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# **The Board of Directors' Report on the Company's Activities in 2016**

Presented by Vagn Sørensen, Chairman of the Board

TDC A/S

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## **Always simpler and better: TDC Group's strategy**

For the ninth year in a row, I am here to report on the most significant results and initiatives TDC Group achieved and initiated in the past year. 2016 was an exciting year. It was also a challenging year that offered many changes.

We are now one year into TDC Group's three-year strategy, which we presented in January 2016 under the heading "always simpler and better" to ensure that TDC Group continues to play an important role for society and individual customers in the future. Our focus is to operate a healthy and future-proof business that makes life easier and better for our customers and ourselves.

Our ambition was clear from the outset: In 2018, TDC Group should have the best customer satisfaction and generate the best cash flow. As illustrated on the slide behind me, we are about to climb a mountain, and will reach the top by working towards goals in four strategic focus areas:

1. Better connectivity
2. Better offerings
3. Better customer experience
4. A simplified digital operating model

## **Strategic initiatives in 2016**

Together, we succeeded with many of the objectives that were in our sights at the beginning of the year. My thanks go especially to our many highly skilled employees, who have helped create impressive results that benefit our customers and the society we are part of and contribute towards.

As you can see, many initiatives have been launched, but I would like to highlight that:

- We merged the two largest consumer brands in Denmark under the YouSee-brand, and transferred more than 1 million customers to a shared IT system to improve the long-term customer experience, though we realised our customer experience would be affected short term.
- We started the roll-out of a gigaspeed upgrade of the cable network with a view to delivering 1 Gbps broadband speeds to half the Danish households in 2018.
- We streamlined our organisation and divested TDC Sweden.
- In the Danish business market, we acquired a number of leading cloud-based communications providers.
- We launched a new YouSee set-top box.
- And independent tests have shown that the TDC Group's mobile network is still the best in Denmark, but also one of the best in Europe. Our 4G network currently covers 99.5% of the Danish population.



A month ago, TDC Group submitted its financial statements. Overall, we have delivered on our financial results in 2016. It was a tough year, as we announced to our shareholders at the beginning of the year, but we have kept our promises. We achieved what we said we would, and we delivered the results we said we would. And it has been important to us, not least to show our owners, that we can be trusted to do what we set out to do.

Having said that, TDC's earnings remained under massive pressure, also in 2016, even if we do see improvements. In particular I would like to point out the positive mobile development in Consumer, where we turned many years of decline into growth, and achieved both an increase in our residential customer base and higher revenue per customer. Business is still under pressure and saw an EBITDA decline of 14.3%, although this represent an improvement compared to 2015.

On an equally positive note, the challenges we encountered in 2016 were outweighed by the positive developments in terms of financial results, commercial development and strategic initiatives. We are now stronger than at the outset of 2016. But we are not quite there yet. 2017 will also be another eventful year with a comprehensive list of activities however we expect an improvement. In order to achieve our strategic growth target from 2018 onwards, we will be seeing demanding transformations and also continued investments in the foreseeable future. Later, I will present the Group's financial results. However, at this point, here are the major impacts from 2016 and the status of our strategy.

**TDC is one of the most profitable telco companies in Europe and among the companies with best share price performance in 2016**

TDC has over time divested a number of less profitable areas, and are constantly working to optimize earnings. Amongst other things by investing heavily in mobile and fixed network infrastructure, making it possible to offer the best solutions for both households and individuals that honors the significantly increasing demands for bandwidth and network quality.

The continued focus on efficiency and TDC's strong position in the Danish market for mobile and fixed network, places TDC's earnings margin as one of the best in Europe - only surpassed by TIM - despite strong competition from both traditional telco companies and new global players.

TDC Group is also at the top among the companies that have the best share price performance in 2016, according to an analysis by Økonomisk Ugebrev, which looks at how the C20 companies have performed in terms of share price compared to competitors. TDC's good placement is among other things due to the fact that investors acknowledge the strategy that we presented in January 2016, and especially also that we have executed according to plan.

I am delighted that the great and talented efforts of our employees and managers is also noted by investors. It is fully deserved. We can allow ourselves to be proud that already in the



first year of our new strategy we are being named as one of the winners among the C20 companies. It shows how crucial it is for investor confidence to have a clear strategy and not least that we execute on it.

The analysis shows that TDC are good at achieving results in Denmark, but also that we have performed significantly better than our international competitors. It appears from the analysis that the TDC share "clearly is one of the best performing shares among peer group" in 2016.

### **Positive trends in the mobile market, but continued challenges in the TV segment and business market**

Yet again, we would say it has been a tough year for the Danish telecommunications market. In TDC Group, we managed to turn many years of decline in Consumer mobile, and achieved both an increase in the number of residential customers and higher revenue per customer, despite continued price pressure, particularly from new players in the market and EU roaming regulation.

More and more customers are choosing smaller TV packages or terminating their TV subscriptions, in Denmark as well as in Norway. It is positive, however, that Consumer has an increasing share of the market for pay TV, despite a declining market.

Business experienced continued difficult conditions, and the market is characterised by intense competition, especially in the segments for large enterprises, and in the public sector in particular, price pressure is severe.

The trend in demand for and consumption of both mobile data and high-speed broadband connections on landlines is growing. The Danish Energy Agency's figures show that total consumption of mobile data grew by 81% in the first half of 2016 compared with 2015, whereas the consumption of mobile data on TDC's network alone rose by 168% in the same period.

The EU regulation of prices for mobile roaming and prices for broadband in the Danish wholesale market result in very low prices, which challenges TDC. It is encouraging, however, that - by and large - we have been able to offset these negative effects through price rises in the residential mobile market and through more customers both in the residential and business markets.

### **We have maintained our strong market positions**

In Denmark, TDC Group continues to be the leading provider of communications and entertainment solutions as well as integrated business solutions and we have maintained our leading positions within mobile voice, TV, Internet & Network, and landline telephony.

In Norway, we are still the second-largest player in the Norwegian market, and through Get we have achieved a significant market share within TV and broadband.



### **Increase in mobility service customer base and brand merger of the two largest Danish consumer brands**

In 2016, Consumer's revenue in Denmark declined by 3.9% and earnings (EBITDA) fell by 6.8%. The decline was due primarily to a continued loss of customers and a lower *ARPU* for landline telephony, lower paper communication fees, higher operational expenditure and increased pressure in the TV business, where customers are choosing smaller TV packages or terminating their TV subscriptions.

On the positive side, Consumer's total mobile customer base grew by 44,000. The rise in the number of customers was supported by initiatives to reduce churn, which resulted in a reduced churn by 3.6 percentage points. In mobility services, we succeeded in delivering reported revenue growth of 3.8%. This development improved during the year to an increase of 6.3% in the fourth quarter.

In the second quarter of 2016, we merged our two brands, YouSee and TDC, to form a new and stronger YouSee. During the merger, customer satisfaction was challenged, but many new initiatives were launched to facilitate accessibility and improve customer experiences. In 2016, TDC Group also opened a new call centre to manage the temporary trend of more inbound calls and negative customer experiences. Unfortunately, we ended the year with a blank TV screen. Shortly before New Year's Eve, YouSee's TV signal was lost nationwide due to a deliberately malicious act. A police investigation is still in progress.

YouSee is now concentrating on increasing the distribution of TV packages, broadband connections, higher speeds and mobile voice subscriptions using a new strong product portfolio. The product portfolio includes a new and better TV product that can now be offered throughout Denmark regardless of the infrastructure. YouSee's new joint offer will not just create increased *ARPU* per household, but will also increase customer loyalty and thus reduce churn due to a better TV experience. This will be driven largely by the new set-top box, which is an important part of adjusting our TV product to handle on-demand and streaming solutions. Competition continued within broadband, where revenue fell by 1.2% or DKK 30m in 2016, driven by competitors' aggressive pricing due to the lower regulated prices in the wholesale market. Overall, the number of broadband customers in Consumer fell by 11,000 in 2016.

### **Price pressure continues in the business market, but launch of new strategy and product portfolio strengthens our position**

Business experienced continued difficult conditions in 2016, resulting in a 14.3% decline in earnings (*EBITDA*), although this constituted an improvement compared with the decline of 17.8% in *EBITDA* in 2015.

The business market remains characterised by intense competition, especially in the segments for large enterprises and the public sector, driven partly by the impact of EU price regulation for mobile roaming. The loss of some large contracts in 2016 is expected to continue as the



pressure on losing customers and the price level will remain when a number of contracts are due for renegotiation in 2017. Intense competition and roaming regulation resulted in a decline of 11.2% in *ARPU* for mobile voice, which was partly offset by 2,000 more customers. The net effect was a 9.8% decrease in revenue from mobility services in 2016. However, this was considerably better than the 17.4% decline in 2015.

As expected, customer satisfaction in Business was temporarily challenged in 2016 due to the many transformations during the year. With the launch of a new customer programme and the simplification of our platforms and products, we will reverse the trend in 2017.

TDC Business launched a new strategy focusing more on integrated solutions, more profitable contracts and simplification. As part of the new strategy, TDC Business acquired the cloud companies Cirque and Adactit. This has enabled us to offer integrated solutions to our customers with TDC Skype for Business as the first, and we expect to launch more in 2017 with a focus on security and digital analytics such as Wi-Fi Intelligence.

Business' renewed strategy focuses especially on simplification with a less complex portfolio of products and solutions with more transparency in customer care and invoicing. This means considerably fewer product platforms, discount schemes and billing systems. A number of processes and manual work tasks will also be automated. In 2016, Business succeeded in transitioning 55% of its customers in the small and medium-sized business segment to the future common IT platform that will substantially reduce complexity in servicing customers, reduce billing errors and make it easier to do business with TDC Group. In 2017, Business' continued simplification drive is set to reduce *operating costs* and create new revenue opportunities.

In continuation of TDC Group's overall strategy 'always simpler and better', we divested our subsidiary TDC Hosting to the Danish private equity fund Maj Invest Equity with a view to focusing on our core business. We estimate that by divesting, we will achieve higher value for TDC Group than if we had continued as owners of TDC Hosting. The agreement means that all 300 employees and other activities in relation to customers, suppliers and partners will continue in TDC Hosting under the ownership of Maj Invest Equity. The sale is subject to approval by the Danish competition authorities, and is expected to be completed in the next few months.

### **Norway continues with a positive development driven by increased broadband customer base and higher revenue**

It was another strong year for our Norwegian business line with a 7.7% increase in *EBITDA*, driven mainly by strong broadband gross profit growth in Get and a 3.9% reduction in *operational expenditure*. Get also completed a number of organisational, network and finance synergies in 2016.



For more than 10 years, Get has succeeded in delivering double-digit *EBITDA* growth, and in 2016 *EBITDA* increased by 10.1% as a result of high broadband subscriber growth. ARPU increased by 3%. For the eighth year in a row, Get delivered the highest absolute growth in the number of broadband customers among all Norwegian providers. Specifically, this meant Get welcomed 17,000 new broadband customers in 2016. In its broadband programme, Get also plans to upgrade wireless routers in 2017 to increase stability and enhance customer wireless experiences.

Get is doing well in its role as provider of full household solutions, and in 2016, we launched the mobile MVNO B2C offering, Get Mobile, for Get customers on Norway's best 4G network. Get also launched its innovative Get Safe fire alarm system for organised customers, which forms a joint cloud-based monitoring network. Get Safe is to secure a strong position in households with broadband through 'smart-home' initiatives, and the plan is to launch new safety solutions for organised customers in 2017.

Get aims to offer its customers the best entertainment experience by combining traditional flow TV with streamed on-demand content and popular OTT services. In 2017, Get will invest in a better entertainment platform for offering customers the best content.

The core of Get's strategy has always been to digitalise the customer lifecycle and thus to deliver optimal customer experiences. The target for 2018 is to have 100% online interaction on all channels. That will give the best customer experience in the market and result in considerably lower operational expenditure by transforming operations and the organisation.

We are also pleased that TDC Norway won several large contracts. In 2016, the focus in the Norwegian B2B division was on streamlining the business through simplified products and delivery processes, focusing on more profitable product offerings, and realising synergies. In 2017, we want to continue with further standardisation and simplification of products, while optimising the value chain.

### **Income statement**

As promised earlier, we have now reached the review of our financial performance. Overall, TDC Group's financial statements for 2016 show that our revenue amounted to DKK 21bn. We delivered *EBITDA* of DKK 8.5bn and a cash flow of DKK 2.1bn, which exceeded our own and the market's expectations.

Though our revenue declined by 4.1% or DKK 904m in 2016, this figure includes the negative effects of EU regulation of roaming prices and exchange-rate changes (DKK 275m). Adjusted for these effects and our acquisitions, organic revenue decreased by 3.2% or DKK 697m. A decrease that related mainly to Business and Consumer in Denmark. We did, however, see an improved trend during the year across our product areas.



TDC Group's earnings (EBITDA) fell by 10.5% or DKK 1,000m to DKK 8,488m. *Organic EBITDA* fell by 8.4% or DKK 775m, covering a DKK 876m decline in Denmark and an increase of DKK 101m in Norway.

Profit for the year excluding discontinued operations and special items fell by 9.9% or DKK 241m driven by lower earnings (EBITDA), which was partly offset by lower net financials and lower depreciation and amortisation.

Profit for the year including discontinued operations and special items rose by DKK 5,421m due to write-downs for impairment in 2015. These related primarily to goodwill (DKK 4,681m) and the gain in 2016 from the divestment of TDC Sweden (DKK 981m).

Strategic initiatives in 2016 and 2017 will help to realise further efficiency improvements and will thereby improve earnings (EBITDA).

### **Balance sheet**

As you can see, our equity increased from DKK 20.4bn to DKK 24.2bn. In addition to the effect of the DKK 3.0bn in profit for the year, the increase reflected mainly positive developments in currency translation adjustments related to foreign enterprises.

The issued hybrid capital of DKK 5.6bn is included as equity in the accounts. The capital is attributed only 50% equity credit by the rating agencies, however. We have therefore included an adjusted interest-bearing net debt, which is calculated by adding half of the hybrid capital. Adjusted net interest-bearing debt fell by DKK 3.9bn in 2016 due to positive net cash flows from operating and investing activities, including the proceeds of DKK 2.0bn from the sale of TDC Sweden.

In December 2016, EMTN bonds equivalent to EUR 350m were re-purchased with a cash consideration of EUR 394m. TDC has maintained an Investment Grade credit rating with the associated access to favourable financing terms and conditions.

### **Statement of cash flow**

Securing Equity Free Cash Flow growth is one of the two goals ultimately intended to result in a favourable outcome for TDC Group's strategy. Another goal, as you know, is to achieve the best customer satisfaction.

Basically, TDC Group has delivered better financial results than expected with regard to EFCF, despite continued intense competition in Denmark.

We saw a decline of DKK 1.1bn in *EFCF*, *due primarily* to the fall in Danish earnings (EBITDA). Regarding cash flows in 2016 that are not included in EFCF, it is also worth mentioning the net proceeds of DKK 2.0bn from the sale of TDC Sweden, which are included in the cash flows



from discontinued activities in the 2016 financial statements. The proceeds helped us to effect the previously mentioned re-purchase of DKK 2.9bn EMTN bonds, which is included in the cash flow from financing activities.

### **Same strategy in 2017**

We are convinced that our strategic course is correct. We are well on our way, and the results in 2016 are encouraging.

In 2017, we will reap the benefits of several of the investments made in 2016, and they will help realise our goal of achieving improving earnings (EBITDA), stable or moderate growth in our cash flow (EFCF), and better quality in what we do, which will result in an important step forward for customer satisfaction.

This will again require hard work and commitment from all our employees, but the result will be a simpler and better TDC Group to benefit all stakeholders.

### **... and the strategy is anchored in the organisation**

Now, we will take a look at the changes made in our management. The organisation must ensure strong ownership while focusing on maximising the total value for TDC.

We enter 2017 with a number changes. The Board of Directors and I had reached the conclusion that the time had come for a change, since it is important for all companies – also TDC – to constantly develop.

The Board of Directors of TDC Group has employed Andreas Pfisterer as acting Senior Executive Vice President of TDC Operations and member of CMT, i.e. Acting Chief Technology and Information Officer (CTIO) at TDC Group. He has solid experience and telecommunications skills and is thus highly qualified to head the required transformations. Andreas Pfisterer is to continue the planned work of executing TDC Group's strategy, including carrying out the changes and initiatives in the pipeline, and securing our focus on stability and quality, which are of great importance throughout CMT. He will also set the course for TDC Operations by defining the strategy priorities for 2017.

In the past year, the EU Commission approved the divestment of TDC Sweden to Tele2 Sweden for DKK 2.3bn. With the divestment, we have now completed the strategic review of the company, showing that Tele2 Sweden AB is a better long-term owner of TDC Sweden AB, and that the price exceeds the value of continued TDC ownership. In future, we will focus on our activities in Denmark and Norway and continue to support the company's Danish and Norwegian B2B and wholesale customers by maintaining our presence in Sweden through partnerships.



As mentioned, we have in accordance with TDC Group's overall strategy 'Always simpler and better', divested our subsidiary TDC Hosting to the Danish private equity fund Maj Invest Equity.

In accordance with the corporate governance recommendations, I will now say a few words about TDC's remuneration policy for the top management and Board of Directors.

The Board of Directors has adopted a remuneration policy that applies to the Board of Directors and the Executive Committee and was last approved at the Annual General Meeting in 2014. Any change of this policy must be submitted to the Annual General Meeting for approval. The remuneration policy includes a comprehensive description of the components included in the remuneration of Board members and the Executive Committee. In accordance with the policy, the Board members are remunerated with cash fees only to avoid conflicts of interest when contracting and settling performance-based remuneration.

Remuneration of the Executive Committee comprises fixed salaries, pension contributions, cars as well as short-term and long-term performance-based salary components. The fixed salary components are at an attractive level, but with sufficient leeway to include a strong incentive to obtain higher total remuneration through achieving desired results.

The composition of the salary components is based on the need to achieve results within a financial year and the long-term healthy development of the company. The requirements of the performance-based part of the remuneration are defined to ensure the interests of the Executive Committee and the shareholders coincide.

Today's agenda includes three proposals to change the remuneration policy that will be transacted separately as stated in the agenda.

In short, I can confirm that TDC complies with the recommendations of the Committee on Corporate Governance in terms of both the form and content of the remuneration policy. I can confirm that the Company fully complies with the adopted remuneration policy for remuneration of the management. However, our remuneration policy does not take into account the special situation where a member of the Executive Committee is part of a divestment. Such a situation occurred with the divestment of TDC Sweden, and it was solved by purchasing outstanding performance-based remuneration.

### **We have defined a number of strategic priorities for 2017**

It is TDC Group's ambition to be "always simpler and better". In 2016, a number of building blocks were created that will form the basis for our further efforts. In 2017, we will continue focusing on giving our customers the best connectivity available for them, and the best offerings on the market delivered in a seamless experience on their terms.



We will now be able to benefit from the merger of TDC and YouSee and from our huge investments in 2016 in digital infrastructure and gigaspeed to secure and develop our business. We will be able to provide 1 gigabit internet connections to half of all Danish households in 2018, which will enable us to attract new customers and transfer existing customers to solutions with higher speeds. Our new and stronger YouSee will enable us to offer a better combination of our quality products, a more uniform experience for our customers, and always the best possible connections at any address.

We will be closing down a number of IT systems and platforms to simplify our operating model. We have already transferred more than 1 million household customers to a shared YouSee platform and migrated 55% of our B2B customers in the small and medium-sized business segment to a new IT platform. The simplification will also result in lower *operational expenditure* and enable a range of products based on concepts for our B2B customers. The concepts are the core of TDC Business' commercial strategy.

I will now review four examples to illustrate how we work to achieve:

1. Better connectivity
2. Better offerings
3. Better customer experience
4. A simplified digital operating model

Next, I will elaborate on these initiatives, which will ensure that we reach our strategy's goals.

### **Upgrading to gigaspeed gives Danes better connectivity**

With a view to securing "Better connectivity", at TDC Group we have decided to comprehensively upgrade our cable network with a view to delivering 1 Gbps broadband speeds to half the Danish population by the end of 2018. In 2016, we finished testing the technology and are now, as one of the first in the world, well under way with rolling it out. So far, we have reached 2% of all Danish households, and are right on track as this equals 50,000 households being upgraded on all technologies, and we expect this figure to increase considerably in 2017 when we start commercialising our new network with gigaspeeds. This short film describes our gigaspeed project.

### **Transformation of YouSee's TV universe to secure the best experience**

The transformation of the YouSee universe shows how we deliver the "Best offerings" in the consumer market.

As YouSee's goal is to be the best content aggregator on all platforms, we are transforming our TV product from set packages to flexibility. Customers will be able to change the channels in their packages directly in the TV universe. We are converging traditional flow TV and streaming services that can be mixed in our new TV packages, while continually improving functionality.



Potential customers should have the option of trying YouSee's TV universe via an open platform before buying a subscription.

The content must be easily accessible and available from anywhere, whether at home or on the move, and accessible anytime and anywhere. This involves expanding our TV universe accessibility to include the most significant connected units (Apple TV, Android TV, Smart TV). We must also take the content experience to the next level with personal and relevant recommendations for content that customers may like to see by using meta data and allowing the customer to create personalised YouSee experiences.

### **TDC Business delivers new solutions with integrated telephony in Skype for Business and Wi-Fi Intelligence**

Turning to how we will secure “better offerings” in the business market, Skype for Business and Wi-Fi Intelligence are good examples.

With the acquisition of Cirque in the spring, we secured Skype for Business competencies. Therefore, TDC Business is now offering complete solutions with integrated telephony in Skype for Business, which means easier, more intelligent and transparent communication. The integration between telephony and Office 365 means Skype for Business can be used for all types of communication: chat, video calls, sharing, calendar scheduling – and most importantly: telephony. This single system spans communication with colleagues, customers and anyone else, whether you are at the office or on the go. Skype for Business is a complete solution that meets the full range of business customer needs and is available as a public cloud, private cloud or hybrid solution – all can be managed with a simple app.

With TDC Business Wi-Fi Intelligence, you can follow the entire company's network traffic at all access nodes via a clear dashboard that provides an overview and understanding of what is happening right now on the network. Potential errors can be located faster. The following short film explains the benefits of Wi-Fi Intelligence for our business customers.

In future, annual general meetings will feature better digital solutions. For example, shareholders will use electronic AGM admission cards to attend future AGMs. When registering for the AGM, they will choose to receive either an admission card as a PDF file, so they can print the card themselves, or download the card on a smartphone or tablet for presentation at the AGM. This will replace the current procedure of registering and being sent an admission card by standard mail.

### **We are focusing on improving our customer experience for all our brands**

For our strategy to be successful, TDC Group must have the highest customer satisfaction score in Denmark in 2018. As expected, the merger of the two brands YouSee and TDC in 2016, and thus the migration of more than 1 million customers temporarily challenged our customer satisfaction score. The benefits of the merger and the better offerings must result in



an improvement in 2017. The disruption New Year's Eve also negatively impacted on customer satisfaction. But our goals still stand, and we are working extremely hard to turn the development.

YouSee has launched 'Quality Time' to improve customer experiences. Quality Time is a new structure with daily and weekly meetings, where all links in the supply chain meet and ensure that quality is tip top. This should make our employees even better qualified to deliver better customer care – whether in processes, systems or products, as shown in this short film.

Telmore and Fullrate have also worked hard on improving the customer satisfaction, and the efforts have already paid off. Both Telmore and Fullrate ended the year with the best customer experience in their individual categories. Telmore now has the best customer experience in the mobile area – 60% of our customers would like to recommend Telmore to friends and family. Fullrate has the best customer experience among operators offering household solutions across TV, broadband and mobile telephony. Telmore has developed a programme called '5 Pain Points' that covers the five biggest, current challenges customers experience, and recommends targeted activities that remove the causes. Fullrate focused on on-boarding and churn. As customers had concrete challenges with installing their router or set-top box, help videos have been implemented in several channels, e.g. SMS texts.

We are aware that we are not quite there yet. We still have much work ahead of us, which is also reflected in the proposal up for voting later submitted by shareholder Jens Stensgaard Hansen. In 2017, the entire TDC Group will continue focusing on improved customer satisfaction by introducing further initiatives and thereby reducing the number of customers with negative experiences. We also wish to identify potential negative customer experiences before they arise and thereby reduce the number of calls from customers. Securing excellent customer experiences is central for reaching our strategy goal, and it has our highest priority, without doubt.

### **New digitalised customer journeys create better customer experiences and a simpler business**

One example of how we will create a simplified digital operating model is the digital on-boarding site, which is a customer-oriented welcome experience that should ensure increased online sales and better customer service. On the site, customers can choose their preferred solutions from A to Z in an easy and clear way.

The digital on-boarding site was developed in a completely new way of working in TDC Group. Customers constantly change their technological and digital behaviour – and so should we. We have therefore gathered the digital responsibility in one place, where colleagues work together in small teams across business and IT skills in an agile environment where the time from idea to action and from design to delivery is short – and where customer experiences and needs are the core of digital development. Ambitious targets have been set to ensure better customer



experiences through the digital customer journeys while also reducing customer service costs by 50% and increasing online sales.

The digital on-boarding site is the first new addition in our Digital Warehouse – a new way of working. We are very impressed with its flying start and have high expectations for how it can contribute towards ensuring a simplified digital operating model for TDC Group.

I have now gone through you the examples of how we are working to attain our strategic focus points. But we have higher aspirations, so I will also outline how TDC Group is boosting its corporate social responsibility activities with a new CSR strategy.

**With our new CSR strategy we will make an even bigger difference**

We have defined a new and more ambitious strategy for corporate social responsibility (CSR), which also is an integrated part of our group strategy.

That is something we wish to do – but also something we must do. We are confident that strengthening our CSR activities is central to our success as a company. That applies to our reputation among customers, employee pride, our ability to attract new colleagues, and the trust in us among our large business customers and society at large.

With the CSR strategy, we are pursuing TDC Group's goal: bringing people closer together. At a time when proximity can no longer be measured just in metres, our role will only become more vital. We want to clearly describe our positive role in society, taking responsibility for solving some of the challenges associated with our business.

At TDC Group, we are committed to ensuring that digital technologies benefit as many people as possible. This includes access to good digital connections. Therefore, we have launched our "Rural Area Initiative" to support better broadband connections in rural areas. Through this model, we offer to upgrade the local digital infrastructure for broadband and TV connections, provided that at least 50 households no more than 500 metres apart are interested in upgraded connections. Altogether, through the Rural Area Initiative and similar activities, in 2016, TDC Group upgraded the cabled networks in 51 local areas, providing 8,355 households with access to faster broadband connections.

We will engage in society even more and take on a responsibility that goes beyond our own engine room – but with a constantly clear link to our business. That is also why we have formed a new partnership with the Association of Danish Pupils based on the common goal of strengthening digital togetherness and preventing online bullying among children and young people. We will then use this knowledge to develop a pupil-to-pupil code of conduct as well as an online learning platform for a course on digital citizenship, which will be made freely available. Our aim is to have at least 30,000 pupils complete the course and thereby qualify for a special "digital driving licence".

And we will involve employees even more as active players and ambassadors – as corporate social responsibility should be a component of everyday work. Here, I am happy to inform you



that more than 100 employees from different parts of the company have signed up as CSR ambassadors, thereby volunteering to participate in the CSR activities.

In the time ahead, we are looking forward to further unfolding our CSR strategy and making an even bigger difference to the society we are part of.

### **TDC Group's 2017 guidance**

In 2017, we expect earnings (EBITDA) of more than DKK 8.2bn, stable or moderate growth in our cash flow (EFCF), and an increase in dividend per share from DKK 1.00 in 2016 to DKK 1.05 in 2017.

To achieve this, we have set out the following positive and negative assumptions at Group level:

- Operational expenditure across TDC Group must be reduced e.g. by introducing simplification activities and fewer calls to customer service
- A negative impact will occur from the implementation of the roam-like-at-home regulation
- Net interest paid will fall following the re-purchase of bonds at the end of 2016
- There will be a slight reduction in capex in both Denmark and Norway, including an impact from a new mobile licence in 2016 and a limited improvement in net working capital

In Consumer, the development in TV gross profit must be contained with continued cord cutting and cord shaving. We must ensure modest growth in mobility services from higher mobile voice ARPU and growth in mobile broadband. We have also assumed a reduced loss in landline voice, and an almost stable broadband gross profit as an accelerated gigaspeed roll-out will counter intense price competition.

In Business, the continued intense price competition will negatively impact earnings, however, Business' gross profit development is expected to continue improving with an increased focus on higher contract profitability. New products and services and an improvement in overall end-to-end processes are assumed to have a positive impact on gross profit.

In Norway, we assume continued growth but at a lower level than in previous years. A negative impact on TV is also assumed from increased content costs per user and broadband unbundling partly offset by higher TV ARPU, but also continued growth in broadband penetration.

### **We maintain our ambitions for 2018 – the best customer satisfaction in and the best cash flow generation**

We are maintaining our 2018 targets: To be "always simpler and better", to achieve the best customer satisfaction in our local market and to generate the best cash flow.

In order to achieve our target that TDC Group should have the best customer satisfaction in our local market, we must improve our recommend score by 13 points by 2018. In 2016, we saw a positive development in the reorganisation of the way we handle our customers, and



ended the year with a *recommend score* of 64, which is at the same level as the base point in 2015. That was expected due to the many changes during the year, including the brand merger of YouSee and TDC and subsequent closure of numerous IT, billing and product platforms, which challenged the service level and quality of our customer service.

Our cash flow target of more than DKK 2.3bn in 2018 is ambitious, and a number of assumptions will have to be met to achieve it. This includes continued strong growth in Get, though at a lower level than in previous years. The development in Business and Consumer must also be improved. We will need to make considerable savings in operational expenditure, which in 2018 must be DKK 600m-700m lower than in 2015. We also have to increase the number of full households (customers with both TV, broadband and mobile voice) from 325,000 in 2015 to 450,000 in 2018.

Our ambitions are high and it will not be easy, but I am confident that we have the right management team and employees to accomplish the task. In TDC Group we have a huge strength in our talented and dedicated employees who work hard to succeed in realizing the objectives. I want to thank them very much for their excellent efforts.

People have always needed to communicate, and as key players in Danish society for more than 130 years, we must constantly and continuously cherish our ambition to bring people closer together. We connect people via technology and take co-responsibility for developing digital and technological solutions as the basis for growth and productivity in society. And I am proud of that.

### **Dividend**

The Annual General Meeting will decide on the use of any profit for 2016. For the financial year 2016, the Board of Directors recommends a dividend of DKK 1.00 per share, which equals an overall distribution of DKK 802m. The remaining profit will be transferred to next year.

### **Vagn Sørensen steps down as chairman of the Board of Directors of TDC Group**

This General Assembly is my last activity for TDC after 11 years on the Board, including 9 years as Chairman. It has been an incredibly exciting but also a challenging task.

The telco industry has indeed undergone big changes and - to use a popular expression - has been "disrupted" more than most other industries. This also applies for TDC, which in addition has undergone many changes regarding ownership, with, in my opinion, a very successful ownership by private equity funds from 2005 to 2010, during this period the company moved its earnings from the bottom quartile to the top quartile among comparable European telecommunications companies, and then afterwards to return to the stock exchange in Denmark under difficult market conditions. The return has been volatile, but for many shareholders it has been reasonable if one includes the high yields at times.



It has been a privilege to have been a part of TDC's development for such a long time. I would very much like to thank TDC's many skilled employees for their indomitable work, and my fellow Board members for the good cooperation and patience in many difficult discussions and also TDC's management headed by Pernille Erenbjerg for a very determined effort to establish and successfully execute a new strategy, which I am confident will secure TDC's business in the future.

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With these comments and on behalf of the Board of Directors I hereby submit the Annual Report 2016 for approval by the Annual General Meeting. Thank you for your attention.