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# Financial Report January – March 2018

3 May 2018

TDC Group



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# Highlights

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- **Organic EBITDA growth** of 1.1% for TDC Group and 2.7% in Denmark in Q1 2018 YoY – the best development since 2010
  - **Norway EBITDA** down by 6.9% in Q1 2018 YoY, affected by one-offs in 2017, investments in customer-centric activities and IT digitalisation as well as increased content costs in 2017
  - **Organic operating expenses** improvement of 5.4% YoY driven mainly by renegotiations of supplier contracts and FTE reductions from efficiency improvements in the field force and streamlining of the Danish B2B business
  - **EFCF** decline of DKK 91m vs. Q1 2017 affected by different timing of net working capital and tax
  - Organic gross profit increase of 9.5% in **mobility services** following higher ARPU in Consumer and stabilised ARPU in Business over the past three quarters, as well as a growing customer base (46k in Q1 2018)
  - **Merger of Plenti and Telmore** successfully completed, facilitating the transfer of 81k customers and 88 employees to Telmore
  - Improvement in **customer touchpoint KPIs** in Q1 compared with Q4 2017, driven by improvements across business lines
  - **New business line 'Digital'** implemented in TDC Group with ~1000<sup>1</sup> employees and an opex and capex budget of more than DKK 1bn to improve the customer experience and drive simplifications
  - Successful launch of **new flexible YouSee TV offering** resulted in customers preferring larger packages
  - Our new converged offering **'YouSee More'**, supporting a focus on household offerings, is currently onboarding ~1000 customers per day and has reached ~100k customers
  - **DK Telekommunikation APS** now holds acceptances for shares representing more than 90% of the share capital and voting rights in TDC Group
  - **2018 guidance** reaffirmed on all parameters (exclusive of impact from takeover); organic EBITDA development: ≥0%; EFCF: DKK ≥2.4bn; DPS: DKK 1.15 to be paid out in Q1 2019
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1. Including external consultants

# Delivering on the strategic ambition

● Deep dive

## Always simpler and better

### Better connectivity



- **5G lab trials** launched in Q2 2018 to secure our customers future needs
- Upgraded **~80% of our own cable network to gigaspeed** in Q1 2018, the roll out will be completed in 2018
- YouSee's ongoing national wide **4G hybrid broadband** test resulted in an average **boost from 7 Mbps to 42 Mbps**; commercially launch expected in 2018

### Better offerings



- **The converged offering “YouSee More” has shown good traction since launch in September 2017**, currently onboarding ~1000 per day and have reached ~100,000 customers
- Launch of **new flexible point-based channel selection TV packages in YouSee** and **expansion of YouSee's exclusive TV offerings with comedy** in Q2 2018
- **Get acquired 51 %** of the shares in the Norwegian start-up **Futurehome AS** hereby strengthening the smart home offering
- Launched **Skype for Business Express** offering designed to the needs of smaller companies

### Better customer experience



- **Improvements in both positive and negative customer experiences** vs. Q4 2017 primarily driven by improved performance in processes and touchpoints across business lines
- **Plenti was consolidated with Teltoro** to improve customer experience and product offering
- **Fullrate 100% WiFi app introduced** to help users optimise their WiFi connection, ~50,000 downloads and ~200,000 tests since February 2018

### Simplified digital operating model



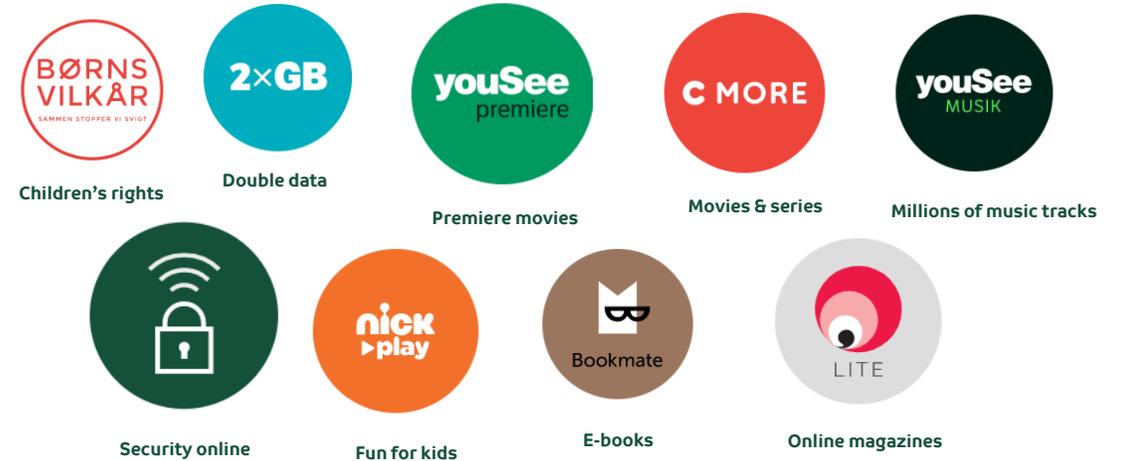
- **New cross-functional Business Line ‘Digital’** to accelerate innovation and new digital experiences while simplifying our technical foundation
- Well on our way to **increase flexibility and simplification in IT operations** while obtaining meaningful cost reductions
- **Good result on first trials** with new methodology to reduce fault rates to a new level and increase the quality of customer experience as part of **Quality-up programme**

# YouSee More converged offering has shown good traction since launch in September 2017

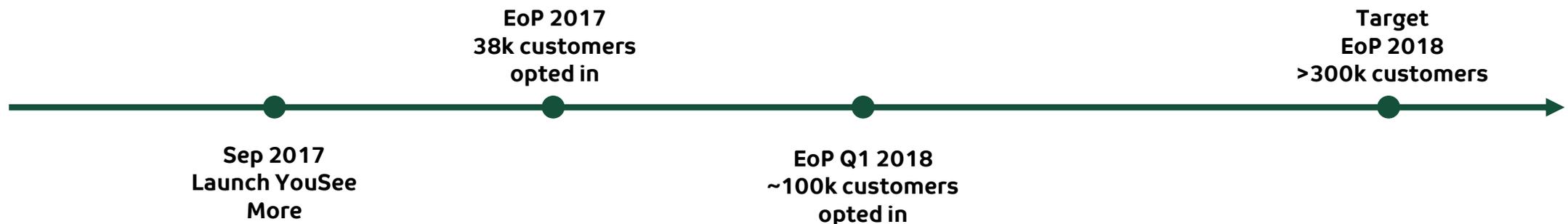
YouSee More converged offering providing household customers with additional benefits



Customers can choose from various benefits with more to come



Since launch in September 2017 YouSee More has shown good traction

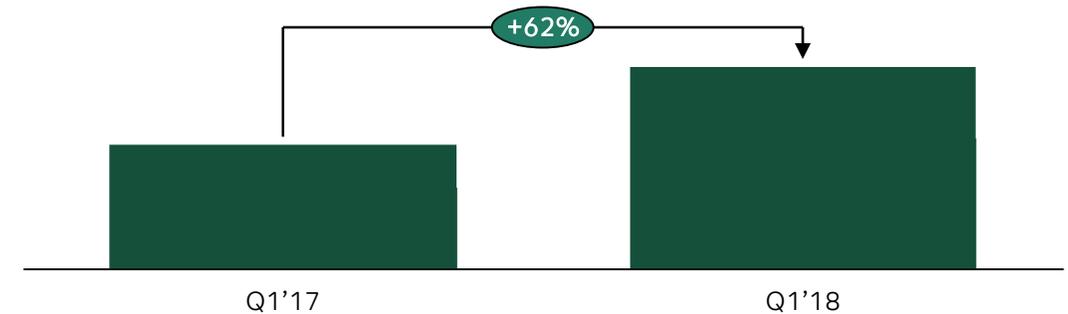


# YouSee launched new flexible TV packages including streaming services build on the entertainment universe



## “Flexible TV” subscribers

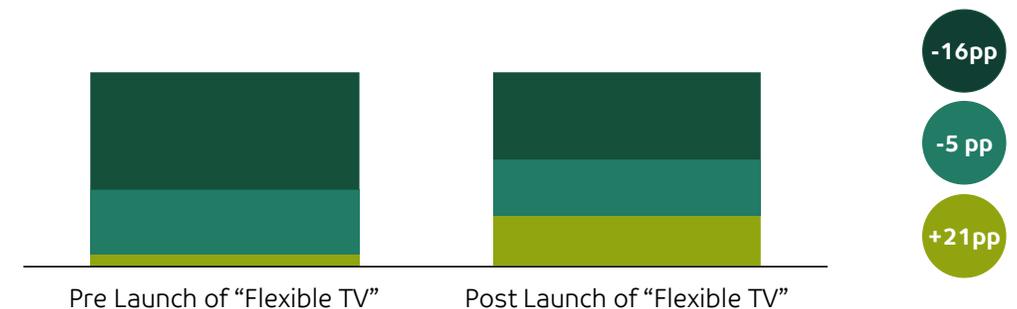
Number of “Flexible TV” subscribers



Introduction of streaming services in the package has motivated a change in “flexible TV” customer base preferences towards the larger packages<sup>1</sup>

Percentage split, percentage point change

■ BS 10 ■ BS 20 ■ BS 36



Flexible TV packages: combination of selected flow channels and SVoD services  
 1. Basic package plus 10, 20 or 36 points

# New cross-functional Business Line ‘Digital’ to accelerate innovation and new digital experiences while simplifying our technical foundation

We have established a new cross-functional Digital unit to make a step-change in development...

... and we have already seen very positive trends from the first Tribes on key KPIs



## DKK +1bn

Total development budget per year to drive customer experiences and product innovations



## +1,000 digital colleagues<sup>1</sup>

Coders, journey experts, user interface experts and more, in one unit



## Co-ownership

with colleagues from YouSee and TDC Business to realise goals

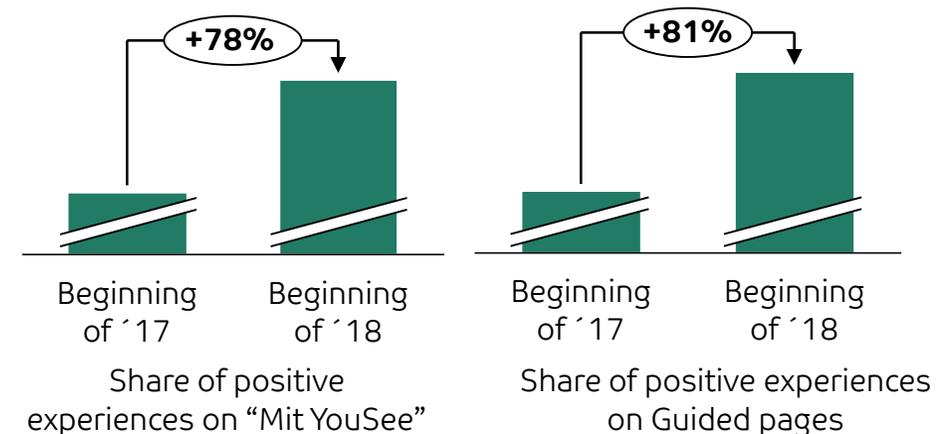


## Proximity and cross-unit collaboration

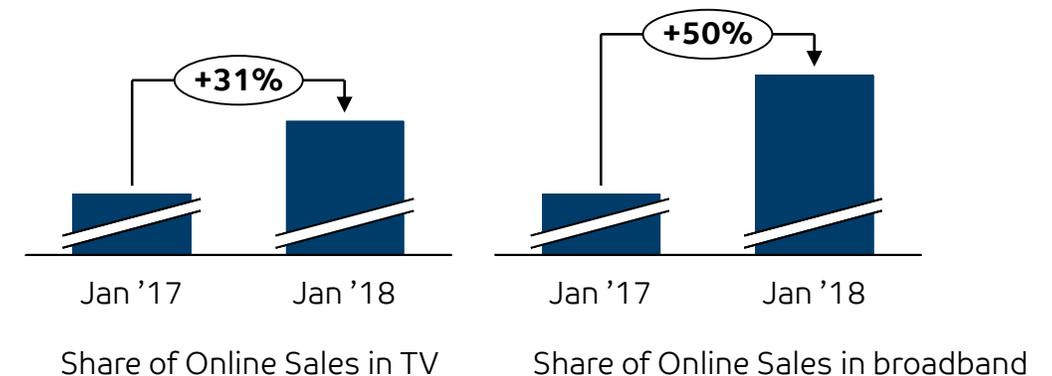
between Tribes, Labs and developers from Core Systems

1. Including external consultants

## Improved customer experience in online touch points in YouSee



## Increased share of online sales in YouSee



# Mobility services in Denmark

■ TDC Group Denmark ■ Consumer ■ Business ○ YoY growth

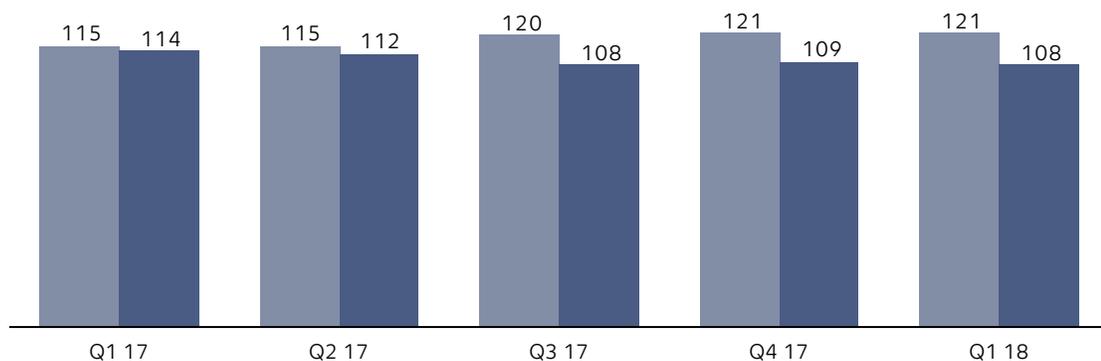
## Organic<sup>1</sup> YoY gross profit development

DKKm



## Mobile voice ARPU<sup>2</sup>

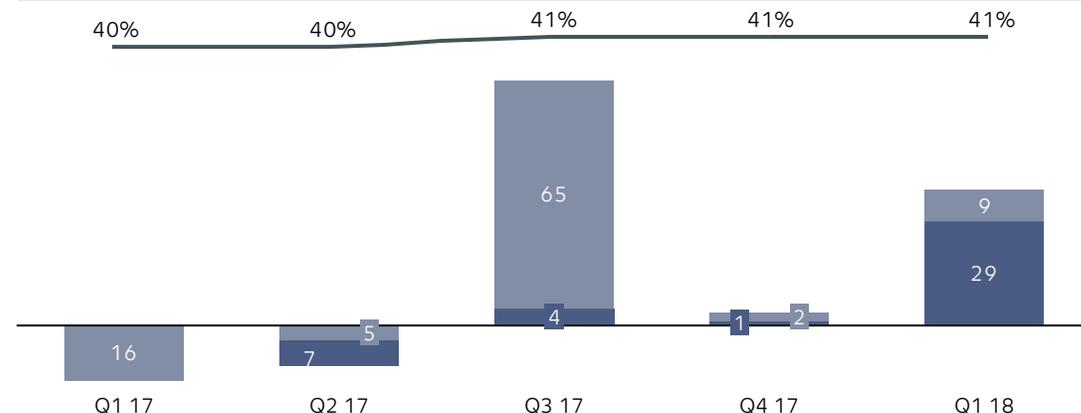
DKK/month



- **Organic gross profit growth** for the 8th consecutive quarter driven by Consumer. Value market share up by 1.5 percentage points YoY
- **Net adds of 9k Consumer mobile voice customers** in Q1 driven by a better market structure and the lowest churn in more than a year. Consumer **mobile voice ARPU** increase of DKK 6 YoY in Q1 due to price initiatives partly offset by less billed roaming due to inclusion of EU roaming in subscriptions.
- Net adds of **8k mobile broadband customers** in Q1 in Business and Consumer
- **Business mobile voice customer base** increased by 29k driven by public tender agreement won in Q3 2017 and growth in the small and medium business segment

## Mobile voice RGU net adds<sup>3,4</sup> & total DK market share<sup>5</sup>

'000



1. Adjusted for regulation and acquisitions/divestments

2. Plenti included in ARPU and financial figures as of Q4 2017

3. Mobile voice RGUs has been changed due to reclassification of customers in Business in all quarters of 2017

4. In Q3 2017, Plenti net adds included. In Q1 2017, total net reduction in Consumer mobile voice customer base was 16k of which 6k related to a reallocation to mobile broadband

5. TDC Residential and Business market share (Denmark)

# Internet & network in Denmark

■ TDC Group Denmark 
 ■ Consumer 
 ■ Business 
 YoY growth

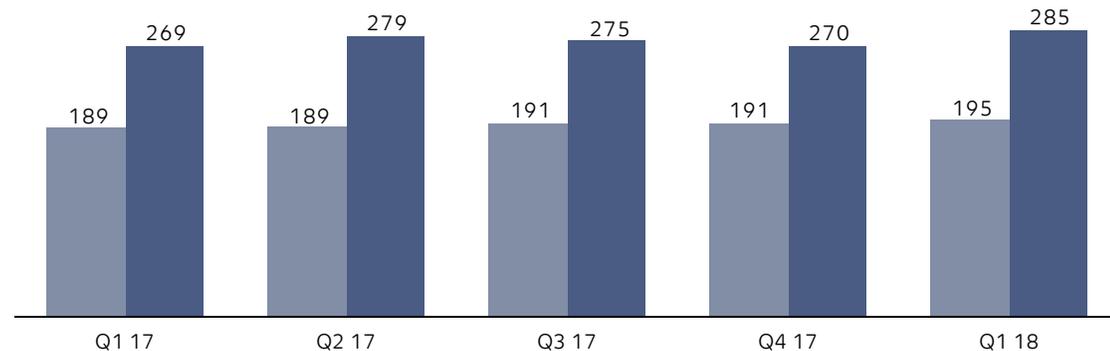
## Organic<sup>1</sup> YoY gross profit development

DKKm



## Broadband ARPU

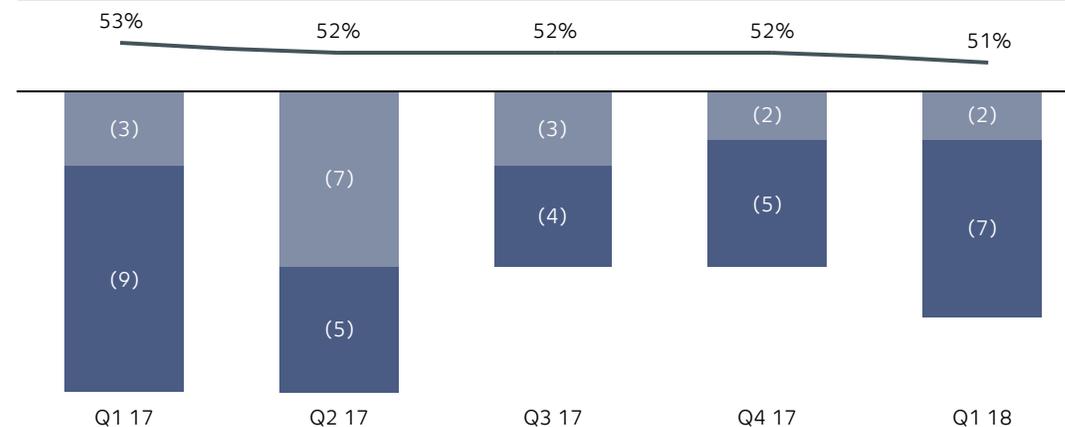
DKK/month



- Improved **organic gross profit** development in Denmark driven by growth in both Consumer and Wholesale due to price increases
- Loss of 2k **broadband customers in Consumer** vs. Q4 2017; ARPU up DKK 4 vs. Q4 driven by price increases
- Business ARPU** up by DKK 16 YoY driven by ARPU increasing initiatives, such as converting to higher speeds. 7k broadband customer loss due to other technology offerings in the market
- The share of **cable broadband subscribers** with a speed  $\geq$  100Mbps increased by 28 percentage points YoY to 70%

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

'000



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

# TV in Denmark

■ TDC Group Denmark ■ Consumer ○ YoY growth

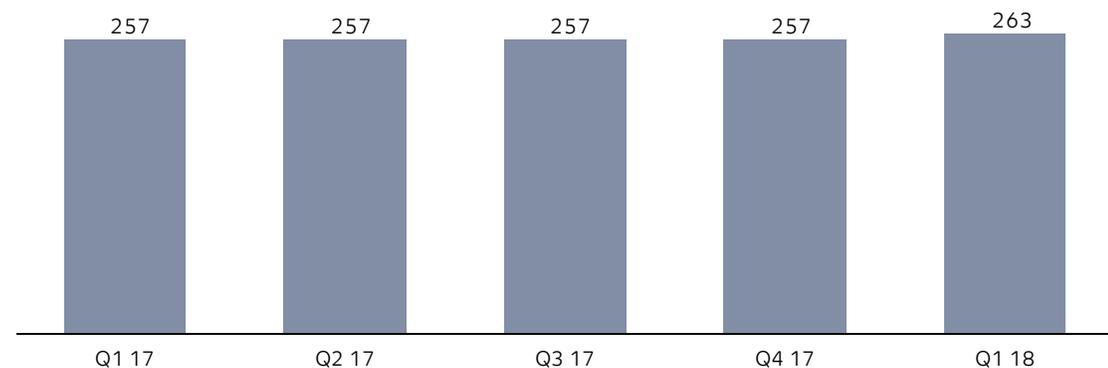
## Organic<sup>1</sup> YoY gross profit development

DKKm



## TV ARPU

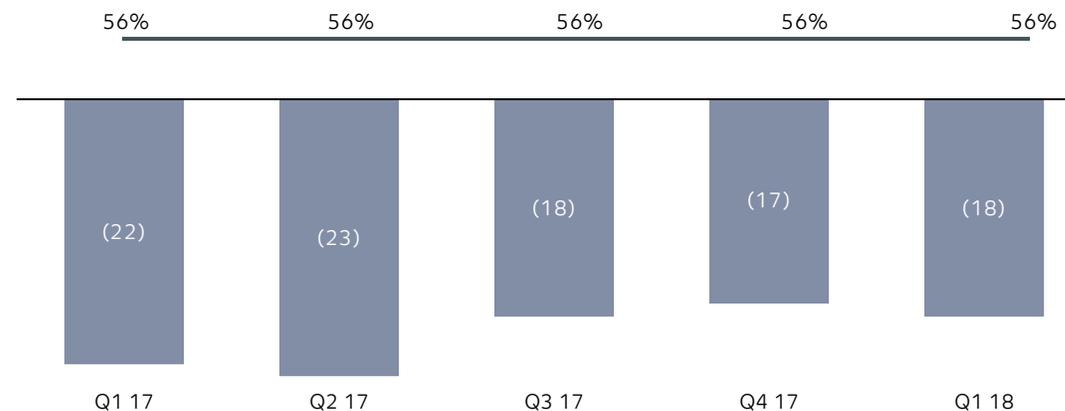
DKK/month



- Negative organic **TV gross profit** development YoY, driven mainly by decline in the customer base
- **TV net loss** of 18k customers vs. Q4, this development is in line with the market development and run rate from previous quarters
- **TV ARPU** increase of DKK 6 YoY driven by price increases
- Denmark is the EU country where the flow TV customer base has decreased most rapidly in recent years. This is partly due to **changed regulation** allowing Danish households previously bound by association agreements to terminate their TV packages, and partly due to unbundling broadband from TV

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

'000



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

# Landline voice in Denmark

■ TDC Group Denmark 
 ■ Consumer 
 ■ Business 
 ○ YoY growth

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

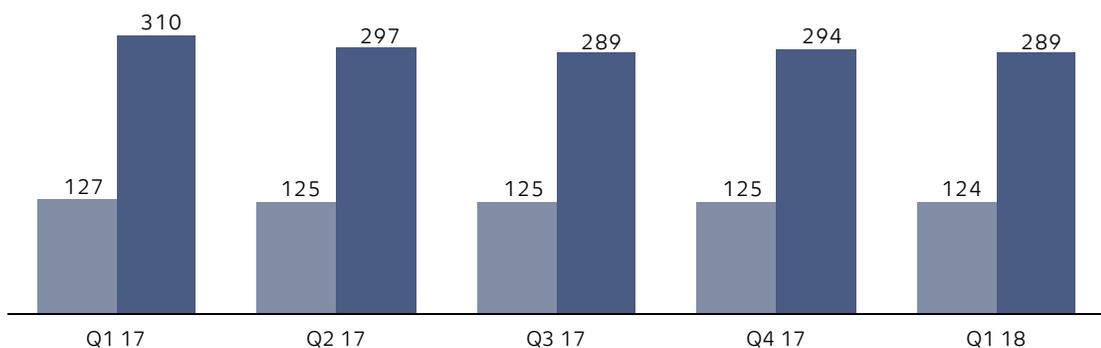
DKKm



- Organic **gross profit decline** of 21.7% in Q1 YoY or DKK 89m; Q1 2017 affected by one-offs
- Consumer ARPU decline** of DKK 3 YoY due to less invoiced traffic and changed subscriber-mix
- Clean up of inactive VoIP customers** impacted the Consumer RGU base by -3k in Q1
- Business landline voice ARPU decline** of DKK 21 and **customer base** decreased by 6k in Q1. This development is in line with overall market development

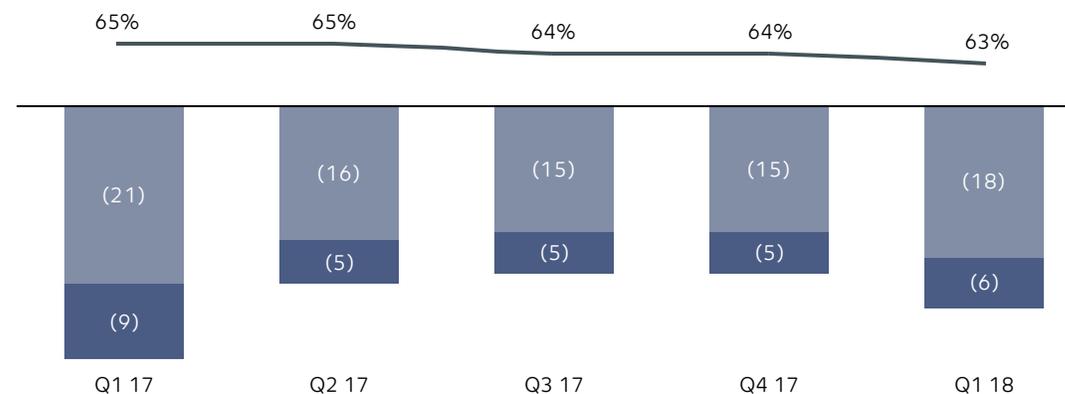
## Landline voice ARPU

DKK/month



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

'000



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

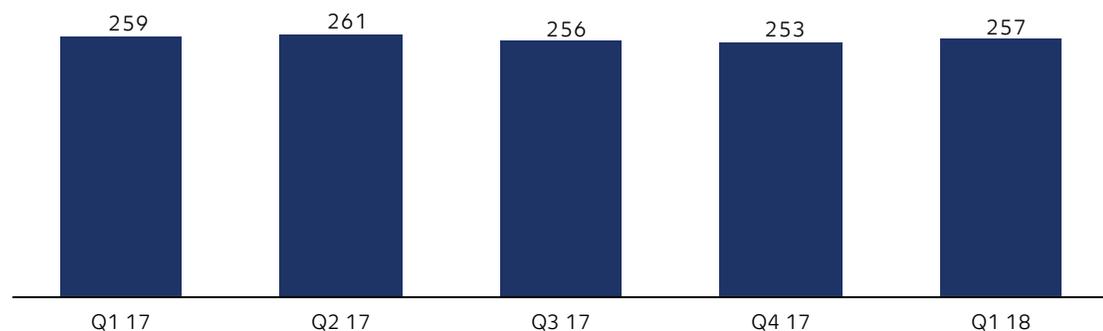
# Residential broadband in Norway

○ YoY growth

Revenue NOKm

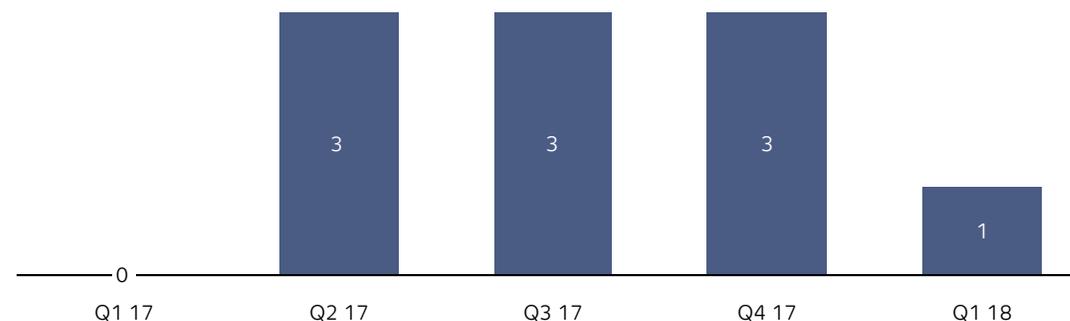


Residential broadband ARPU NOK/month



- **Continued revenue growth** of 1.8% YoY driven by RGU increase
- **ARPU down NOK 2 YoY** as upsale to higher speeds at higher prices is more than off-set by increase in long-term collective agreements with lower ARPU; migration of customers to higher speeds at higher prices from March 1 has lifted ARPU NOK 4 vs. Q4 17; full ARPU impact of speed migration to materialise in Q2
- Broadband **speed migration** has raised average download speed by 61% in Q1 YoY
- **Broadband net adds** of 1k vs. Q4 and 10k YoY driven by increase in broadband penetration (+3 percentage points YoY)

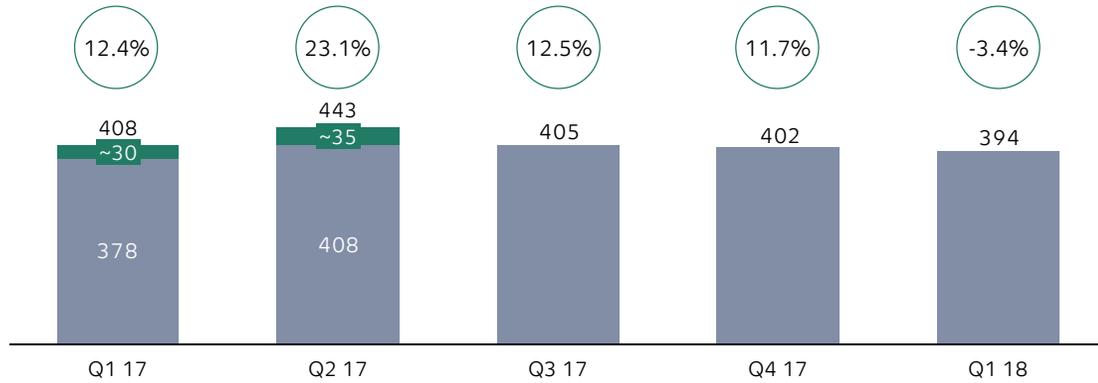
Broadband RGU net adds '000



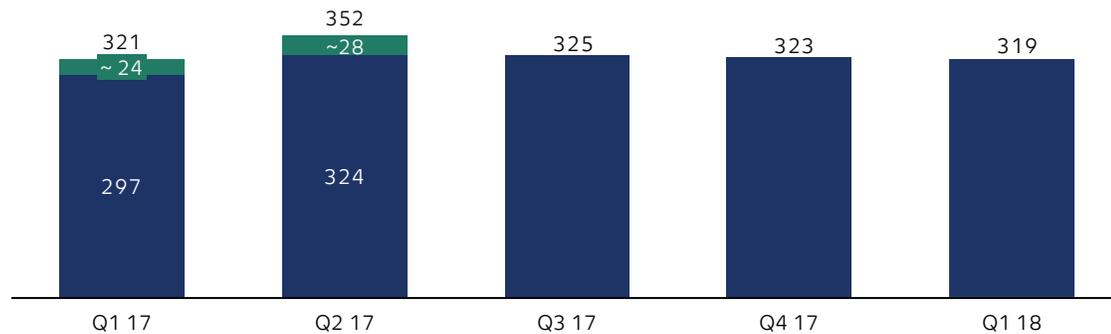
# TV in Norway

○ YoY growth ■ One-offs

## Revenue NOKm

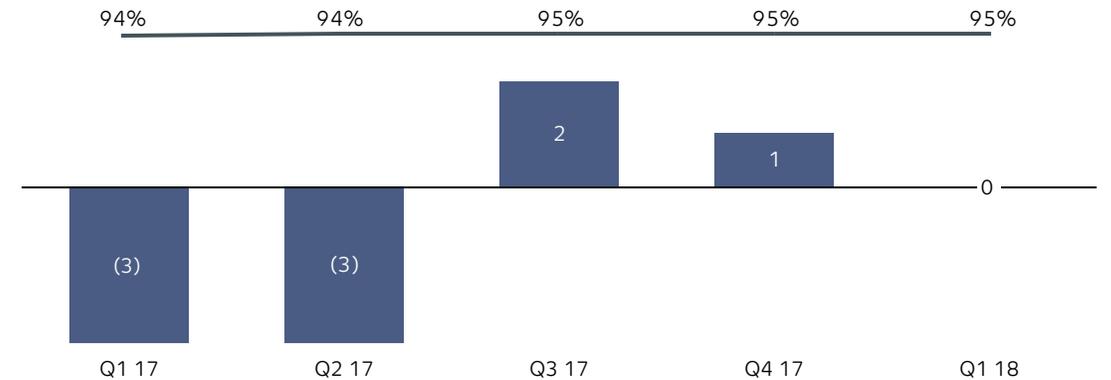


## Residential ARPU NOK/month



- **TV revenue** down YoY due to a negative growth impact of a one-off in Q1 17 (NOK ~30m). Adjusted TV revenue was up 4.2% driven by strengthening of TV offering in Q2 2017; TV prices were increased as of 1 April 2017 after new content agreements, albeit at higher content cost, allowed for inclusion of premium content in basic offering
- **Level TV RGU development** vs. Q4 with growth in B2B in TDC Norway being off-set by decline in residential RGUs
- **Box penetration** up 1 percentage point YoY to 95% of TV customers

## RGU net adds<sup>1</sup> and box penetration '000



1. TV RGU net adds includes B2B TV RGUs

A young boy with dark hair is lying on his back on a grey couch. He is wearing a grey cardigan over a yellow and black plaid shirt. He is smiling and looking towards the camera. He is holding a black remote control in his right hand. The background is a dark, textured wall.

**Financials**

# TDC Group's financial highlights: Turnaround in EBITDA development

DKKm	<b>FY 2016</b>	<b>FY 2017</b>	<b>Q1 2018</b>		
	Growth % Organic	Growth % Organic	Reported	Growth % Reported	Organic
<b>Revenue</b>	<b>(3.2)</b>	<b>(2.3)</b>	<b>5,096</b>	<b>(2.7)</b>	<b>(0.7)</b>
<b>Gross profit</b>	<b>(3.7)</b>	<b>(3.2)</b>	<b>3,653</b>	<b>(4.1)</b>	<b>(1.8)</b>
<b>Opex</b>	<b>(2.5)</b>	<b>5.4</b>	<b>(1,577)</b>	<b>5.9</b>	<b>5.4</b>
<b>EBITDA</b>	<b>(8.4)</b>	<b>(1.4)</b>	<b>2,076</b>	<b>(2.7)</b>	<b>1.1</b>
<b>Profit for the period<sup>1</sup></b>			<b>635</b>	<b>17.6</b>	
<b>Capex</b>			<b>(989)</b>	<b>4.9</b>	
<b>EFCF</b>			<b>361</b>	<b>(20.1)</b>	
<b>Adjusted NIBD/EBITDA</b>			<b>2.8</b>		

1. Profit for the period from continuing operations, excl. special items

# Q1 2018 performance per business line

○ YoY organic growth<sup>1</sup>

DKKm/ Growth in local currency	TDC Group	Denmark				Norway	
		Consumer	Business	Wholesale	Other operations	Denmark in total	Norway in total
Revenue <sup>2</sup>	5,096 -2.7%	2,736 -0.1%	1,057 -13.7%	434 +1.2%	121 +15.2%	4,338 -2.5%	785 +2.5%
Gross profit <sup>2</sup>	3,653 -4.1%	1,969 +0.1%	806 -15.4%	306 +5.2%	66 -5.7%	3,145 -3.1%	510 -3.2%
EBITDA <sup>2</sup>	2,076 -2.7%	1,536 -0.7%	602 -13.3%	277 +5.3%	-652 +10.7%	1,763 -0.6%	313 -6.9%
	○ +1.1%	○ +0.8%	○ -7.8%	○ +2.2%	○ +10.7%	○ +2.7%	○ -6.9%

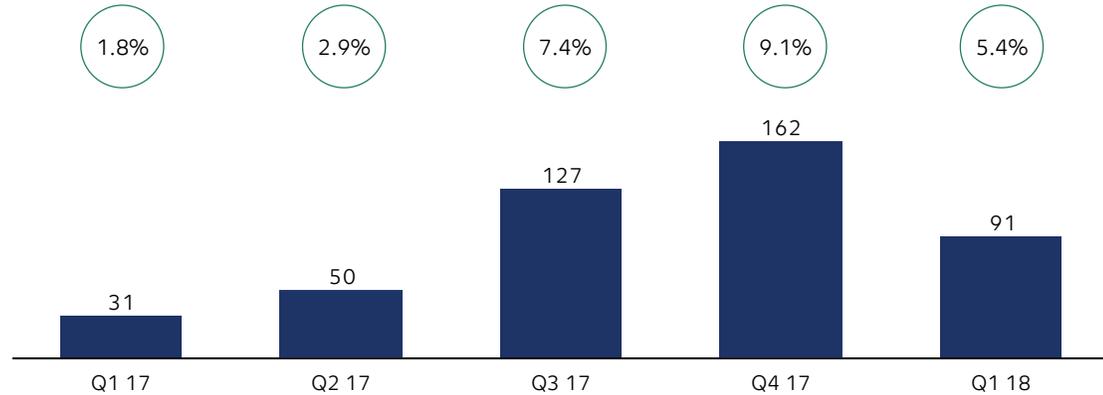
- Adjusted for acquisitions/divestments, regulation and foreign exchange rates
- Business line absolute figures and growth rates exclude eliminations and therefore do not amount to the total Group figures

# Opex & capex

○ YoY organic growth<sup>1</sup>

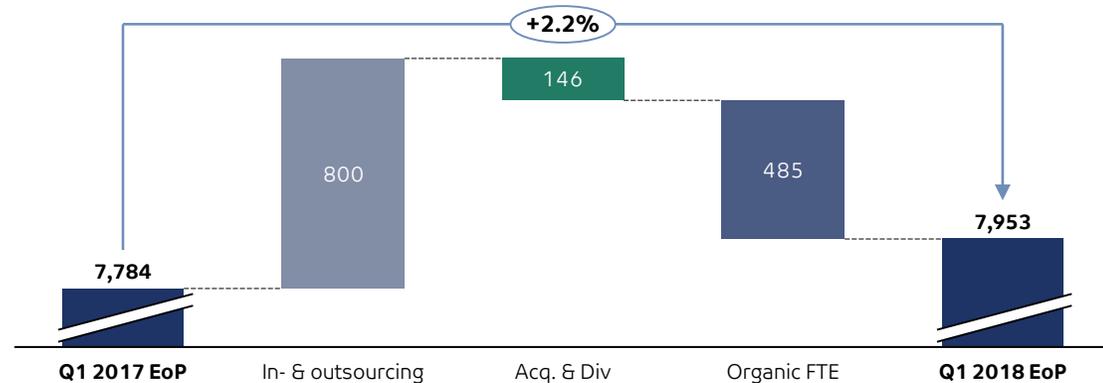
## Organic opex development

DKKm



## FTE development

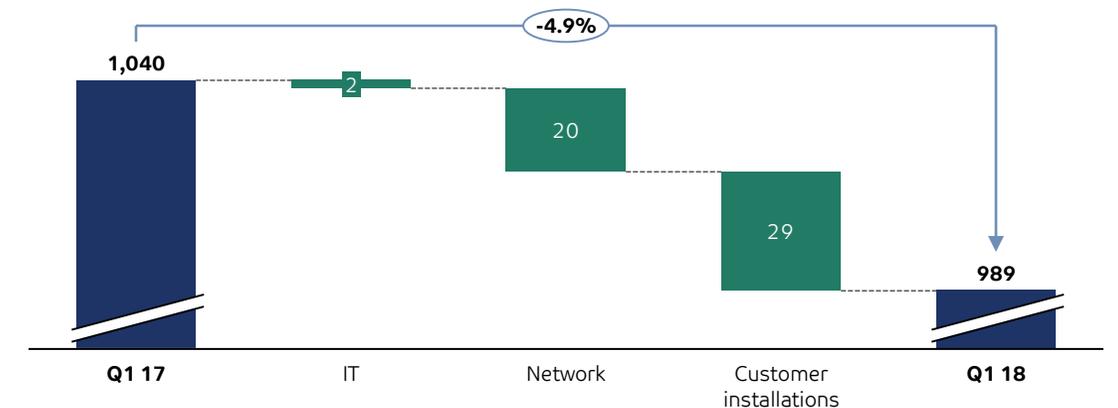
FTE



- Continued significant **organic operating expenses** improvement in Q1 of 5.4% driven by renegotiations of supplier contracts and organic FTE reductions of 6.2% or 485 from efficiency improvements in the field force and streamline of the Danish B2B business
- Capex decrease** of 4.9% YoY driven by high investment level on gigaspeed and mobile network in Q1 2017. Further reduced unit costs combined with lower volumes have reduced Customer installation spend

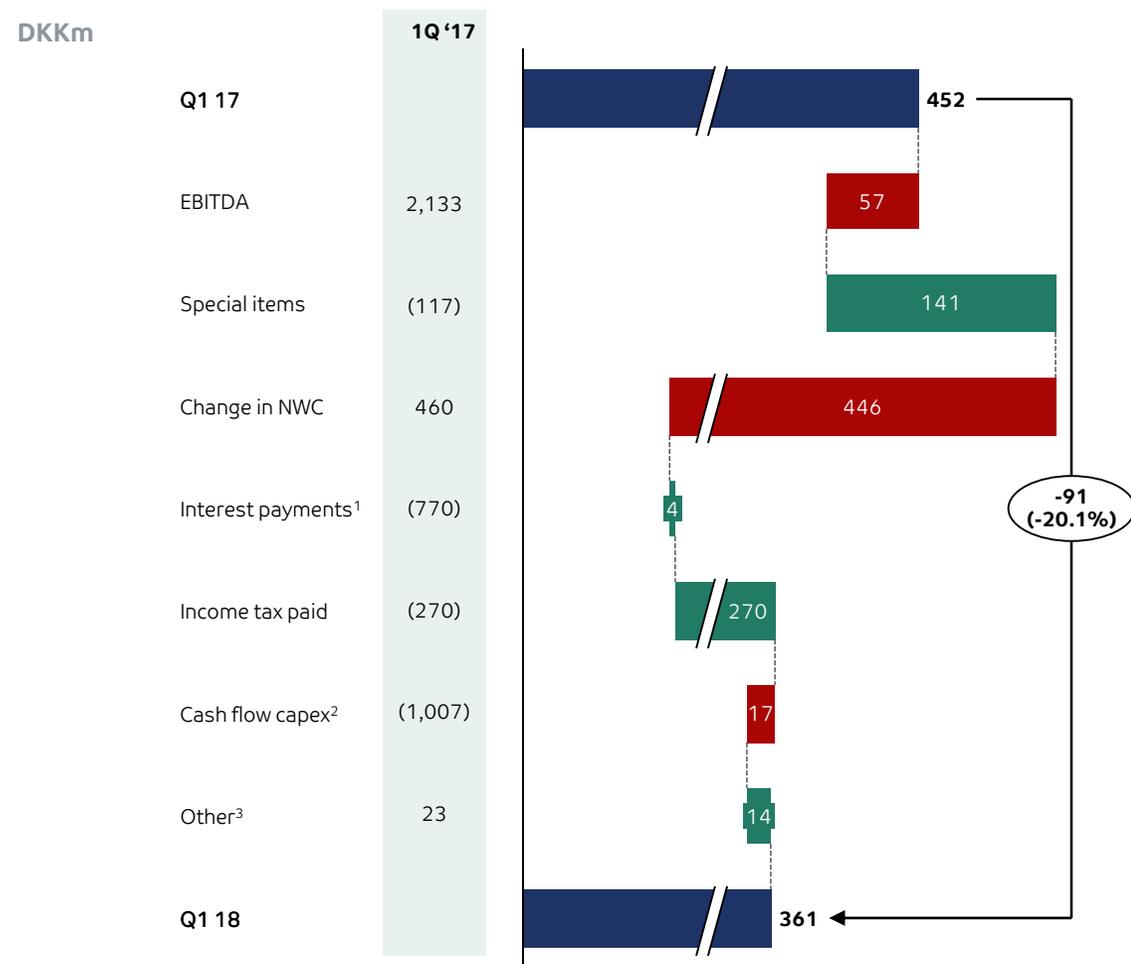
## Capex, YoY development

DKKm



1. Adjusted for acquisitions/divestments and foreign exchange

# Equity Free Cash Flow



- **Change in NWC** (-446m) driven by strong performance in Q1 2017, impacting growth negatively
- Different timing within 2018 regarding **income tax paid** (270m)
- Cash flow related to **special items** (141m) primarily due to compensation received in 2018 from the Danish State for the costs of providing maritime distress and safety service in Denmark (85m). Furthermore impact from lower level of redundancies and vacant tenancies (34m)

1. Including coupon payments on hybrid capital

2. Investment in PPE and intangible assets including mobile licenses. Deviations from capex are due to timing differences regarding mobile license payments, reestablishment obligation, non-paid investments, etc.

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



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Q&A

# Regulatory update

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

DKKm



## EBITDA loss from regulation

DKKm



- On 30 April 2016, the **EU roaming** transition phase was implemented with retail roaming prices reduced to regulated EU wholesale prices for customers with a package product. **Roam Like at Home** took full effect 15 June 2017 where no surcharge is levied in addition to the domestic retail price for any regulated roaming service, except for data roaming where a fair use limit may be applied. In **2018**, a negative YoY financial impact from EU roaming regulation will come until and including Q2 2018
- The final decision on updated landline networks' wholesale prices (LRAIC) with effect as of 1 January 2018 led to price increases of up to 15% on regulated broadband prices resulting from the revised calculation of Cost of Capital. This will lead to a positive YoY financial impact for TDC Group in **2018**

1. Regulatory includes international roaming regulation and various landline regulations (ULL, leased lines, BSA, VULA and interconnect)

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# Disclaimer

This Report may include statements about TDC Group'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 Group's results include: the competitive environment and the industry in which TDC Group operates; contractual obligations in TDC Group's financing arrangements; developments in competition within the domestic and international communications industry; information technology and operational risks including TDC Group'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 licenses; 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 any 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 Group cannot predict. In addition, TDC Group 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 Group 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 share for landline voice is based on number of lines. Market shares for broadband and TV are based on subscriptions. Market share for mobile voice is based on subscriptions excl. prepaid cards.