

# Financial Report July – September 2015

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November 3<sup>rd</sup>, 2015

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.

## CEO comments at a glance

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- TDC Group reaffirms 2015 guidance on all parameters
- A strong quarter in Norway/Sweden (e.g. 8% EBITDA growth in Get)...
- ... but unsatisfactory EBITDA decrease of 12% in Denmark
- Improved retail mobile voice churn, resulting in net adds of 13k vs. Q2
- Management focus on renewing TDC's strategic plan for the coming years



*Pernille Erenbjerg, Group CEO*

# Financial Highlights

## TDC Group

DKKm

	Q3			Year to date		
	2015	Growth, %		2015	Growth, %	
		Reported	Organic		Reported	Organic
Revenue	5,898	4.5	(3.2)	18,121	6.1	(2.1)
Gross Profit	4,336	3.7	(4.8)	13,166	4.1	(4.6)
<i>% margin</i>	73.5	(0.6) <sup>1</sup>		72.7	(1.3) <sup>1</sup>	
Opex	(1,799)	(7.7)	1.5	(5,742)	(7.8)	0.7
EBITDA	2,537	1.0	(7.0)	7,424	1.5	(7.3)
<i>% margin</i>	43.0	(1.5) <sup>1</sup>		41.0	(1.8) <sup>1</sup>	
Capex	(1,018)	(29.4)	(5.0) <sup>2</sup>	(3,203)	(22.9)	(3.1) <sup>2</sup>
EFCF	1,333	(9.4)		2,447	(16.4)	
Adjusted NIBD/EBITDA	3.0	0.9 <sup>1</sup>				

1. Percentage points

2. Adjusted for the inclusion of Get

# Q3 2015 performance per business line

DKKm/  
Growth in local currency

**TDC Group**

		Denmark					Norway		Sweden
		Consumer	Business	Wholesale	Cost centre	Denmark in total	Get <sup>2</sup>	TDC Norway	Sweden
<b>Revenue<sup>1</sup></b>	<b>5,898</b> +4.5%	<b>2,751</b> -3.9%	<b>1,404</b> -10.6%	<b>436</b> -7.8%	<b>119</b> -0.8%	<b>4,658</b> -6.6%	<b>568</b> +4.5%	<b>191</b> -1.7%	<b>610</b> +10.1%
<b>Gross profit<sup>1</sup></b>	<b>4,336</b> +3.7%	<b>2,101</b> -4.9%	<b>1,139</b> -13.8%	<b>285</b> -3.7%	<b>82</b> +6.5%	<b>3,579</b> -7.6%	<b>447</b> +6.4%	<b>68</b> -4.6%	<b>247</b> +5.8%
<b>EBITDA<sup>1</sup></b>	<b>2,537</b> +1.0%	<b>1,866</b> -7.7%	<b>915</b> -16.3%	<b>246</b> -3.1%	<b>-914</b> +6.3%	<b>2,110</b> -11.9%	<b>280</b> +8.2%	<b>57</b> +121.9%	<b>89</b> +1.8%

①      ②      ③

- ① **Consumer:** Negative EBITDA development (-7.7%) from pressure on landline voice and mobility service
- ② **Business:** Substantial EBITDA leakage (-16.3%) across products and segments
- ③ **Norway:** Strong EBITDA growth in Get (8.2% YoY); TDC Norway EBITDA affected by a one-off in Q3 2015

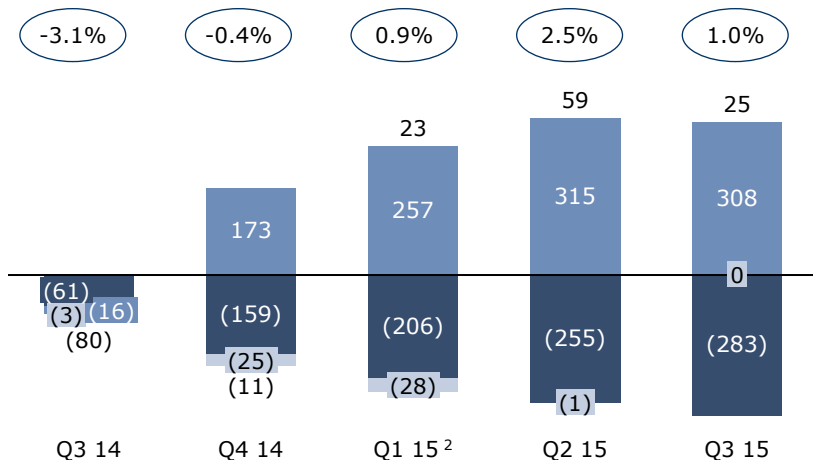
1. Business line absolute figures and growth rates exclude eliminations and therefore do not amount to total Group figures  
 2. The absolute figures show Get's contribution to TDC Group's financial results, while the growth figures show Get's growth from Q3 2014 to Q3 2015 in local currency

# Quarterly EBITDA trends

■ Denmark<sup>1</sup> ■ Norway ■ Sweden

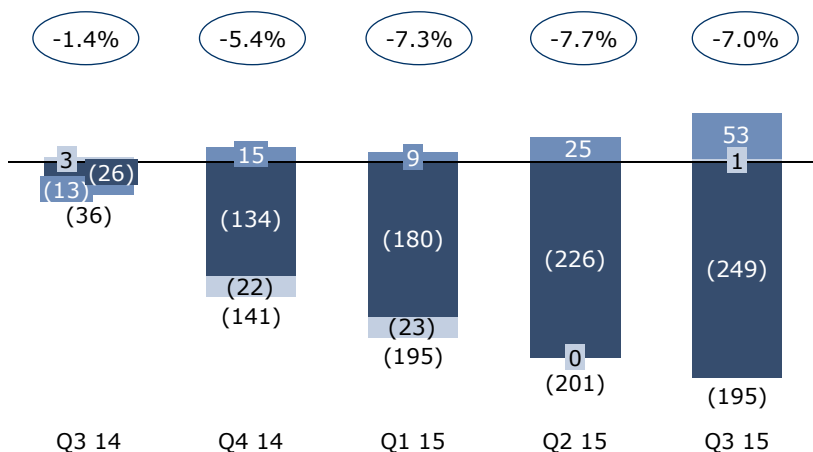
## Reported YoY EBITDA growth

DKKkm



## Organic<sup>2</sup> YoY EBITDA growth

DKKkm



- YoY increase in reported EBITDA driven by the **acquisition of Get**; Q3 is the last quarter with full effect from the acquisition
- **Organic EBITDA decrease** in Q3 at the same level throughout 2015 (-7%), as the worsened development in Denmark is cushioned by improvements in Sweden/Get and a positive one-off in TDC Norway

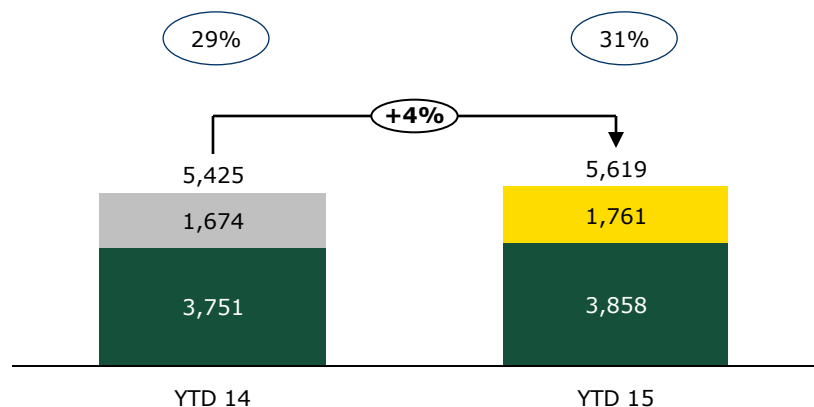
1. Eliminations between countries included in Denmark numbers  
 2. Adjusted for regulation, acquisitions/divestments, sales of assets and forex

# Continued growth in our cable activities

■ Get (Pre TDC) ■ Get ■ YouSee ○ Share of TDC

## TDC Group cable revenue<sup>1,2</sup>

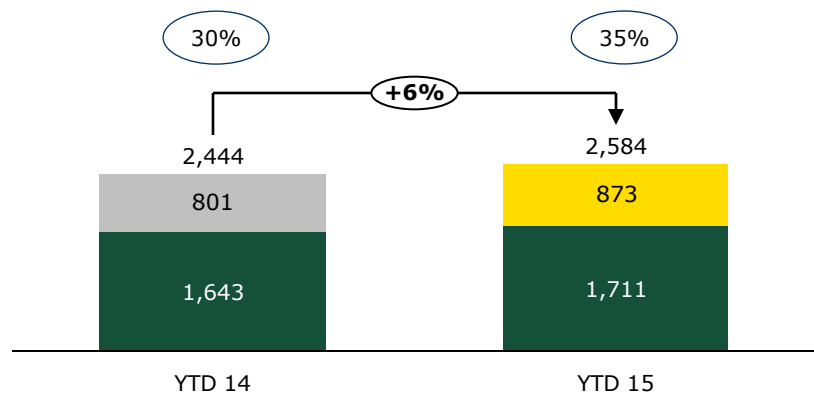
DKKkM



- Revenue and EBITDA **YTD growth** in both Get and YouSee
- Our cable activities now represent **35% of TDC Group EBITDA**, up by 5 pp YoY on a pro forma basis
- Our cable based customer base consist of **1.5m TV subscribers** of which **50% are broadband penetrated**. 56% of all TDC Groups broadband subscribers are on a cable network, the remainder is on copper/fibre

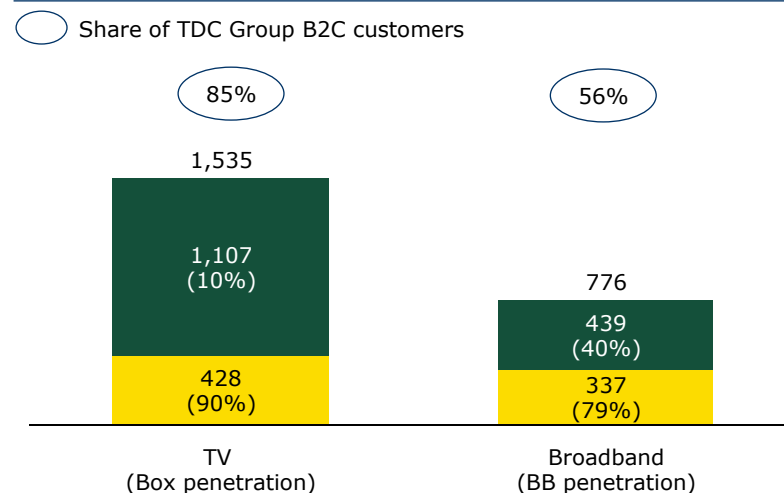
## TDC Group cable EBITDA<sup>1,2</sup>

DKKkM



## Cable customers in Q3 2015

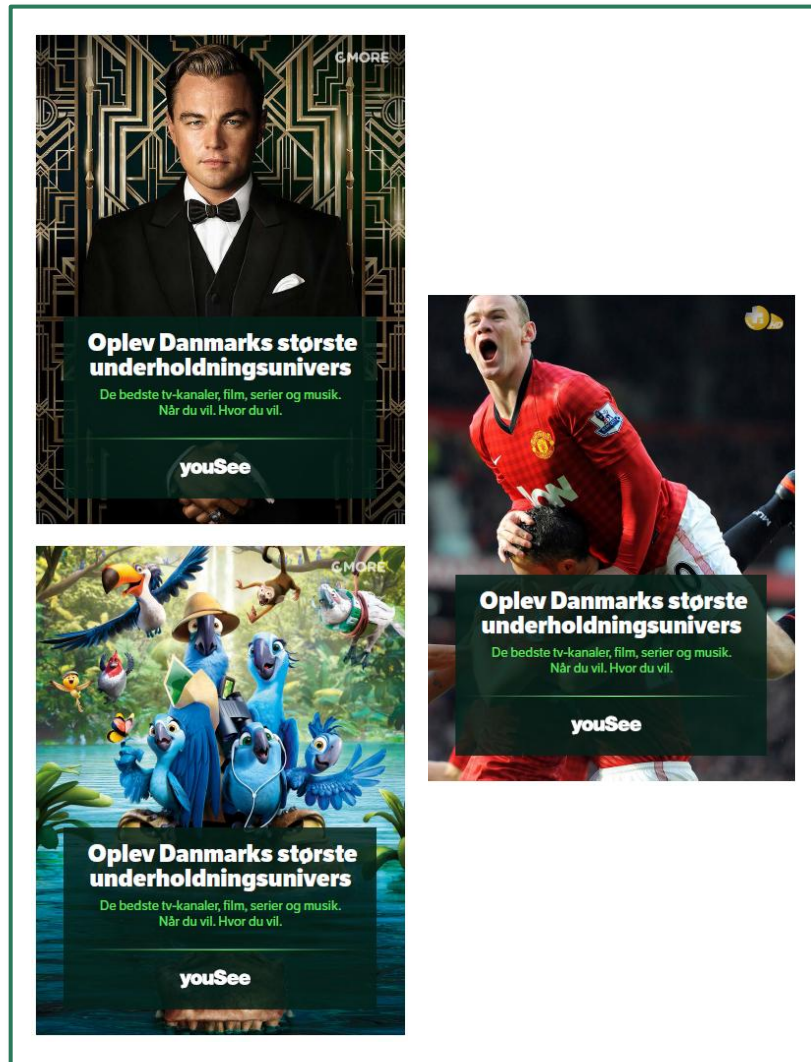
'000



1. Pro forma reporting including Get before acquisition and with fixed exchange rates for comparative reasons (Q1-Q3 exchange rate of 0.848 DKK/NOK applied)

2. YouSee activities include TV, BB, mobile and digital services, as well as cable installation work in Operations. Costs from Danish cost centres related to YouSee activities are obtained by using activity based modelling

# Transforming YouSee from a flow TV supplier to a high speed entertainment universe



May 2015



**High speed broadband to all customers**

>400K broadband customers upgraded to 50+ mbps

Aug 2015



**youSee**

**Live TV through web and app to all customers**

Increased access to YouSee's entertainment universe through an app

Dec 2015

**300 mbps available to all customers**

Q1 2016



**Top quality entertainment experience across all screens**

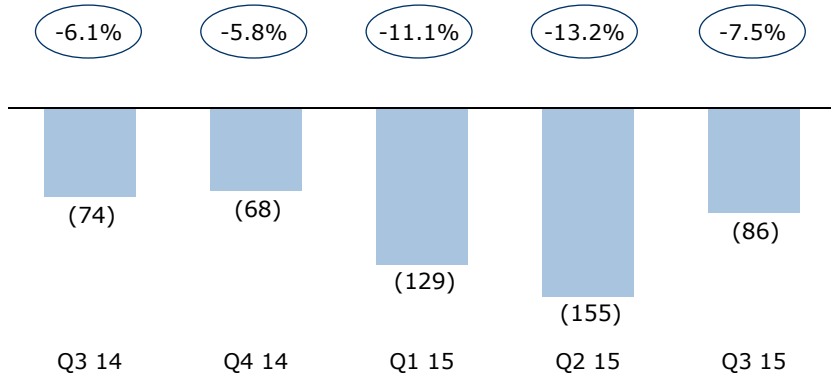


# Mobility services in Denmark

Consumer Business YoY growth Market share, %

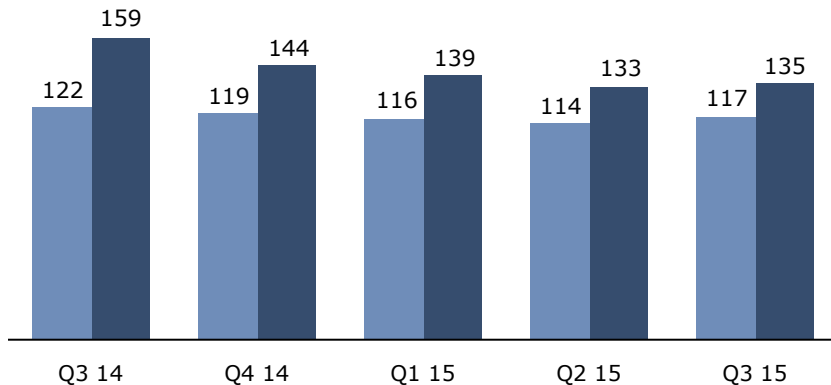
## Organic<sup>1</sup> YoY gross profit growth

DKKkM



## Mobile voice ARPU

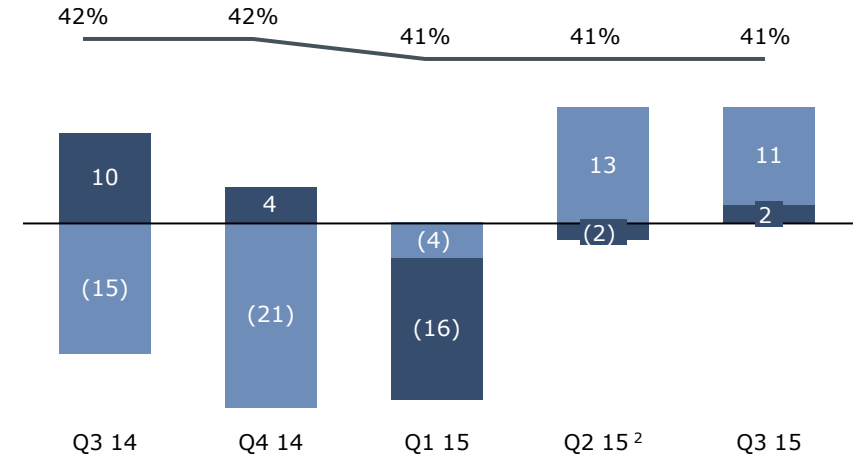
DKK/month



- **Organic gross profit development** improved compared with the last quarters driven by development in Consumer subscriber base
- **Consumer's** mobile voice **customer base** up by 11k vs. Q2; improved churn rates YoY for the 2<sup>nd</sup> consecutive quarter due to cross selling to existing TV and broadband customers
- **Consumer's** mobile voice **ARPU** down by 4.1% YoY
- **Business'** mobile voice **ARPU** down by 15.1% YoY

## Mobile voice RGU net adds & market share

'000

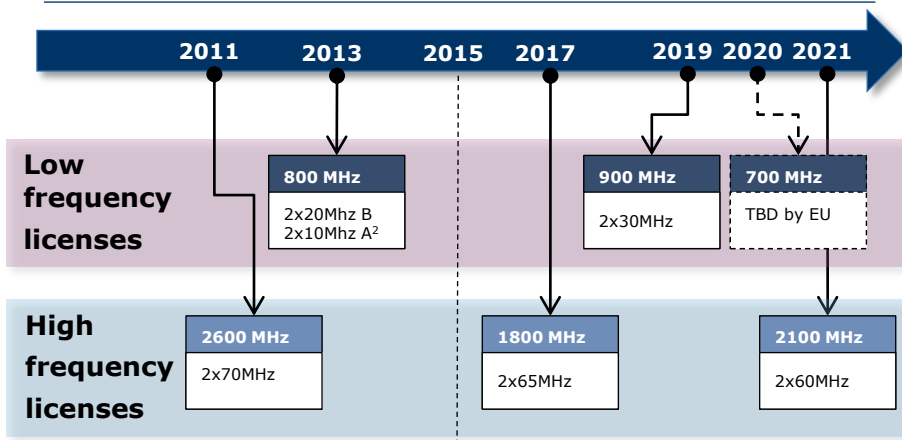


1. Adjusted for regulation and acquisitions/divestments

2. Business net adds in Q2 2015 influenced by a movement of 3k Justfone RGUs from Wholesale to Business

# Mobile spectrum licenses and upcoming auctions

## Upcoming mobile frequency licenses to be auctioned<sup>1</sup>

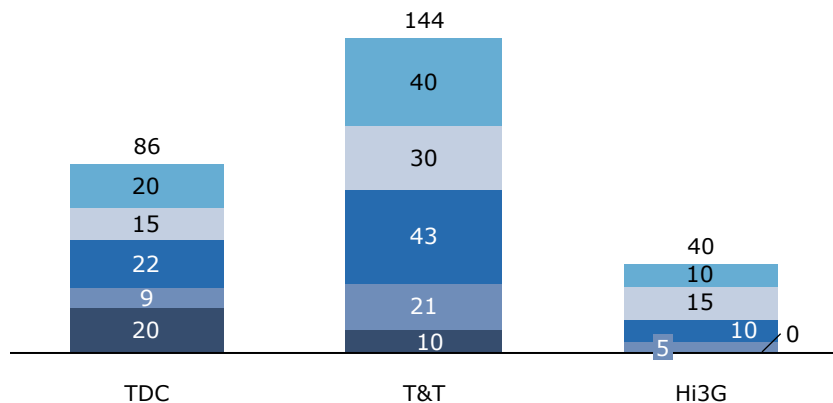


- In 2012, TDC acquired 2x20MHz of the 800 MHz license, which was a primary catalyst in TDC reaching the position as Denmark's best mobile network
- Next auction will be the 1800 MHz license, as the existing licenses expire in December 2016. The auction is expected to be concluded before summer 2016
- A series of licenses will be up for auction in the next few years: 1800 MHz, 900 MHz (2019), possibly 700 MHz (2020) and 2100 MHz (2021)

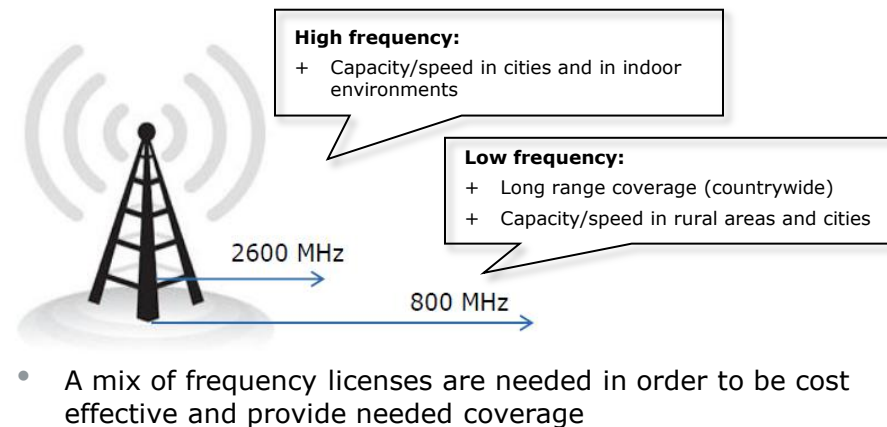
## Current distribution of frequencies

MHz

2600 MHz 2100 MHz 1800 MHz 900 MHz 800 MHz



## Low vs high frequency spectrum



- A mix of frequency licenses are needed in order to be cost effective and provide needed coverage

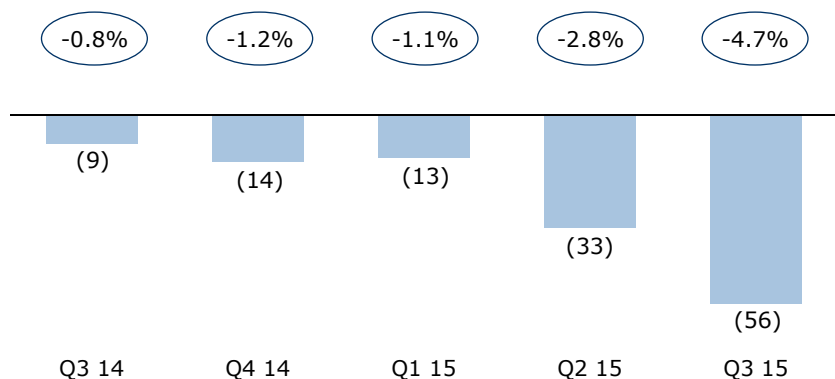
1. Licenses generally lasts for 20 years  
2. A license had limitations to Sealand, Bornholm and Jutland

# Internet & network in Denmark

Consumer Business Wholesale<sup>2</sup> YoY growth Market share, %

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

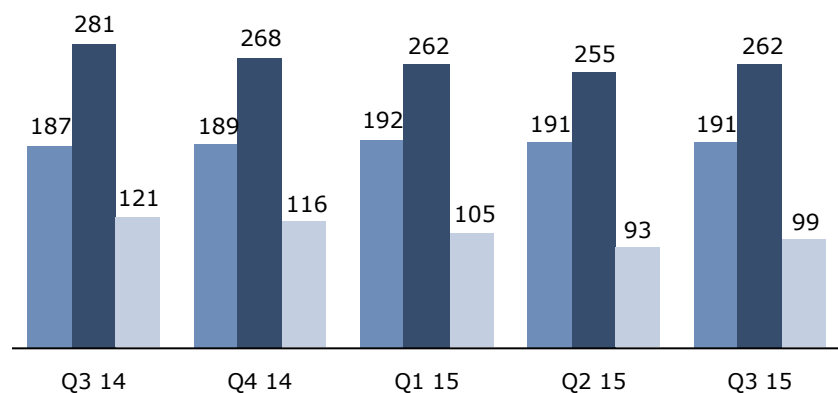
DKK M



- **Gross profit deterioration** in Q3 due to Business, partly affected by loss of some large contracts on network capacity
- Customer growth in **YouSee** offset by loss in **TDC brand** due to increased price competition following the new wholesale prices (LRAIC), also negatively affecting **Wholesale ARPU** (-18.2% YoY)

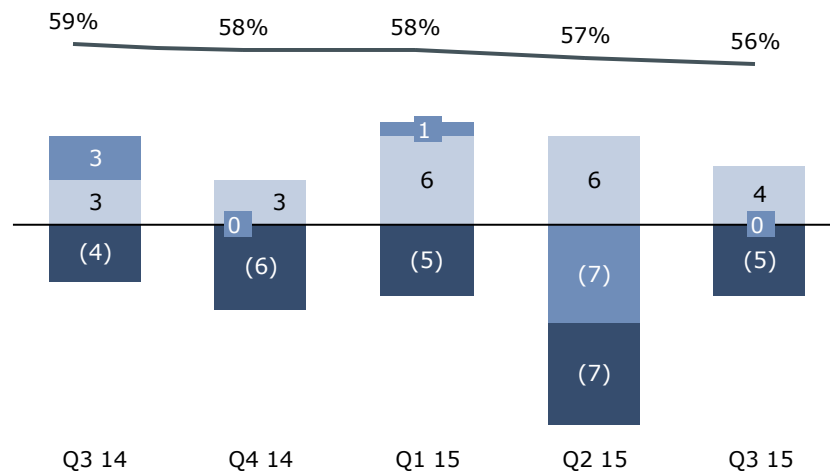
## Broadband ARPU

DKK/month



## Broadband RGU net adds & market share

'000



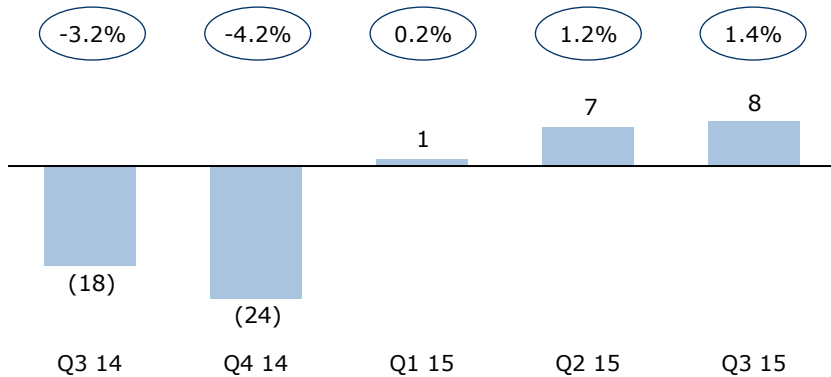
1. Adjusted for regulation and acquisitions/divestments  
 2. Including xDSL resale, BSA and VULA

# TV in Denmark

■ TDC/Fullrate brand ■ YouSee brand ○ YoY growth — Market share, %

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

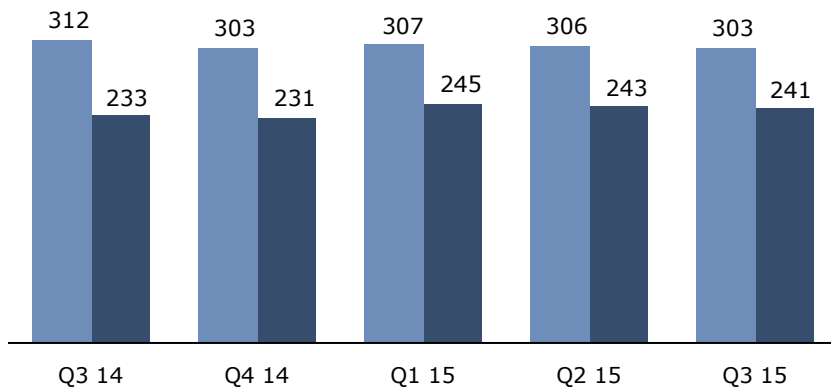
DKK m



- Continued TV customer growth in the **TDC brand and Fullrate** vs. Q2 2015
- Continued net loss of **YouSee TV customers** due to leakage of both individual customers and antenna associations
- Small ARPU decline vs. Q2 2015 in **TDC brand/Fullrate** and **YouSee** due to changed product mix

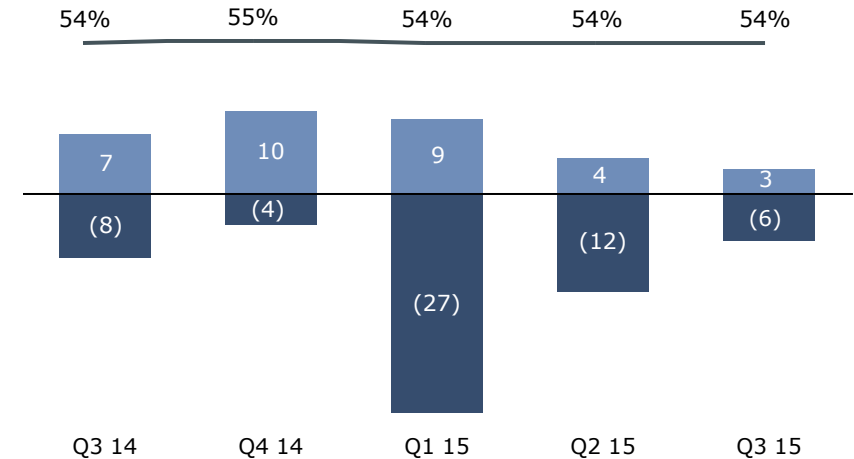
## ARPU

DKK/month



## RGU net adds & market share

'000



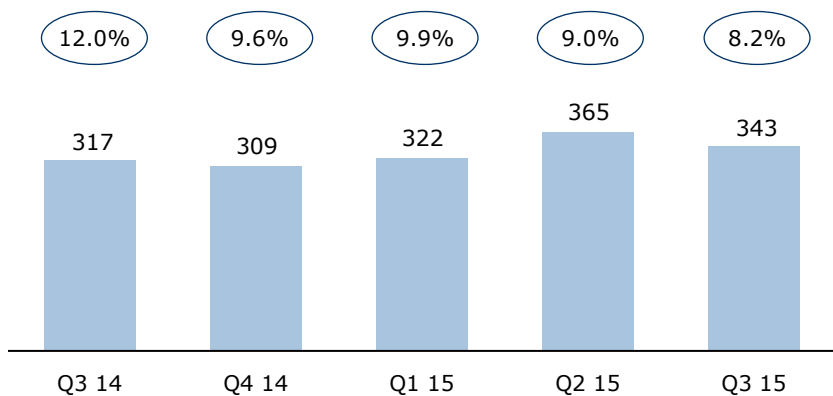
1. Adjusted for acquisitions/divestments

# Get

■ Broadband ■ TV ○ YoY growth

## EBITDA<sup>1</sup>

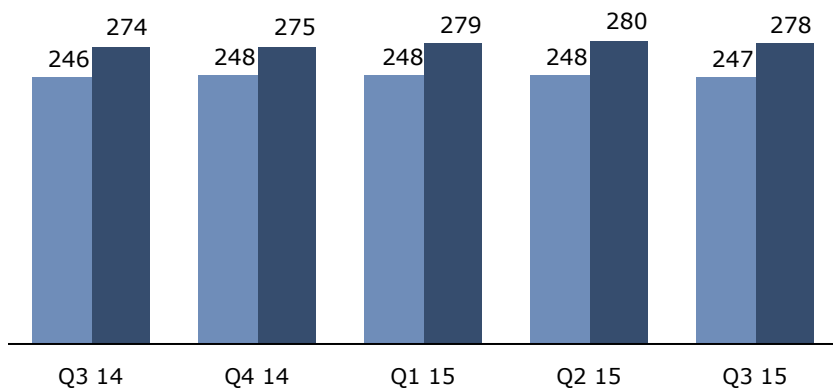
NOKm



- Get delivered strong YoY **gross profit** and **EBITDA growth** of 6.4% and 8.2%, respectively
- **Customer growth** in Get on broadband and TV; broadband penetration up 1 percentage point vs. Q2 2015 to 79%
- Get **household ARPU** rose by 3% YoY driven by higher broadband penetration and higher TV ARPU

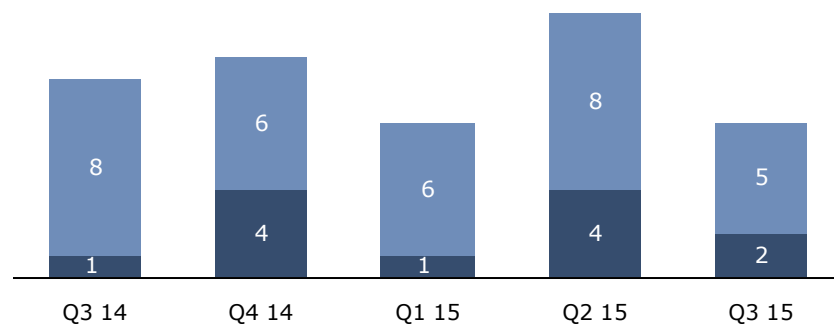
## Residential ARPU

NOK/month



## Residential RGU net adds

'000



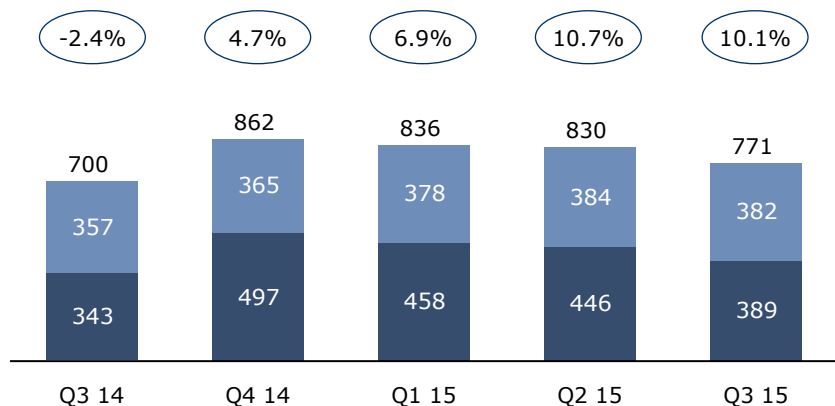
1. Including Gets historical data before the acquisition as of November 2014

# Sweden

Operator Integrator YoY growth

## Revenue

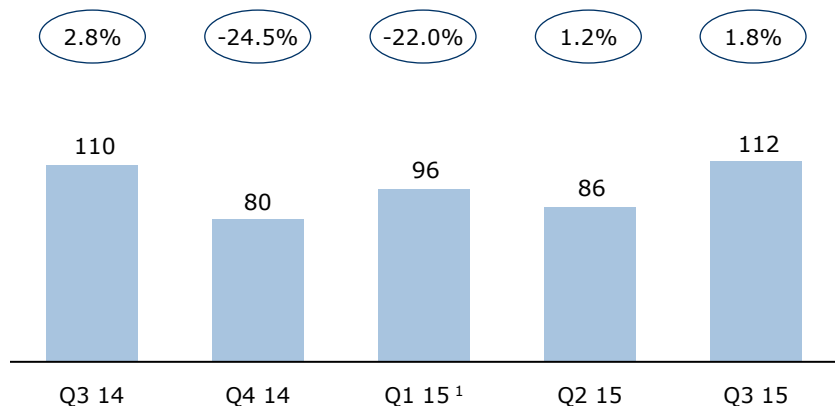
SEKm



- Strong **revenue growth** for the 4<sup>th</sup> consecutive quarter; since Q2 this has also resulted in GP and EBITDA growth
- Growth in **mobile subscriptions** fuelled by increased sale of combined business solutions including mobile
- Migration to the new **MVNO contract** with TeliaSonera is progressing as planned

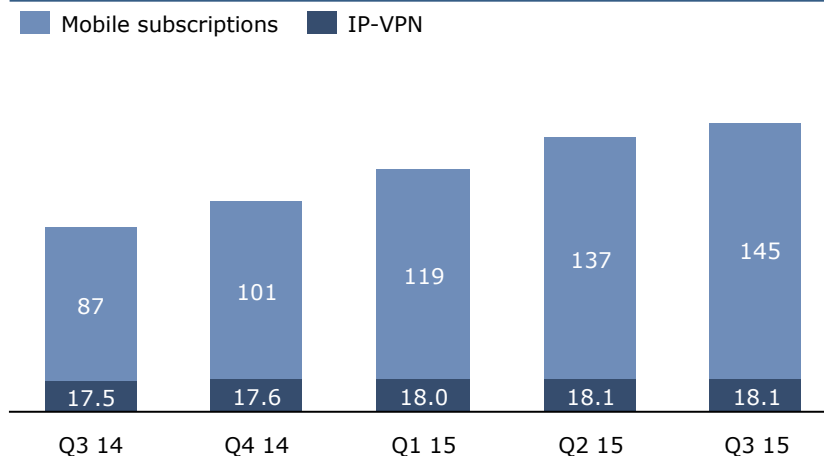
## EBITDA

SEKm



## Operator RGUs

'000



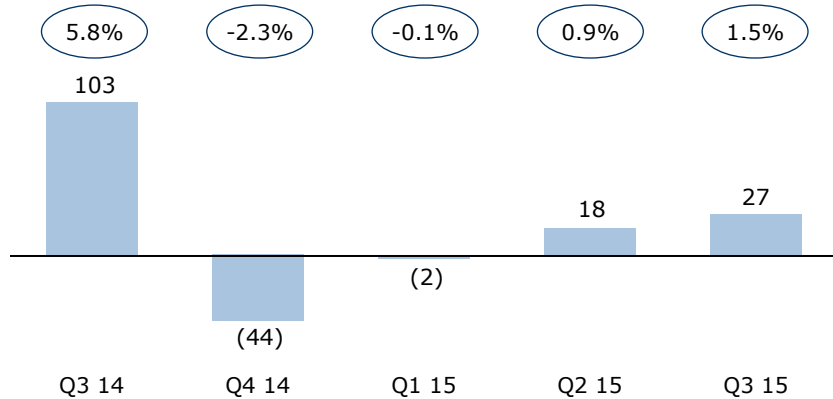
1. Negatively affected by a positive one-off on transmission costs in Q1 2014 (SEK 18m) due to reversed provision related to regulatory pricing decisions

# Opex & capex

○ YoY growth

## Organic<sup>1</sup> YoY opex development

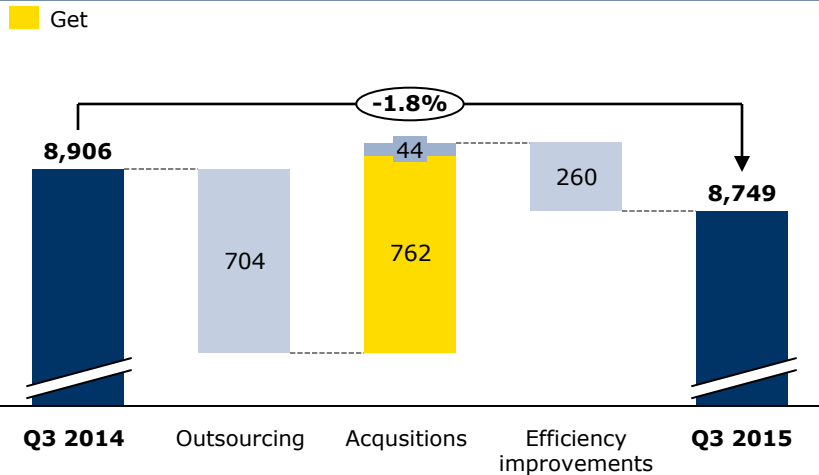
DKKkM



- **Organic opex** savings in Q3 YoY driven by a reduced spend in Denmark on facility, IT, marketing and fewer faults at customer sites leading to lower costs to contractors and wages in cost centre
- **YTD investment spending** increased relating mainly to the inclusion of Get, but also targeted IT investments in Denmark on digitalisation and preparation of Trefor's network for delivery of TDC products contributed to the increase

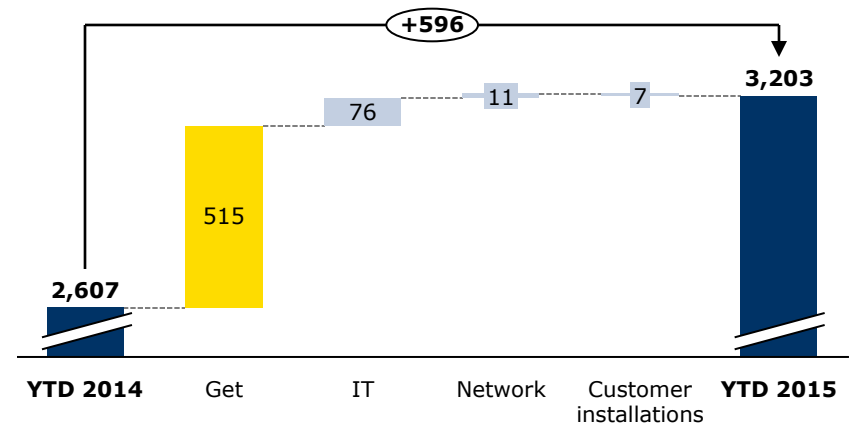
## FTE development

'000



## Capex, YoY growth

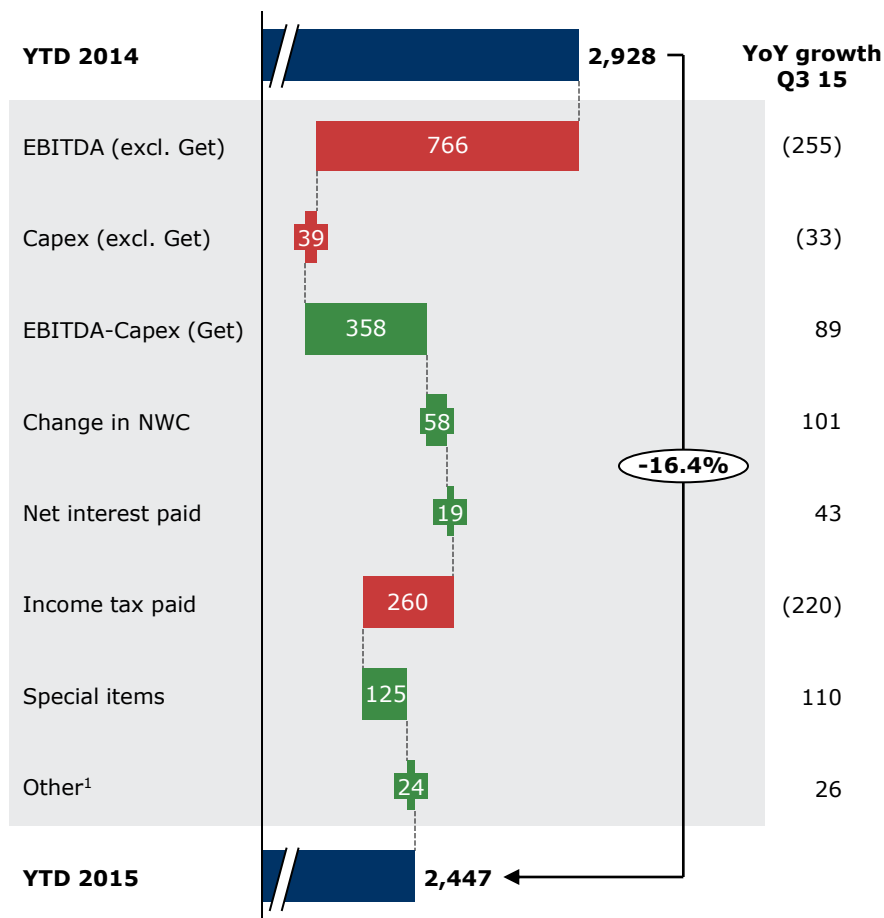
DKKkM



1. Adjusted for acquisitions/divestments, sales of assets and forex

# Equity Free Cash Flow

DKKm



- Negative impact from **income tax paid** as Q3 2014 included a refund from prior years following the final resolution of a dispute with the tax authorities in Denmark
- Growth in **special items** mainly related to redundancies
- **EFCF full-year** expected to be at the same level as 2014. A negative EBITDA-capex contribution from the Danish business, offset by positive cash contribution from Get as well as lower tax paid

Adjusted NIBD/EBITDA

3.0

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



## Guidance 2015 reaffirmed on all parameters

	2015 guidance	YTD performance	Status
<b>Organic revenue</b>	Same development as in 2014 (-2.5%)	-2.1%	On track
<b>EBITDA<sup>1</sup></b>	At the same level or slightly better than 2014 (DKK 9.8bn)	DKK 7.4bn <sup>2</sup>	On track
<b>Capex</b>	~DKK 4.3bn	DKK 3.2bn	On track
<b>DPS</b>	DKK 2.50	DKK 1.00	On track

1. Assuming an exchange rate of ~0.85 DKK/NOK
2. Corresponding to YoY EBITDA growth of +1.5%

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 desk also has a keyboard, a mouse, and some papers. In the background, other employees are working at their desks, and there are several computer monitors. The office has a modern feel with a blue wall and recessed ceiling lights.

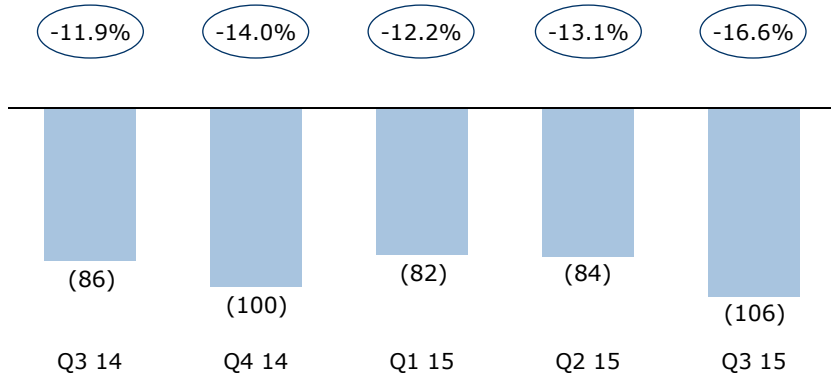
**Q&A**

# A.1 Landline Voice in Denmark

Consumer Business YoY growth Market share, %

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

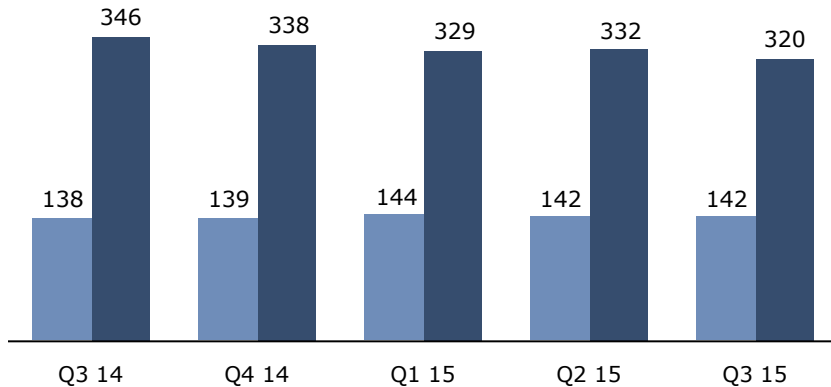
DKKm



- **Consumer churn rates** have stabilised at the same level as before the price increases one year ago
- **Business ARPU** decrease of DKK 26 in Q3 YoY driven mainly by the Public segment due to negative effects from SKI renegotiations in 2014

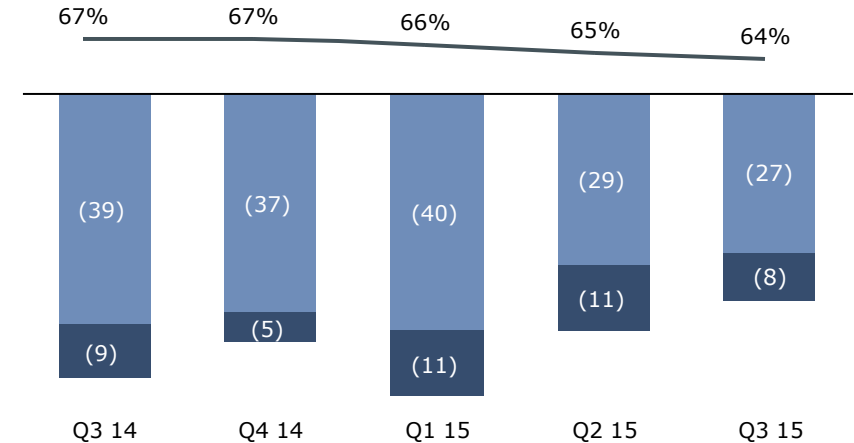
## ARPU

DKK/month



## RGU net adds & market share

'000



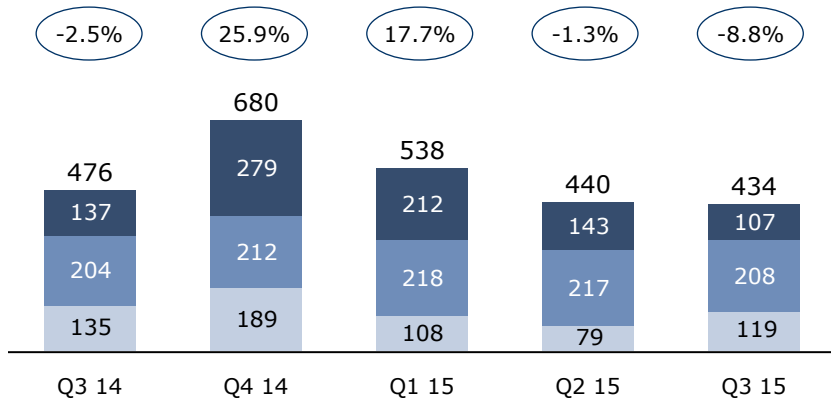
1. Adjusted for regulation and acquisitions/divestments

## A.2 Other services

■ Sale of handsets ■ NetDesign ■ Other ○ YoY growth

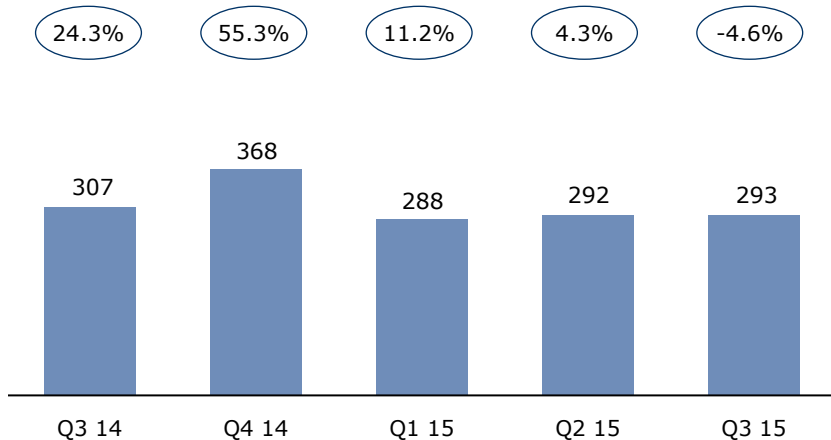
### Revenue

DKKm



### Gross Profit

DKKm



- Revenue from **mobile handsets** sold with a positive margin decreased YoY in Q3, as a result of lower sales in Consumer to third-party vendors as well as customers awaiting the release of a new iPhone
- Diminishing YoY impact on revenue and gross profit development from the **paper communication fees**, as the fees were introduced in July 2014 and since then more customers transferred to fully electronic communication
- **TDC's Security Operations Centre**, offering end-to-end cyber security to B2B customers, has obtained the CERT certificate, confirming its capability to provide first-class detection and response

### Other services consist of...

Mobile handsets



**NETDESIGN**

Eliminations



Paper communication fees

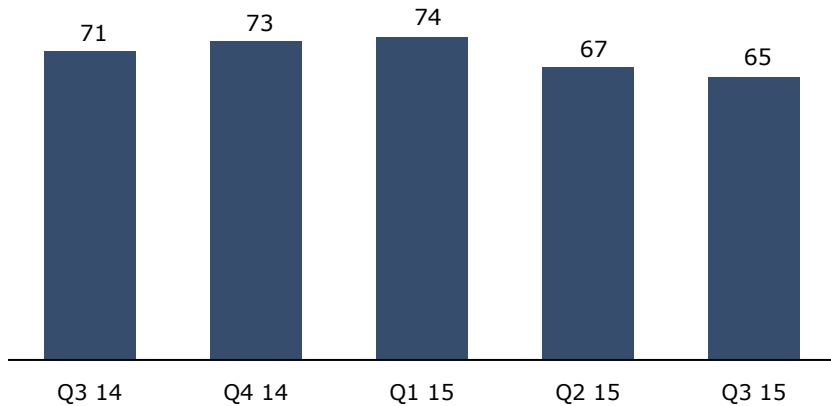
bet25.dk

rød25.dk

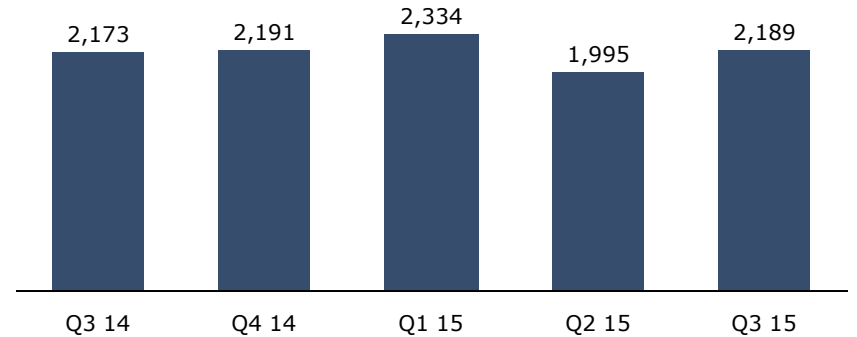
Dansk Kabel TV

## A.3 Operational KPI's

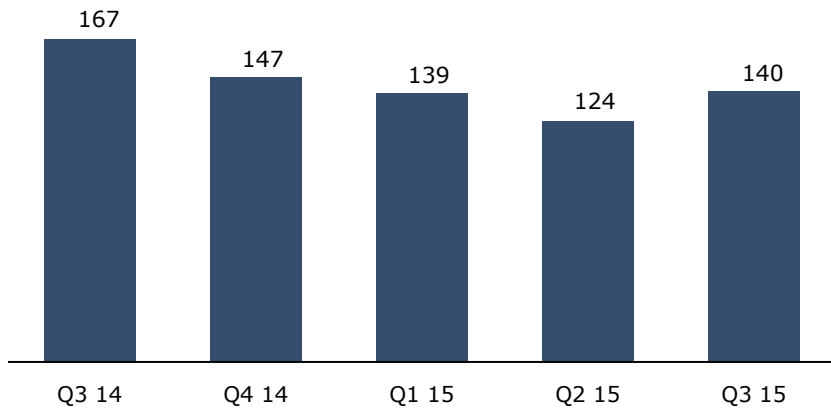
**Non-acceptable customer experiences<sup>1</sup>** Index YTD



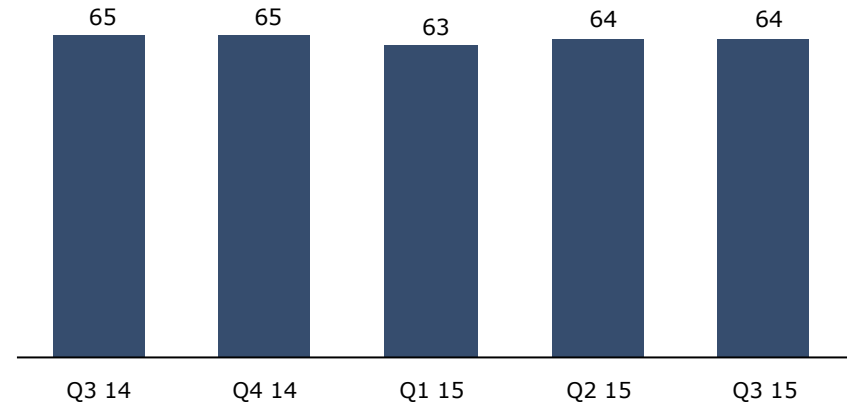
**Answered calls** ('000)



**Faults correction time** Hours ('000)



**TDC Recommend score<sup>2</sup>** Index YTD



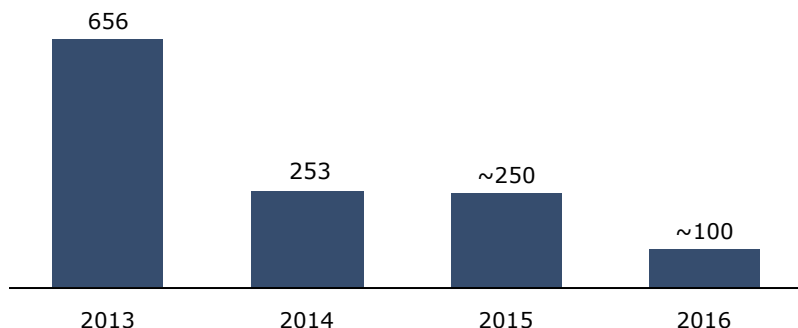
1. Q1 2009 = Index 100. A lower index equals a more positive customer experience (e.g. an index of 60 equals a reduction in share of non-acceptable customer experiences of 40% since Q1 2009)

2. 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)

## A.4 Regulatory update

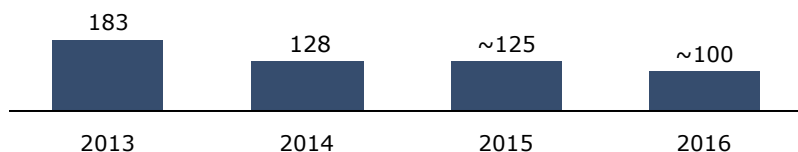
Revenue loss from regulation<sup>1</sup>

DKKm



Gross profit loss from regulation<sup>2</sup>

DKKm



- **Roaming:** 'Roam-like-at-home' regulation will be a two step process. Firstly, retail roaming prices will be reduced to current wholesale prices from May 2016<sup>3</sup>. Secondly, retail prices will be equivalent to 'Roam-like-at-home' prices from June 2017. Still, there is uncertainty concerning impact on future wholesale prices. TDC expects the commercial pressure on roaming prices to continue in the transition period
- **LRAIC:** Revision of fixed network wholesale prices with effect as of 1 January 2016 will result in only minor price adjustments
- **Coax:** Previously expected requirement to resell a TV package on coax has been withdrawn. Instead, a data-only solution will be introduced in Q1 2016
- **Fibre:** TDC's obligation to connect wholesale fibre customers, who are located within 30 meters of TDC's fibre network, may result in investments with a long payback

1. Regulatory includes mobile termination rates regulation (voice and SMS), international roaming regulation and various landline regulations (ULL, leased lines, BSA, VULA and interconnect)  
2. There is no gross profit loss caused by mobile termination rates regulation (voice and SMS)  
3. Applies to customer with a package product. Customers with a 'Pay-as-you-go' product can be charged the domestic retail price plus a wholesale charge, however the combined price must not exceed the current regulated retail roaming price