

# **Financial Report April – June 2016**

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August 10<sup>th</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

## Q2 on track to deliver on 2016 and on strategic ambition

### Positive aspects in Q2

- Strong EBITDA growth in **Norway** (9.7% YoY) delivered by both Get and TDC Norway
- **Recommend score** up by 2 pp in Q2 YoY due mainly to customer recognition of Denmark's best mobile network
- Organic gross profit growth in **mobility services** in Denmark (0.4% YoY) for the first time in more than five years; in Consumer, ARPU has stabilised and churn rates improved significantly (9k net adds)
- **Brand merger** of the two largest Danish consumer brands, TDC and YouSee as of 1 July, including comprehensive IT migration, rebranding of shops and alignment of mobile portfolios
- **Divestment of TDC Sweden** to Tele2; closing expected in Q4 2016

### Negative aspects in Q2

- **EBITDA** decline of 11.5% YoY in Denmark: Business down 17.0% YoY driven by continued ARPU pressure, partly affected by several negative one-offs (DKK ~30m)
- **TV gross profit** development in Denmark (-3.0%) negatively affected by customers migrating to smaller TV packages and increased content costs due to TV on-the-go
- Limited **opex** savings (0.5% YoY), caused by strategic ramp-up of e.g. IT employees and high volume of customer inquiries following the brand merger

Updated **guidance** (post sale of TDC Sweden 21 June 2016) reaffirmed:  
EBITDA of DKK ~8.4bn, EFCF of DKK ~1.7bn and DPS of DKK 1.00 per share

# TDC Group strategic goals

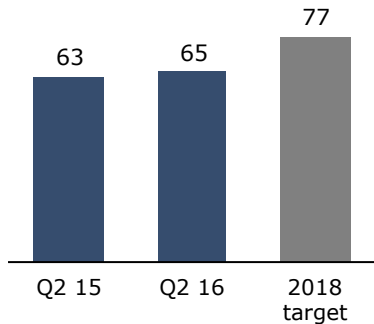
■ Actuals ■ Target

## Best Customer Satisfaction

## Best Cash Flow Generation

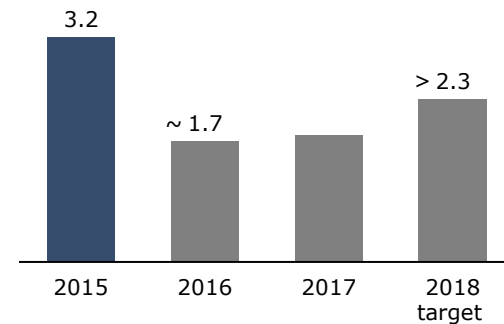
TDC Recommend score<sup>1</sup>

YTD avg. index



EFCF

DKKbn



- TDC Recommend score improved by 2 pp in Q2
- Customers recognition of **Denmark's best mobile network** and increase in **availability** in customer service are the main contributors to the improvement

- EFCF on track YTD
- DKK ~1.7bn still expected for the **full-year EFCF**

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)

# Strategic initiatives: Q2 actions

## Always Simpler and Better



Agreement to **divest TDC Sweden** to **Tele2** for an EV of SEK 2.9bn



**B2B simplification program** progressing as plan with ~50% of SMB customers migrated



**Brand merger** substantiated by **migration** of 1.1m **YouSee customers**

### Better connectivity



**Gigaspeed project** in Denmark initiated with successful pilot and test – 10k HH's swapped<sup>1</sup>



Open Signal ranked TDC **mobile network** as **best** in Denmark<sup>2</sup>



Get launched **new Wifi optimization service** to enhance high-speed connectivity claim

### Better offering



Completed launch of new **YouSee TV set top box** and **Get box II** with strong reviews



Successful **launch of new apps** – YouSee Music<sup>3</sup>, TV & Film & Telmore visual voicemail



**Cirque integration** developing as planned with positive outlook for synergies in Q3

### Better customer experience



**Brand merger** of **YouSee** and **TDC** (see next page)



Successful development of **Self-service online** for Online brands



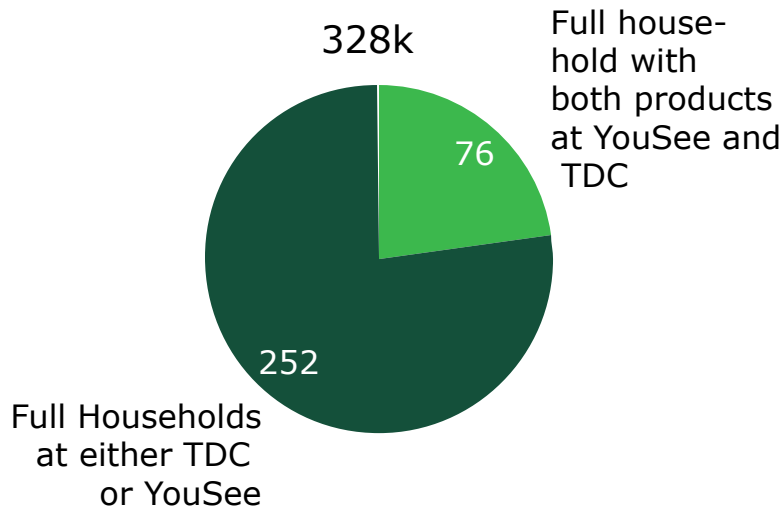
New **self-service platform** launched for all YouSee customers

1. Full roll-out in Denmark starting in September 2016
2. In May 2016, Open Signal: 1,05 Gbps was reached in test on TDCs mobile network. 'P3 Mobile Benchmark' - "Best in Test" benchmarking. TDC best in Denmark (score 903 of 1000) nr 2 Telenor score 786
3. The most downloaded app in the Danish AppStore for several weeks (currently top ten)

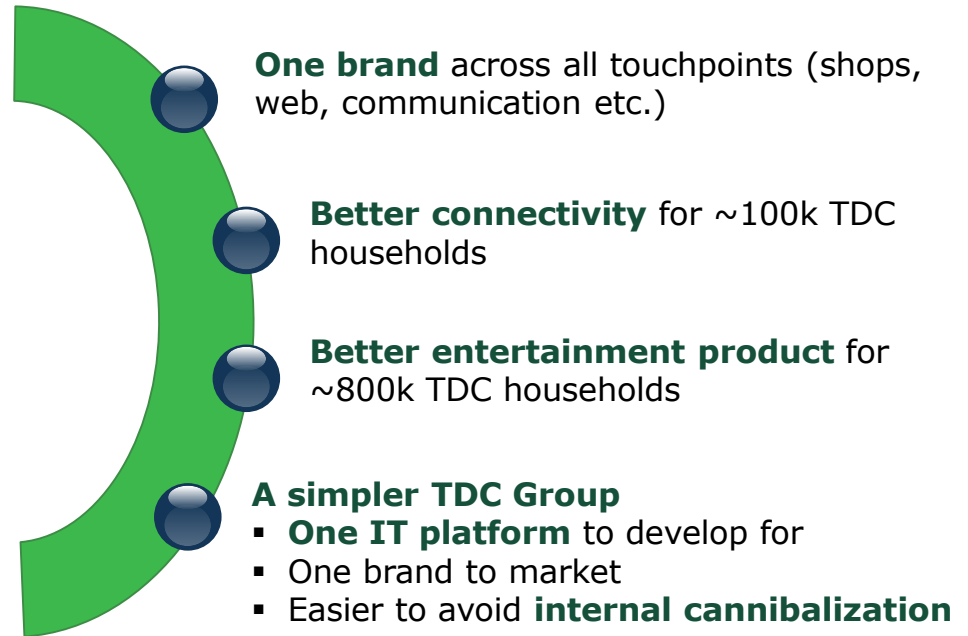
# Deep dive Q2 strategic initiative: YouSee and TDC brand merger

**We have increased stickiness by moving 76k full households to one brand**

# full households<sup>1</sup> (FHH) YouSee Q2 2016



**The TDC/YouSee merger has driven clear customer benefits and Group impact through simplification**



**We will continue to focus on four post-merger activities as a part of the transformation**

**Even better customer experience in all touch points**

**IT consolidation and process simplifications**

**Finalise new portfolio across all products**

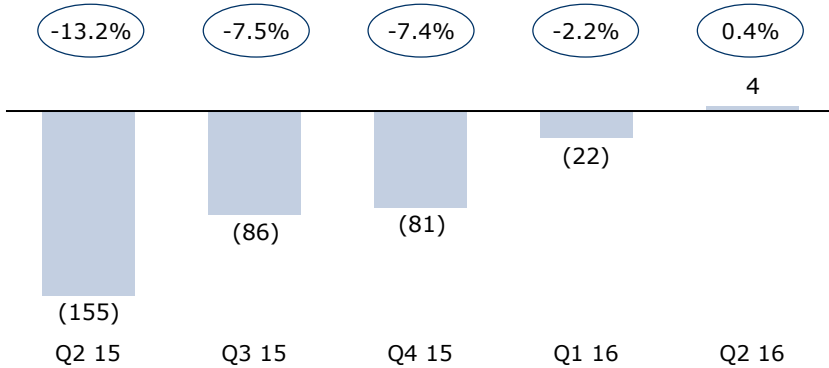
**Increased household penetration through better offerings**

1. Full households have gathered subscription on broadband, TV and mobile voice

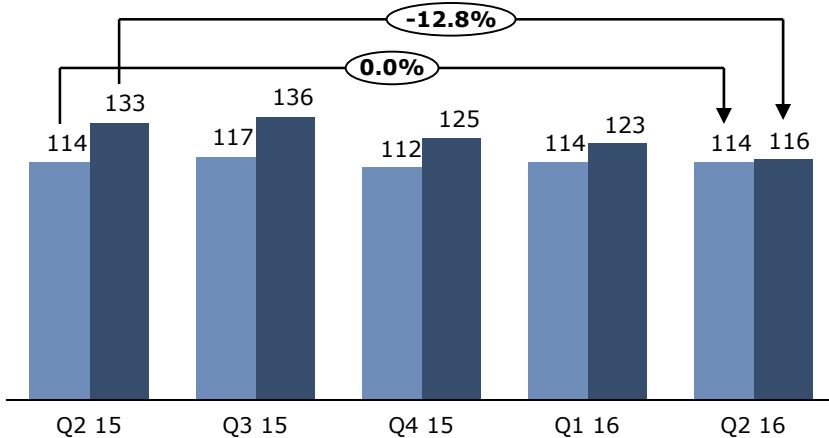
# Mobility services in Denmark

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

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

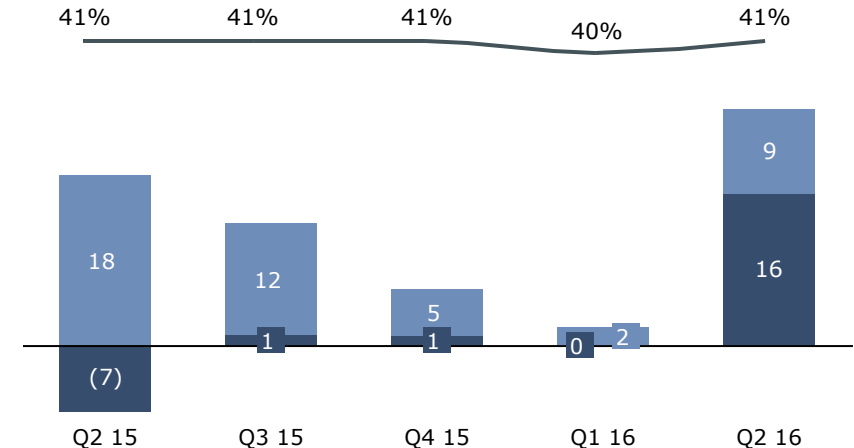


## Mobile voice ARPU DKK/month



- Organic **gross profit** growth for the first time in more than five years driven by Consumer; Consumer **net adds** 9k vs. Q1 2016 and churn rates continue to improve
- YoY **B2C mobile voice ARPU** stabilised with price increases being offset by lower contributions from roaming due to EU regulation as well as existing customers migrating to lower price points
- Business mobile voice ARPU** down YoY by DKK 17 driven by continued price pressure across segments and roaming
- Business net adds** including Cirque acquisition (12k); however loss of contracts in Q2 will result in an increased churn going forward

## Mobile voice RGU net adds & market share<sup>3</sup> '000



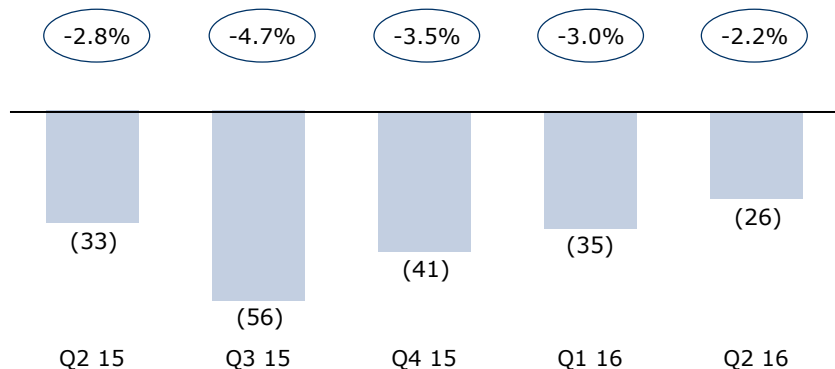
1. Adjusted for regulation and acquisitions/divestments  
 2. Cirque included in RGU (12k) from Q2 2016  
 3. TDC Residential and Business market share (Denmark)

# Internet & network in Denmark

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

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

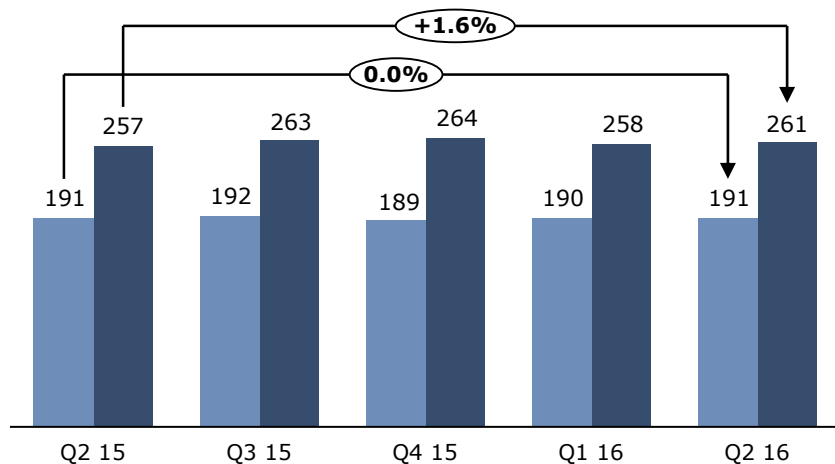
DKKm



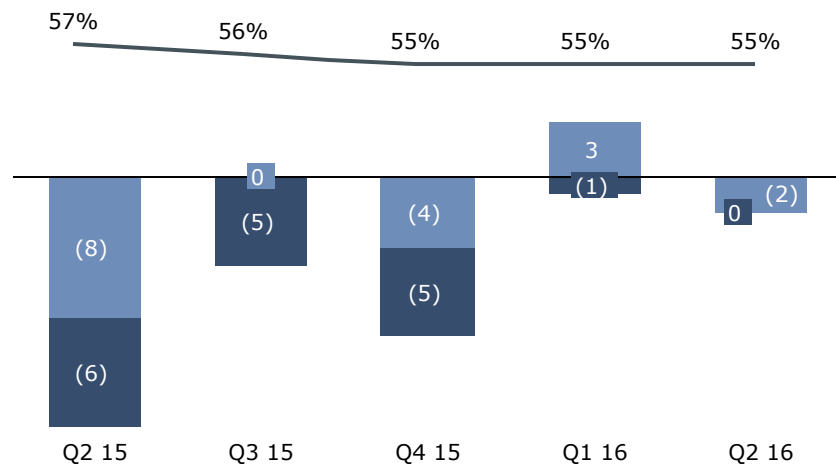
- Positive trend in organic **gross profit** across business lines
- **Consumer** net loss of 2k broadband customers vs. Q1 2016 due to the ongoing competition especially in the lower end of the market
- Improved trend in **Business customer base** development during H1, due to gain of a large customer
- Slightly positive development in **Business ARPU**

## Broadband ARPU

DKK/month



## Broadband RGU net adds & total DK market share<sup>3</sup> '000

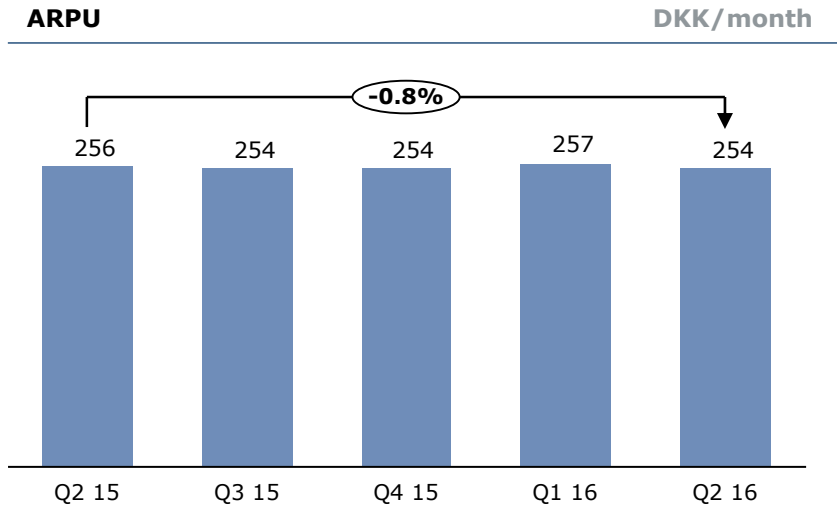
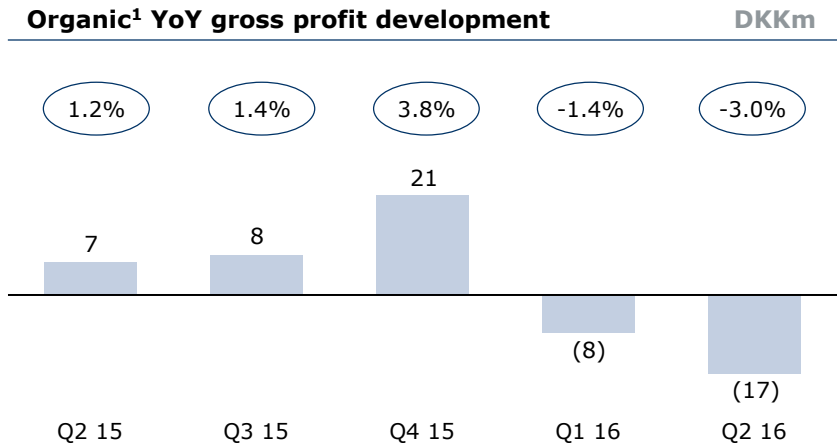


1. Adjusted for regulation and acquisitions/divestments
2. Cirque included in RGU (1k) from Q2 2016
3. TDC Residential and Business market share (Denmark)

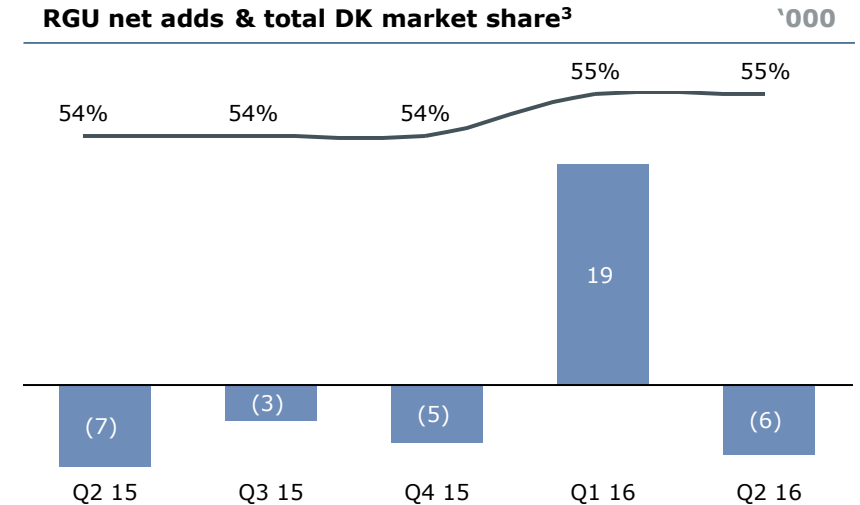


# TV in Denmark

TDC Group Denmark Consumer YoY growth



- Organic TV **gross profit** development 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 20k customers finding the user interface quick and intuitive to navigate
- Flattish **TV ARPU** due to continued downward migrations to smaller packages and lower price increases<sup>2</sup> than in previous years
- TV net loss** of 6k customers vs. Q1 2016 driven by leakage of both individual and organised customers

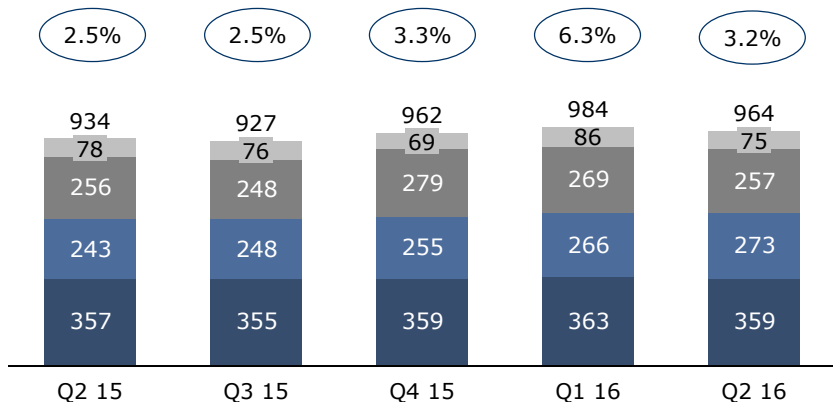


1. Adjusted for acquisitions/divestments  
 2. 2-4% price increases on packages per month as of 1 January 2016  
 3. TDC Residential and Business market share (Denmark)

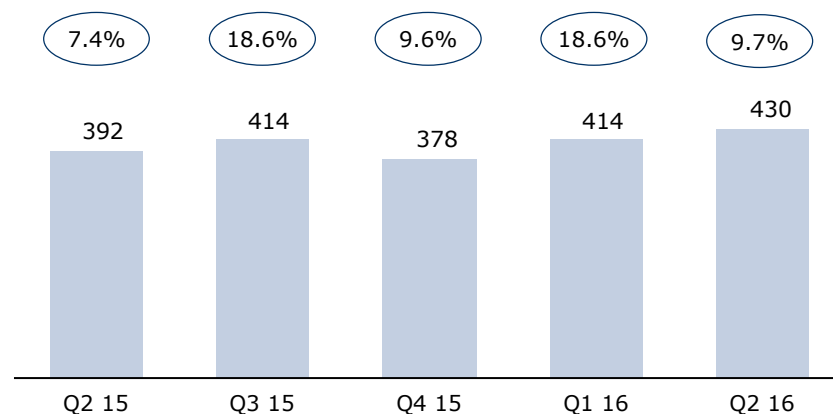
# Norway financials

Other Business<sup>1</sup> Broadband TV YoY growth<sup>2</sup>

Revenue<sup>3</sup> NOKm



EBITDA<sup>3,4</sup> NOKm



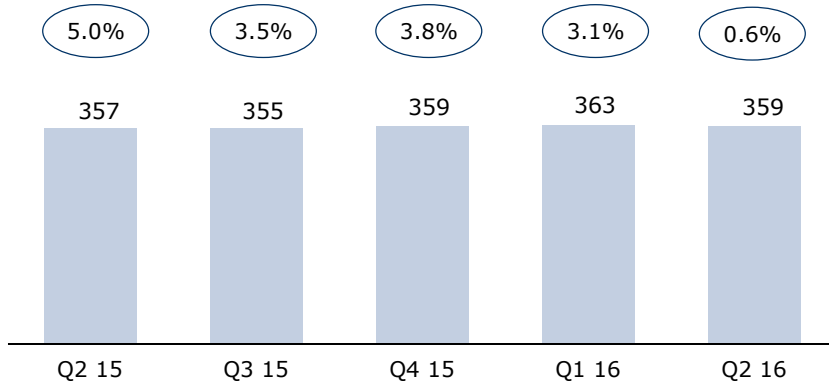
- Q2 Revenue growth (3.2%) mainly driven by broadband in Get
- **Strong EBITDA** growth in Norway delivered by both Get (9.3%) and TDC Norway (14.8%); growth generated by broadband in Get and strategic execution in TDC Norway with synergy realisation from the Get acquisition
- **Get Household ARPU** up 3% YoY driven by both higher broadband penetration and ARPU
- In Q2, Norwegian regulator NKOM published market statistics for 2015, showing Get had the **strongest broadband subscription growth** in the Norwegian market for the 8th consecutive year
- Planned launch of **mobile offering** to Get customers on track

1. Includes TDC Norway and Get Business division  
 2. Including Gets historical data before the acquisition as of November 2014  
 3. Q1 2016 affected positively by one-offs (Revenue: NOK 13m and Operational expenses: NOK 5m)  
 4. In Q3 2016 other income affected by positive one-off from closing down one of TDC Norway's defined benefit plans (NOK 42m)

# TV in Norway

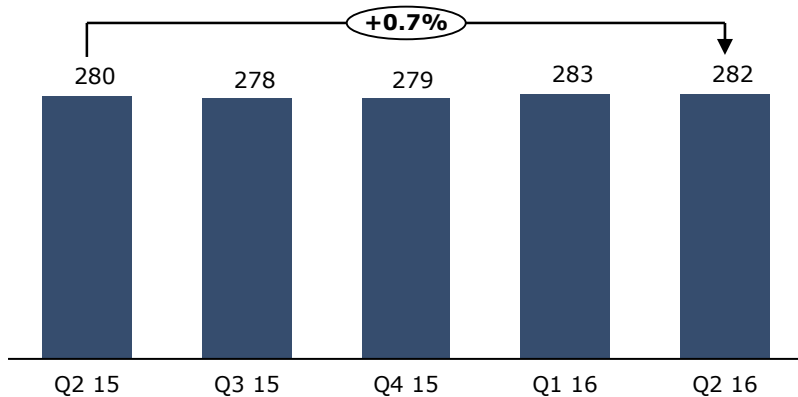
○ YoY growth<sup>1</sup>

## Revenue NOKm

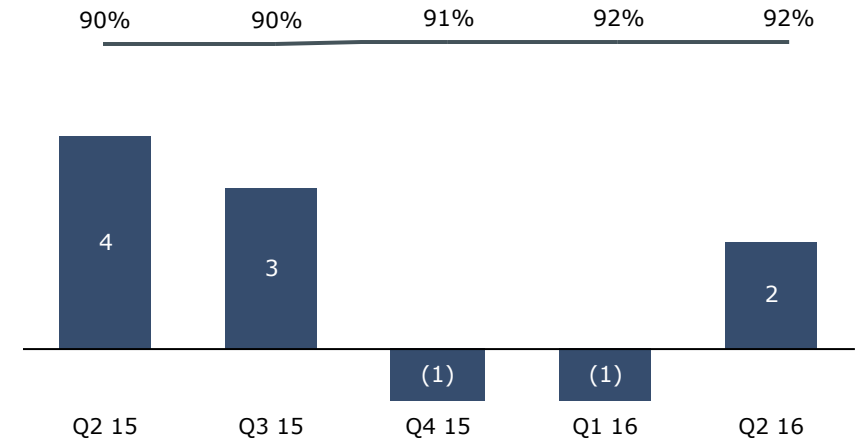


- **Slowdown in TV revenue** growth in Q2 YoY as the TV market in Norway is experiencing higher competition
- Increase in **Get TV subscriber** base (2k vs. Q1 2016) after limited losses in the previous two quarters
- **TV ARPU** up by NOK 2 YoY driven mainly by price increases as of January 1 2016
- Roll out of substantial **software update** to set top boxes with new functionalities and integrated app services

## Residential ARPU NOK/month



## RGU net adds<sup>2</sup> and box penetration '000/%



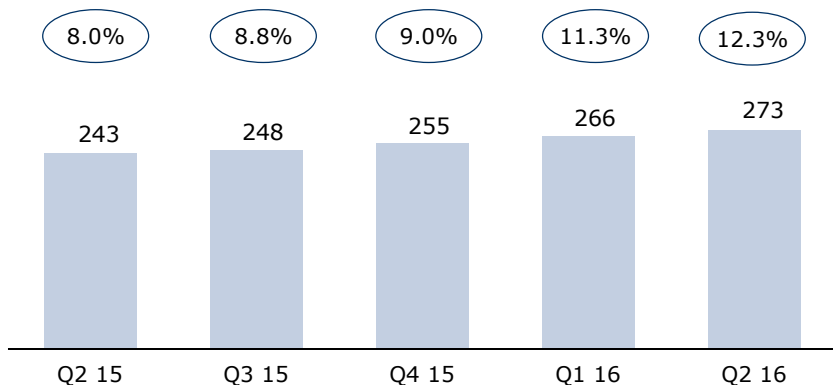
1. Including Gets historical data before the acquisition as of November 2014  
 2. TV RGU net adds includes B2B TV RGUs

# Broadband in Norway

○ YoY growth<sup>1</sup>

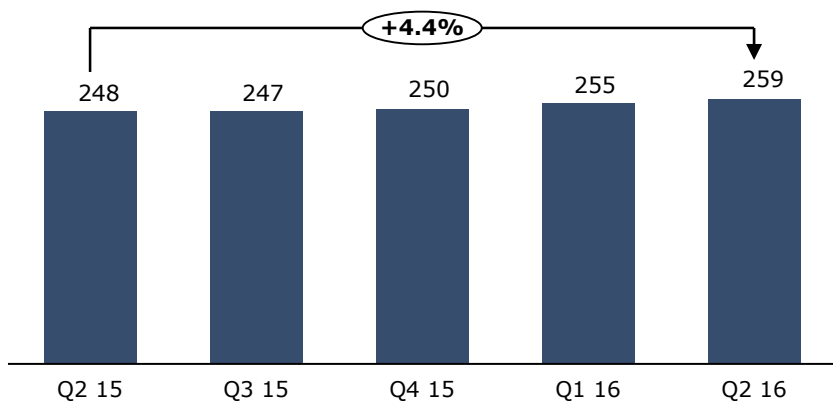
## Revenue

NOKm



## Residential Broadband ARPU

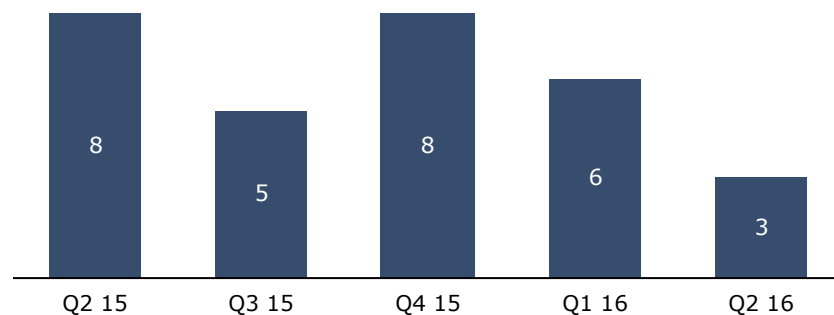
NOK/month



- Continued strong **broadband performance** in Get with double digit revenue growth in Q2 2016 (12.3%) driven by both ARPU and RGU growth
- Broadband net adds** of 3k vs. Q1 2016 and 22k YoY driven by upsale of broadband to TV customers; broadband penetration up 4 percentage points YoY
- ARPU up NOK 11** (4.4%) YoY as a result of migration of customers to higher speeds at higher prices
- Average **broadband speed** increased more than 70% YoY following the broadband migration

## Broadband RGU net adds

'000/%



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

# Financials



# Financial highlights – TDC Group

	Q2 2016			YTD 2016		
	DKKm	Growth, %		DKKm	Growth, %	
	Reported	Reported	Organic	Reported	Reported	Organic
Revenue	5,204	(4.0)	(2.7)	10,381	(5.8)	(4.4)
Gross Profit	3,890	(5.7)	(4.0)	7,795	(6.3)	(4.6)
Opex	(1,773)	0.5	(0.0)	(3,530)	1.2	0.4
EBITDA	2,117	(9.7)	(7.2)	4,265	(10.1)	(7.9)
Profit for the period	565	(0.9)		1,189	10.0	
- hereof discontinued operations & SI	(61)	31.5		(119)	30.0	
Capex	(1,072)	(8.2)		(2,024)	3.1	
EFCF	653	(20.6)		979	(5.5)	
Adjusted NIBD/EBITDA <sup>1</sup>	3.1				-	

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

# Q2 2016 performance per business line

DKKm/  
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>5,204</b> -4.0%	<b>2,686</b> -3.0%	<b>1,275</b> -10.8%	<b>437</b> +5.0%	<b>128</b> +16.4%	<b>4,464</b> -4.2%	<b>581</b> +4.6%	<b>188</b> -1.3%
<b>Gross profit<sup>1</sup></b>	<b>3,890</b> -5.7%	<b>2,035</b> -4.2%	<b>1,005</b> -13.2%	<b>287</b> +7.9%	<b>86</b> +6.2%	<b>3,369</b> -5.9%	<b>464</b> +7.6%	<b>60</b> -7.4%
<b>EBITDA<sup>1</sup></b>	<b>2,117</b> -9.7%	<b>1,640</b> -4.2%	<b>736</b> -17.0%	<b>246</b> +8.8%	<b>-846</b> -2.9%	<b>1,773</b> -11.5%	<b>319</b> +9.3%	<b>25</b> +14.8%

- 1 Consumer:** EBITDA decline driven by gross profit decline in landline voice, TV and non-services (including fees)
- 2 Business:** Continued decline across segments and products (partly affected by several negative one-offs of DKK ~30m)
- 3 Wholesale:** Q2 2016 growth, driven by gross profit growth in internet & network relating to both improved performance in broadband as well as national and international capacity
- 4 Norway:** Growth continues at a high level with contributions from both Get and TDC Norway

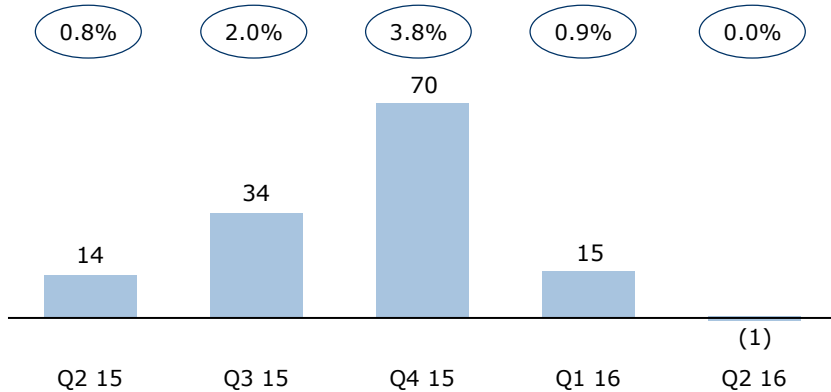
1. Business line absolute figures and growth rates exclude eliminations and therefore do not amount to the total Group figures

# Opex & capex

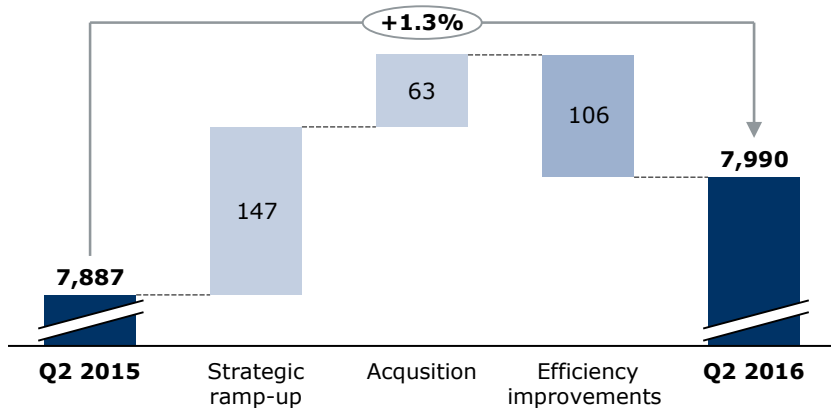
○ YoY growth

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

DKKm



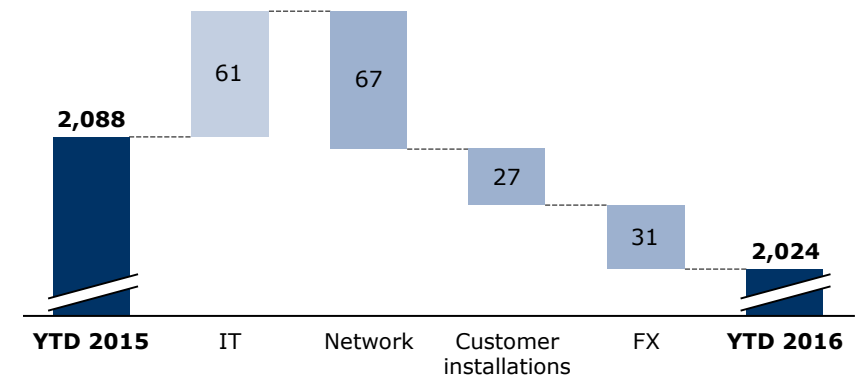
## FTE development



- **Organic YoY opex developed** flat in Q2 2016 as savings in facility management, field-force and lower spend on SAC/SRC 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
- YTD 2016 **investment spending** decreased compared with the same period last year related to large investments in the Danish mobile network in 2015 as part of the nationwide upgrade. IT investments was increased to support strategic initiatives. Full year 2016 investments expected at the same level as 2015

## Capex, YoY development

DKKm

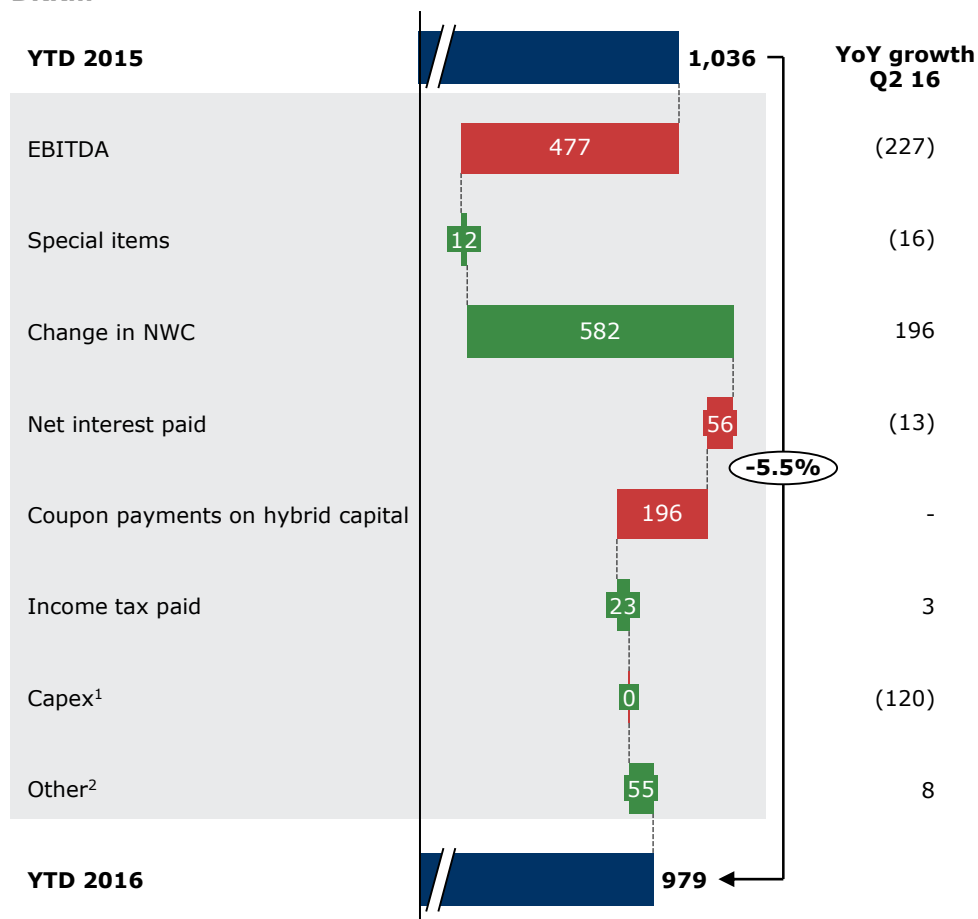


1. Adjusted for acquisitions/divestments and foreign exchange



# Equity Free Cash Flow

DKKm



- YoY decline in **EFCF** of DKK 57m in H1 2016, driven by a decrease in the Danish EBITDA (12.3%) and the first annual coupon payments on hybrid capital issued in Q1 2015. This was almost offset by a significant NWC growth due to different timing of primarily net receivables compared with 2015
- The YTD 2016 development vs. 2015 is not predictive for full-year 2016 EFCF, as it reflects a different timing than 2015 especially for NWC and capex. EFCF updated **guidance** of DKK ~1.7bn confirmed

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<sup>1</sup> confirmed

*TDC Group confirms the full-year guidance on all parameters following the announcement of the disposal of TDC Sweden and with the majority of the underlying assumptions until now as expected*

	<b>2016 guidance</b>	<b>YTD status</b>
<b>EBITDA<sup>2</sup></b>	~DKK 8.4bn	DKK 4.3bn
<b>EFCF</b>	~DKK 1.7bn	DKK 1.0bn
<b>DPS<sup>3</sup></b>	DKK 1.00 per share	Supported by EFCF YTD

1. TDC Group expectations as of 21 June 2016 following the announcement of the disposal of TDC Sweden
2. Assuming NOK/DKK exchange rate of 0.80
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 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.

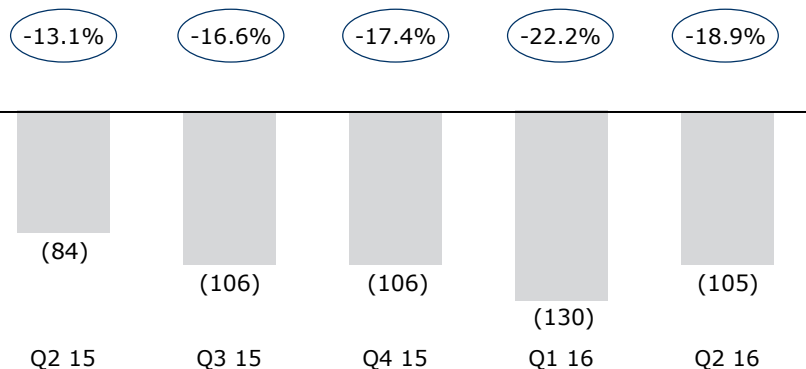
**Q&A**

# A.1 Landline voice in Denmark

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

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

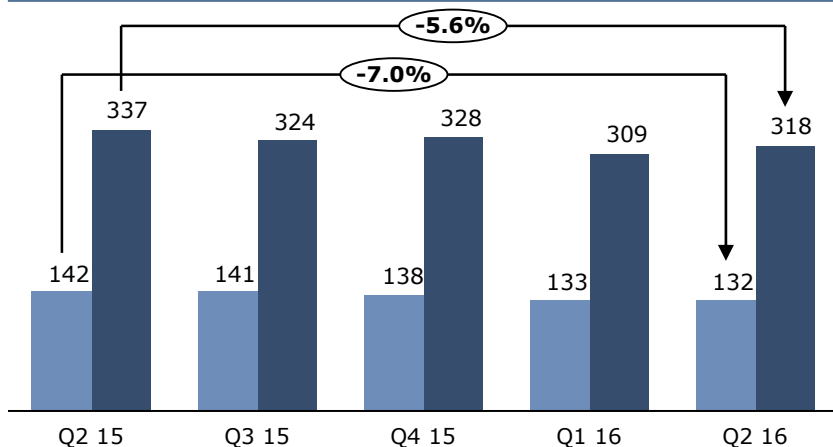
DKKm



- Organic **gross profit** development in line with recent quarters after a large decline in Q1
- Improved **B2C customer net loss** with better VoIP and PSTN churn; B2B net adds due to inclusion of Cirque (8k)
- **Consumer ARPU** decline of DKK 10 in Q2 YoY at the same level as Q1 decrease. This related to a continued lower revenue from traffic as well as an increasing share of low ARPU VoIP customers
- **Business ARPU** decrease of DKK 19 in Q2 YoY affected by churn of high-ARPU legacy customers across segments

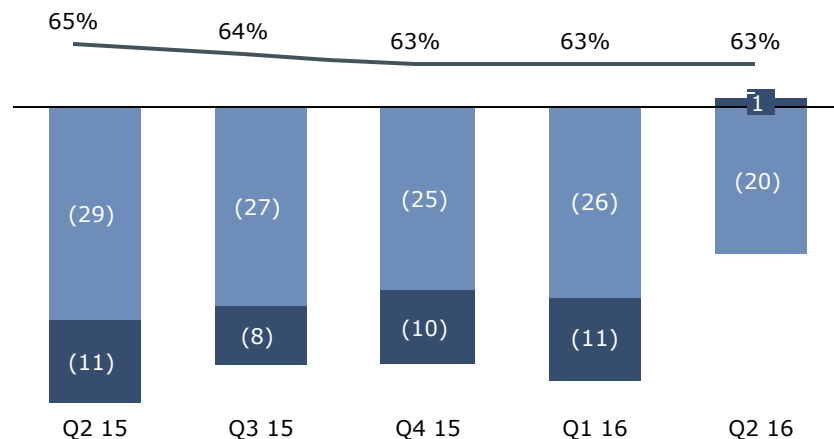
## ARPU

DKK/month



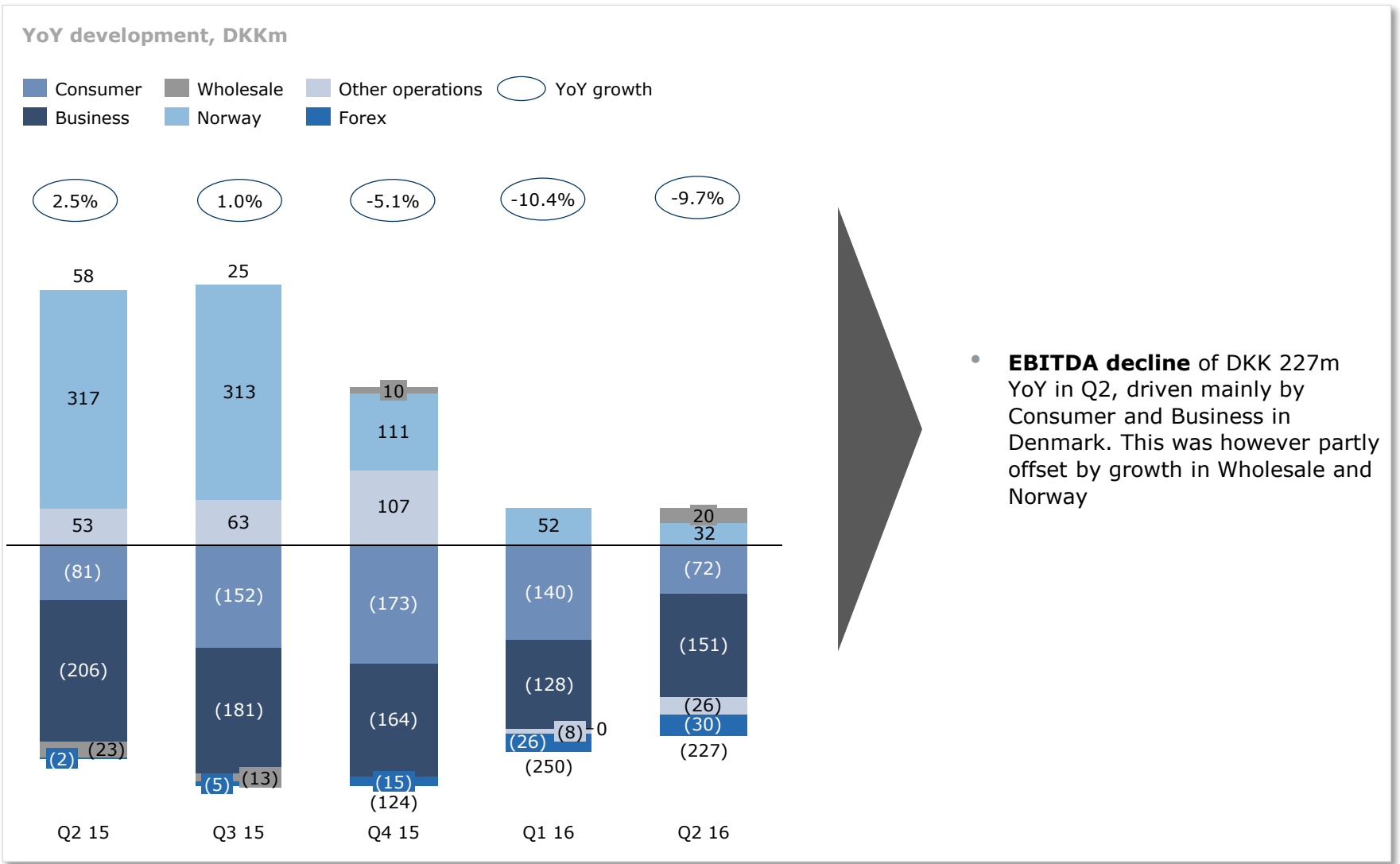
## RGU net adds & total DK market share<sup>3</sup>

'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)

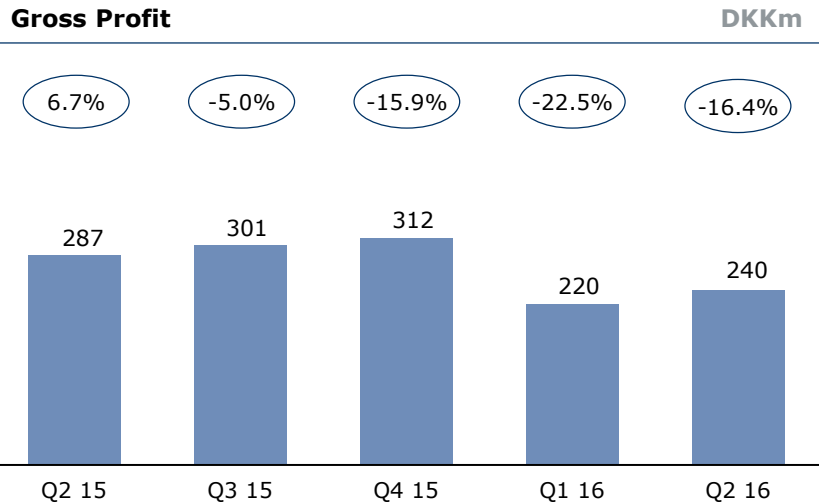
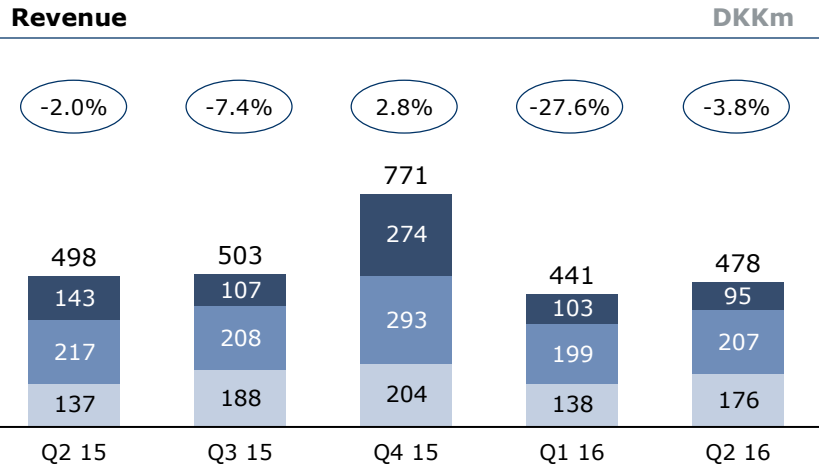
## A.2 Quarterly EBITDA trends per business lines



1. Eliminations between business lines included in Other operations numbers

## A.3 Other services

Sale of handsets
  NetDesign (Systems Integrator)
  Other
  YoY growth



- Revenue from low-margin **sales of mobile handsets** decreased by DKK 48m in Q2 YoY, driven by a decline in sales in the Danish B2C and B2B divisions
- In Q2 YoY revenue from the Danish system integrator **NetDesign** decreased due to lower sales of hardware and software (including services) as well as consultancy services
- Revenue from the **other category** increased due to the inclusion of Cirque and improved performance in DKTV

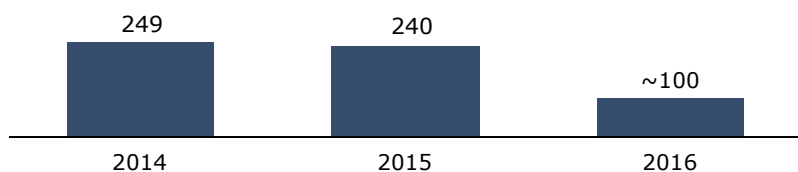
### Other services consist of...



## A.4 Regulatory update

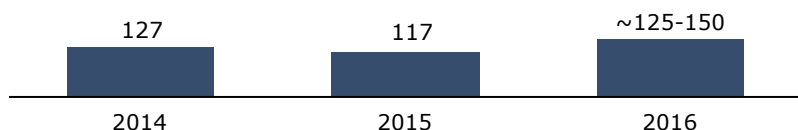
Revenue loss from regulation<sup>1</sup>

DKK<sup>2</sup>m



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

DKK<sup>2</sup>m



- **Roaming:** 'Roam-like-at-home' regulation will be a two step process. Firstly, retail roaming prices was 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. The commercial pressure on roaming prices has continued in the transition period and a part of this effect has already been included in regulatory adjustments
- **LRAIC:** Revision of mobile and landline networks wholesale prices with effect as of 1 January 2016 has resulted in only minor price adjustments
- **Hybrid fibre:** Previously expected requirement to resell a TV package on hybrid fibre has been withdrawn. Instead, a voluntary data-only solution was introduced by TDC as of 18 April 2016
- **Fibre:** TDC's obligation to connect wholesale fibre customers, who are located within 30 meters of TDC's fibre network, may result in increased investments
- **Mobile licences:** New spectrum (1800 MHz) auction in H2 2016

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