

# Verizon Denmark A/S

Roholmsvej 19, 2620 Albertslund

CVR no. 17 88 90 87

## Annual report 2016 for the year ended 31 December 2016

Approved at the annual general meeting of shareholders on May <sup>31</sup> 2017

As chairman:



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Simon Rasmussen

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## Management's review

### Financial highlights

5 - years summary (in DKK thousands, except per share data):

Key figures (in DKK thousands)	2016	2015	2014	2013	2012
Revenue	237,829	289,559	294,317	292,194	306,054
Gross profit	47,942	55,310	65,935	61,549	66,172
Operating profit/loss	10,886	13,802	15,562	6,813	9,033
Net financials	3,235	3,332	2,926	- 823	389
Profit/loss for the year	21,011	17,134	18,488	5,990	9,422
Balance sheet total	309,610	271,185	252,417	240,040	231,837
Investments in fixed assets	7,107	4,151	10,837	12,872	9,388
Equity	230,289	209,278	192,144	173,656	167,666
Average number of employees	24	31	38	39	45
Financial ratios in %					
Gross margin	20.2	19.1	22.4	21.1	21.6
EBIT margin	4.6	4.8	5.3	2.3	3.0
Equity ratio	74.4	77.2	76.1	72.3	72.3
Return of equity	9.6	8.5	10.1	3.5	5.8

### Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation on financial ratios 'Recommendations Financial Ratios 2010', cf. Below and

Definition of financial ratios:

Gross margin:

$\text{Gross margin} / \text{Revenue} * 100$

EBIT margin:

$\text{Profit/loss from ordinary operating activities} / \text{Revenue} * 100$

Equity ratio:

$\text{Closing equity} / \text{Equity \& liabilities at year-end} * 100$

Return on equity:

$\text{Profit/loss for the year} / \text{Average equity} * 100$

## continued - Management's review

### Management's review

#### The company's business review

The company is a provider of internationally managed IT infrastructure services and IT security services for large companies and global organisations. The business comprises the sale and marketing of IT security and telecommunication solutions, hosting and LAN as well as WAN services. Further more, the full transformation and maintenance for the service in operation for these services.

#### Financial review

The revenue of Verizon Denmark A/S has decreased from DKK 290 million in 2015 to DKK 238 million in 2016. Revenue decline is mainly caused by price erosion/write down for Danish base clients. The company's income statement for the year ended 31 December 2016 shows a net profit of DKKt 21,011 and the balance sheet at 31 December 2016 show equity of DKKt 230,289.

#### Post balance sheet events

No events have occurred after the financial year-end, which could significantly affect the company's financial position.

#### Outlook

The company expects a flat development in 2017 for IT, security and telecommunication services to be implemented in the company's market segment.

## Statement by management on annual report

Today management has discussed and approved the annual report of Verizon Denmark A/S for the financial year 1 January - 31 December 2016.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2016 and of the results of the company's operations for the fiscal year 1 January - 31 December 2016.

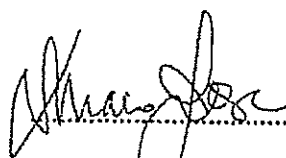
In our opinion, the management's review includes a fair review of the matters dealt with in management's review.

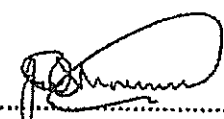
We recommend the adoption of the annual report and the general meeting

Albertslund, 31<sup>st</sup> May 2017

Executive board:

  
.....  
Clare Brenda Aitkenhead

  
.....  
Francesco Cesare De Maio  
Chairman

  
.....  
Johan Coenraad Schoeman

  
.....  
Clare Brenda Aitkenhead

## **Independent auditor's report**

**To the shareholders of Verizon Denmark A/S**

### **Opinion**

We have audited the financial statements of Verizon Denmark A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, statement of cash flows and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Management's responsibilities for the financial statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## **Continued - Independent auditor's report**

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Statement on the Management's review**

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

## Continued - Independent auditor's report

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review

Copenhagen, 31. May 2017  
ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
CVR no. 30 70 02 28



Alex Petersen  
State Authorised  
Public Accountant



## Income statement for the year ended 31 December

		2016	2015
		DKKt	DKKt
Notes			
	Revenue	237,829	289,559
	Other external expenses	189,887	234,249
	<b>Gross margin</b>	<b>47,942</b>	<b>55,310</b>
2	Staff costs	23,966	28,158
5	Depreciation of property, plant and equipment	12,640	13,293
	Other operating expenses	450	57
	<b>Operating profit/loss</b>	<b>10,886</b>	<b>13,802</b>
3	Financial income	3,393	3,400
4	Financial expenses	158	68
	<b>Pre-tax profit/loss</b>	<b>14,121</b>	<b>17,134</b>
12	Tax for the year	6,890	0
	<b>Profit/loss for the year</b>	<b>21,011</b>	<b>17,134</b>

## Balance sheet at 31 December

		2016	2015
		DKKt	DKKt
Notes			
	<b>Assets</b>		
	<b>Fixed assets</b>		
	Plant and machinery	43,031	48,077
	Other fixtures and fittings, tools and equipment	325	237
	Leasehold improvements	1,967	0
	Property, plant and equipment in progress	5,115	7,665
5	<b>Property, plant and equipment</b>	<b>50,438</b>	<b>55,979</b>
	<b>Total fixed assets</b>	<b>50,438</b>	<b>55,979</b>
	Trade receivables	64,762	43,828
	Receivables from group entities	162,214	142,435
12	Deferred Tax receivables	6,890	0
6	Prepayments	5,253	6,500
	Other receivables	443	1,381
	<b>Receivables</b>	<b>239,562</b>	<b>194,144</b>
	<b>Cash</b>	<b>19,610</b>	<b>21,062</b>
	<b>Total current assets</b>	<b>259,172</b>	<b>215,206</b>
	<b>Total assets</b>	<b>309,610</b>	<b>271,185</b>

## Balance sheet at 31 December

		2016	2015
		DKKt	DKKt
Notes			
	<b>Equity and liabilities</b>		
	<b>Equity</b>		
7	Share capital	1,500	1,500
	Retained earnings/Accumulated loss	228,789	207,778
	<b>Total equity</b>	<b>230,289</b>	<b>209,278</b>
	<b>Liabilities</b>		
8	Other provisions	1,613	290
	<b>Total non-current liabilities</b>	<b>1,613</b>	<b>290</b>
	Deferred revenue	16,847	0
	Trade payables	22,294	13,991
	Payables to group entities	25,585	37,556
	Other payables	12,982	10,070
	<b>Total current liabilities</b>	<b>77,708</b>	<b>61,617</b>
	<b>Total liabilities</b>	<b>79,321</b>	<b>61,907</b>
	<b>Total equity and liabilities</b>	<b>309,610</b>	<b>271,185</b>
9	Security for loans		
10	Contingent liabilities and other financial obligations		

## Statement of changes in equity

Note

	(DKKt)	Share capital	Retained earnings/accu- mulated loss	Total
	Equity at 1/1/ 2016	1,500	207,778	209,278
11	Profit/loss for the year, cf. appropriation of profit/loss	0	21,011	21,011
	Equity at 31/12/ 2016	1,500	228,789	230,289

### **1. Accounting policies**

The annual report of Verizon Denmark A/S has been presented in accordance with the provisions of the Danish Financial Statements Act as regards middle reporting class C enterprises.

#### **Changes in accounting policies**

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies the following changes regarding yearly reassessment of residual values of property, plant and equipment.

In future, residual values of property, plant and equipment will be subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land.

Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity.

The above change has no impact on the income statement or the balance sheet for 2016 or the comparative figures.

Apart from the above and new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

#### **Omission to present a cash flow statement**

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flows are part of the consolidated cash flow statement for the parent company, Verizon Communication Inc.

#### **Reporting currency**

The financial statements are presented in Danish kroner.

#### **Currency translation**

Transactions denominated in foreign currencies are translated into Danish kroner at the exchange rate at the date of the transaction.

Receivables, payables and other monetary items denominated in foreign currencies are translated into Danish kroner at the exchange rate at the balance sheet date. Realised and unrealised exchange gains and losses are recognised in the income statement as financial income/expenses.

#### **Income statement**

##### **Revenue**

Income from the sale of telecommunication services is recognised in revenue at the time of delivery, provided that the income can be made up reliably and is expected to be received.

## Notes

### 1. Accounting policies continued

Revenue is measured net of all types of discounts/rebates granted. Also, revenue is measured net of VAT and other indirect taxes charged on behalf of third parties.

#### Other external expenses

Other external expenses include the year's expenses relating to the entity's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

#### Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

#### Depreciation of property, plant and equipment

The item comprises depreciation of property, plant and equipment.

Property, plant and equipment are depreciated on straight-line basis over the expected useful life of each individual asset. The depreciation basis is the cost.

The basis of depreciation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognized.

The expected useful lives of the asset are as follows:

	Useful life (year)
Plant and machinery	3-40
Other fixtures and fittings, tools and equipment	5-10
Leasehold improvements	3-45

#### Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

#### Tax

Tax for the year comprises current tax for the year and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

### 1. Accounting policies continued

#### Balance sheet

##### Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

##### Impairment of fixed assets

The carrying amount of plant and equipment is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists.

##### Receivables

Receivables are measured at amortised cost, which usually corresponds to nominal value. Provisions are made for bad debts on basis of objective evidence that receivable or a group of receivables are impaired. Provisions are made to the lower of the net realisable value and the carrying amount.

##### Prepayments

Prepayments recognised under 'Assets' comprise prepaid expenses regarding subsequent financial reporting years.

##### Cash and cash equivalents

Cash comprises cash balances and bank balances.

##### Other payables

Other payables are measured at net realisable value.

### 1. Accounting policies continued

#### Income taxes

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognized on temporary differences relating to goodwill which is not deductible for tax purposes and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallize as current tax. Deferred tax assets are recognized at the expected value of their utilization; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognized in the income statement.

#### Deferred income

Deferred income recognised as liability comprises payments received concerning income in subsequent financial reporting years.



## Notes

	2016 DKKt	2015 DKKt
<b>2. Staff cost</b>		
Analysis of staff costs:		
Wages and salaries	21,777	25,490
Pensions	1,716	2,236
Other staff costs	472	432
	<u>23,965</u>	<u>28,158</u>
	Number	Number
Average numbers of employees	<u>24</u>	<u>31</u>

By reference to section 98b(3), (ii), of the Danish Financial Statements Act, remuneration to management is not disclosed

	2016 DKKt	2015 DKKt
<b>3. Financial income</b>		
Interest receivable, groups entities	1,216	515
Exchange gain	2,164	2,879
Other financial income	13	6
	<u>3,393</u>	<u>3,400</u>

<b>4. Financial expenses, group entities</b>		
Interest expenses, group entities	17	12
Other financial expenses	141	56
	<u>158</u>	<u>68</u>

# Notes

## 5. Property, plant and equipment

Cost	Plant and Machinery	Other fixtures and fittings tools and equipment	Leasehold improvements	Property, plant and equipment in progress	Total
Balance at 1/1 2016	445,027	11,775		7,665	464,467
Additions in the year	0	0	0	7,107	7,107
Disposals in the year	699	0	0	0	699
Transfer to/from other accounts	7,265	188	2,204	9,657	0
Cost as 31/12/2016	451,593	11,963	2,204	5,115	470,875
<b>Depreciation and impairment</b>					
Balance at 1/1 2016	396,950	11,538			408,488
Depreciation in the year	12,303	100	237	0	12,640
Reversal of depreciation and impairment losses, disposals	691	0	0	0	691
Depreciation and impairment losses at 31/12/2016	408,562	11,638	237	-	420,437
Carrying amount at 31/12 2016	43,031	325	1,967	5,115	50,438

## Notes

### 6. Prepayments

Prepayments of DKKt 5,253 (2015: DKKt 6,500) concerning operation and maintenance, etc. of fibre cables owned by a third party, are included in prepayments

	31/12 2016 DKKt	31/12 2015 DKKt
7. <b>Share Capital</b>		
Analysis of the company's share capital, DKK 1,500 thousand:		
1,500 share(s) of DKK 1,000 each	1,500	1,500
	<u>1,500</u>	<u>1,500</u>

The company's share capital has remained unchanged the past 5 years.

### 8. Other provisions

Other provisions is dilapidation provisions comprising rental costs, etc.

### 9. Security for loans

The company has not placed any assets or other as security for loans at 31/12 2016

### 10. Contingent liabilities and other financial obligations

Other rent and lease liabilities:

Rent and lease liabilities	<u>5,236</u>	<u>6,372</u>
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### 11. Recommended appropriation of the profit/loss for the year

Retained earning/accumulated loss	<u>21,011</u>	<u>17,134</u>
	<u>21,011</u>	<u>17,134</u>

## Notes

12	Deferred Tax	2016 DKKt	2015 DKKt
	Deferred Tax at 1 January		
	Adjustment of the deferred tax charge for the year	6,890	0
	Deferred Tax at 31 December	6,890	0

Deferred Tax receivables of DKK'000 6,890 have been recorded in the financial statements, based on a 3 year forecast for use of deductible tax losses.

Losses carried forward from Tax Year 2015 are DKK'000 7,602. The tax rate applied is 22%.

Deferred tax primarily relates to property, plant and equipment and tax losses

### 13 Related parties

Information about related parties with controlling interest:

Related party	Domicile	Basis for control
Verizon Communication Inc.	New York, USA	Ultimative parent company
Verizon European Holdings Limited	Reading, United Kingdom	Parent company

Requisitioning of the parent's consolidated financial statements can be found at:

<http://www.verizon.com/about/investors/annual-reports>

	2016 DKKt	2015 DKKt
Transactions with related partners:		
Purchase of goods from affiliates	986	1,690
Sales of services to parent company	64,972	76,164
Purchase of services from parent company	134,601	173,635
Sales of services to affiliates	14,468	14,186
Purchase of services from affiliates	87,512	103,239
Interest income from parent company	1,216	515
interest expenses to affiliates	17	12
Recivables from parent company at 31 December	162,096	142,324
Recivables from affiliates at 31 December	118	111
Payables to parent company at 31 December	24,368	35,047
Payables to affiliates at 31 December	1,217	2,509

Information about shareholders holding 5% or more of the share capital or the voting rights

Name	Domicile
Verizon European Holdings Limited	Reading, United Kingdom