

Verizon Denmark A/S

Roholmsvej 19, 2620 Albertslund

CVR no. 17 88 90 87

Annual report 2018 for the year ended 31 December 2018

Approved at the annual general meeting of shareholders on 31. May 2019

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)	2018	2017	2016	2015	2014
Revenue	140,860	194,157	237,829	289,559	294,317
Gross profit	39,338	52,890	47,942	55,310	65,935
Operating profit/loss	6,727	8,656	10,886	13,802	15,562
Net financials	11,296	- 9,042	3,235	3,332	2,926
Profit/loss for the year	18,477	- 1,921	21,011	17,134	18,488
Balance sheet total	276,420	272,730	309,610	271,185	252,417
Investments in fixed assets	4,931	5,843	7,107	4,151	10,837
Equity	246,845	228,368	230,289	209,278	192,144
Average number of employees	20	24	24	31	38
Financial ratios in %					
Gross margin	27.9	27.2	20.2	19.1	22.4
EBIT margin	4.8	4.5	4.6	4.8	5.3
Equity ratio	89.3	83.7	74.4	77.2	76.1
Return of equity	7.8	- 0.8	9.6	8.5	10.1

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', 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 LAN as well as WAN services, and the full transformation as well as maintenance for the service in operation for these services.

Financial review

The revenue of Verizon Denmark A/S has decreased from DKKt 194 million in 2017 to DKK 141 million in 2018. Revenue decline is mainly caused by loss of customers and price erosion/write down for Danish base clients. The company's income statement for the year ended 31 December 2018 shows a net gain of DKKt 18,477. The company has in 2018 disposed assets, from customer and technical sites. The assets disposed are all valued to 0. The net value of the disposed asset/ adjusted depreciation expense has been booked as a loss of DKKt 838. The assets and the balance sheet at 31 December 2018 show equity of DKKt 246,845.

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 2019 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 2018.

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 2018 and of the results of the company's operations for the fiscal year 1 January - 31 December 2018.

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. May 2019

Executive board:




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Clare Brenda Aitkenhead

Board of Directors:



.....
Francesco Cesare De Malo
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 2018, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement 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 2018 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2018 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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.

Continued - Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism 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.

Independent auditor's report

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 conclusions are 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 note 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.

Continued - Independent auditor's report

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.

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 the work we have performed, 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.

København, 31. May 2019

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Alex Petersen

State Authorised

Public Accountant

MNE no.: mne28604

Financial statements

Income statement for the year ended 31 December

		2018	2017
		DKKt	DKKt
Notes			
	Revenue	140,860	194,157
	Other external expenses	-101,522	-141,267
	Gross margin	39,338	52,890
3	Staff costs	-22,358	-25,820
6	Depreciation and losses on property, plant and equipment	-9,206	-18,362
	Other operating expenses	-1,047	-52
	Operating profit	6,727	8,656
4	Financial income	11,329	2,226
5	Financial expenses	-33	-11,268
	Pre-tax profit/loss	18,023	-386
13	Tax for the year	454	-1,535
	Profit/loss for the year	18,477	-1,921

Continued - Financial statements

Balance sheet at 31 December

		2018 DKKt	2017 DKKt
Notes			
	Assets		
	Fixed assets		
	Plant and machinery	28,138	31,837
	Other fixtures and fittings, tools and equipment	1,240	1,144
	Leasehold improvements	1,399	1,683
	Property, plant and equipment in progress	2,029	3,255
6	Property, plant and equipment	32,806	37,919
	Total fixed assets	32,806	37,919
	Trade receivables	18,866	39,401
	Receivables from group entities	207,912	161,807
13	Deferred Tax receivables	5,809	5,355
7	Prepayments	4,859	6,034
	Other receivables	1,436	1,478
	Receivables	238,882	214,075
	Cash	4,732	20,736
	Total current assets	243,614	234,811
	Total assets	276,420	272,730

Continued - Financial statements

Balance sheet at 31 December

		2018	2017
		DKKt	DKKt
Notes			
	Equity and liabilities		
	Equity		
8	Share capital	1,500	1,500
	Retained earnings	245,345	226,868
	Total equity	246,845	228,368
	Liabilities		
9	Other provisions	1,665	1,640
	Total non-current liabilities	1,665	1,640
	Deferred revenue	149	875
	Trade payables	7,986	7,054
	Payables to group entities	12,319	27,227
	Other payables	7,456	7,566
	Total current liabilities	27,910	42,722
	Total liabilities	29,575	44,362
	Total equity and liabilities	276,420	272,730
10	Security for loans		
11	Contingent liabilities and other financial obligations		

Continued - Financial statements

Statement of changes in equity

Note

	(DKKt)	Share capital	Retained earnings/accu- mulated loss	Total
	Equity at 1/1/ 2018	1,500	226,868	228,368
12	Profit for the year, cf. appropriation of profit	0	18,477	18,477
	Equity at 31/12/ 2018	1,500	245,345	246,845

Notes

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. Accounting policies is unchanged compared to former years.

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.

Leases

The Company has chosen IAS17 as interpretation for classification and recognition of leases. All leases are considered operating leases. Payments relating to operating leases and any other leases are recognized in the income statement over the term of lease. The company's total liabilities relating to operating leases and other leases are disclosed under contingencies, etc.

Income statement

Revenue

The company has chosen IAS 18 as interpretation for revenue recognition. 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. 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.

Continued – Notes

1. Accounting policies continued

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:

	<u>Useful life (year)</u>
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.

The Company is jointly taxed with owned Danish subsidiaries. The tax effect of joint taxation is allocated to enterprises in proportion to their taxable incomes.

Continued – Notes

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

The Company has chosen IAS 39 as interpretation for impairment write-down of financial 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.

Continued – Notes

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.

Continued – Notes

2. Special Item

The company has in 2018 disposed assets, from customer and technical sites. The assets disposed are all valued to 0. The net value of the disposed asset/ adjusted depreciation expense has been booked as a loss of DKKt 838, please see note 6. The loss has been covered by a Transfer pricing adjustment DKKt 329.

3. Staff cost

	2018 DKKt	2017 DKKt
Wages and salaries	20,433	23,691
Pensions	1,561	1,752
Other staff costs	364	377
	<u>22,358</u>	<u>25,820</u>
	Number	Number
Average numbers of employees	<u>20</u>	<u>24</u>

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

4. Financial income, group entities

	2018 DKKt	2017 DKKt
Interest receivable, group entities	4,129	2,121
Exchange gain	7,022	0
Other financial income	178	105
	<u>11,329</u>	<u>2,226</u>

5. Financial expenses, group entities

	2018 DKKt	2017 DKKt
Interest expenses, group entities	31	17
Exchange losses	0	11,128
Other financial expenses	2	123
	<u>33</u>	<u>11,268</u>

Continued – Notes

6. Property, plant and equipment

	Plant and Machinery	Other fixtures and fittings tools and equipment	Leasehold improvements	Property, plant and equipment in progress	Total
Cost					
Balance at 01/01/2018	214,947	2,959	2,204	3,255	223,365
Additions in the year	0	0	0	4,931	4,931
Disposals in the year	-9,562	-805	0	0	-10,367
Transfer to/from other accounts	5,544	613	-	-6,157	0
Cost as 31/12/2018	210,929	2,767	2,204	2,029	217,929
Depreciation and impairment					
Balance at 01/01/2018	183,110	1,815	521	-	185,446
Depreciation	8,405	517	284	0	9,206
Impairment losses and disposals in the year	838	0	0	0	838
Reversal of depreciation	-9,562	-805	-	0	-10,367
Depreciation and impairment losses at 31/12/2018	182,791	1,527	805	-	185,123
Carrying amount at 31/12/2018	28,138	1,240	1,399	2,029	32,806

7. Prepayments

Prepayments of DKKt 4,859 (2017: DKKt 6,034) operation and maintenance, etc. of fibre cables owned by a third party, are included in prepayments.

Continued – Notes

8. Shared capital

	31/12 2018	31/12 2017
	DKKt	DKKt
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.

9. Other provisions

Other provisions are dilapidation provisions comprising rental costs, etc.

10. Security for loans

The company has not placed any assets or other as security for loans at 31/12 2018

11. Contingent liabilities and other financial obligations

Other rent and lease liabilities:

Rent and lease liabilities	3,106	4,342
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12. Recommended appropriation of the profit/loss for the year

Retained earnings	18,477	-1,921
	<u>18,477</u>	<u>-1,921</u>

The Company is jointly taxed with owned Danish subsidiaries. The tax effect of joint taxation is allocated to enterprises in proportion to their taxable incomes.

Continued – Notes

13. Deferred tax

	2018 DKKt	2017 DKKt
Deferred Tax at 1 January	5,355	6,890
Adjustment of the deferred tax charge for the year	454	-1,535
Deferred Tax at 31 December	5,809	5,355

Deferred Tax receivables of DKK'000 5,809 have been recorded in the financial statements, based on a 3 year forecast for use of deductible tax losses.

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

14. 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>

	2018 DKKt	2017 DKKt
Transactions with related partners:		
Purchase of goods from affiliates	1,881	2,608
Sales of services to parent company	49,141	65,436
Purchase of services from parent company	72,942	109,493
Sales of services to affiliates	15,232	16,405
Purchase of services from affiliates	58,406	74,522
Interest Income from parent company	4,128	2,121
Interest expenses to affiliates	27	17
Receivables from parent company at 31 December	207,908	161,803
Receivables from affiliates at 31 December	4	4
Payables to parent company at 31 December	11,170	25,699
Payables to affiliates at 31 December	1,149	1,528

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

Name	Domicile
Verizon European Holdings Limited	Reading, United Kingdom