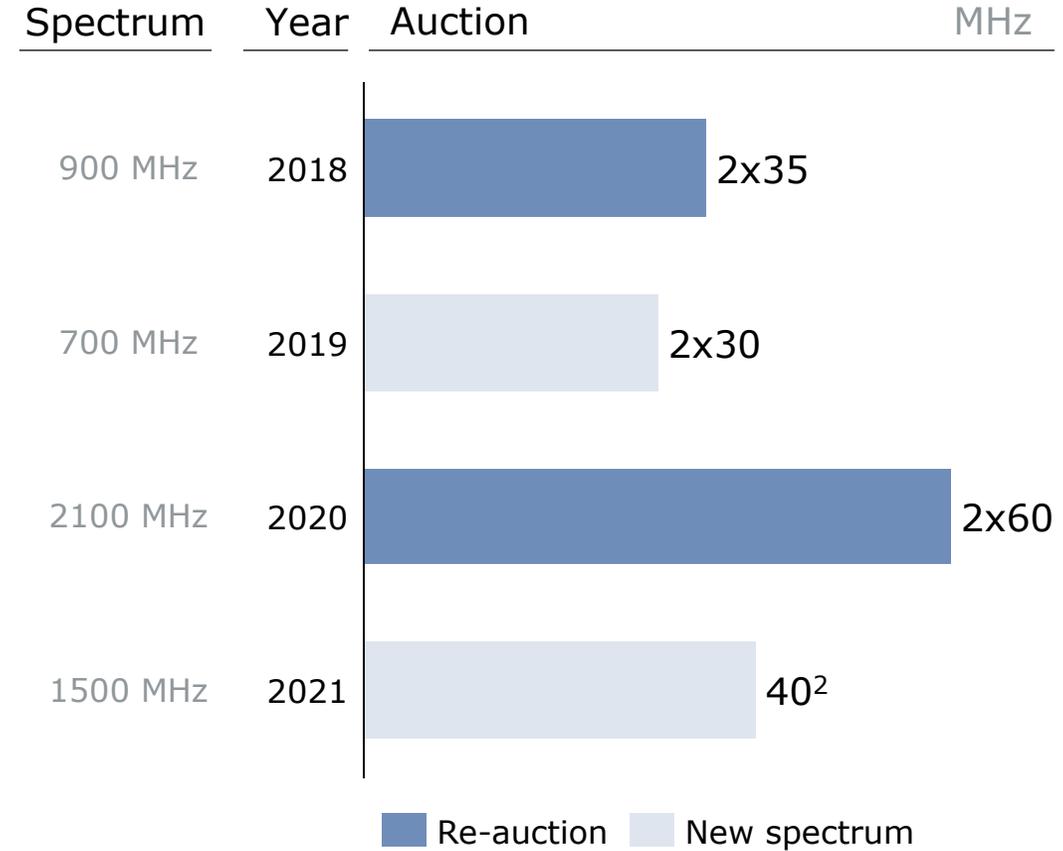
**Q&A**

# A.1 Mobile spectrum overview (Denmark)

## TDC represented across frequency bands



## 2 out of 4 auctions in the next 5 years are re-auctions



1. TDD means unpaired spectrum  
 2. Auction is a TDD auction  
 Note: Auction dates not finalised based on TDC best guess