TDC NET A/S
Annual Report 2019

Teglholmsgade 1
2450 København SV
CVR-nr.: 40075267
Generalforsamling: 30. april 2020
Dirigent ved generalforsamlingen: Marie Malmstedt-Miller

Management's review

Maintaining and expanding our infrastructure and network creates the foundation for the stable and reliable service we provide for our customers.

tdc net

About TDC NET A/S

TDC NET A/S was established 7 December 2018. On 11 June 2019, the parent company TDC A/S demerged parts of its rights and obligations to TDC NET A/S with the purpose to run a wholesale orientated business.

Subsequently, TDC NET A/S distributed non-cash dividends of DKK 12,712m to TDC A/S resulting in debt to parent company of DKK 12,712m. The operations transferred to TDC NET A/S comprise major lines of business.

Our resources and assets

Landline network

Our landline network includes a nationwide copper access network and a high-speed cable and fibre network covering 2.7m households passed, including partner networks.

Mobile network

Our mobile network covers 99.5% of Denmark via 4G. We have also begun rolling out 5G.

Skilled employees

Our diverse and skilled workforce includes everyone from technicians in the field to academics. These network champions are shaping the digital future of Denmark.

Partnerships & suppliers

Partnerships & suppliers at TDC Group include IT service providers, network development and maintenance specialists, and international connectivity experts.

Nuuday A/S is our primary wholesale customer.

Financial capital

Value-adding activities

Fibre rollout

Building the future digital infrastructure continued in 2019 adding 52k addresses to our fibre network, now reaching 267k homes passed.

Upgrading our 4G and preparing for a 5G network

Our mobile network was named the best mobile network in Denmark for the fifth year in a row.

Creating and strengthening partnerships

We continued to utilise existing partnerships and build new ones including welcoming new service providers and brands to our network.

Our offerings

- Access to DSL network
- Access to cable network
- Access to fibre network
- Access to mobile network

Value created

Best connectivity

We ensure the best network access all the time with open access and carrier neutrality.

Reliability

We help provide a safe digital climate for society.

Innovation and digitalisation

We support digital citizenship and ensure digital connections for all of Denmark.

Financial result

In 2019, profit for the year amounted to DKK 48m. For the impact of COVID-19 please refer to note 7 Events after the balance sheet date.

TDC NET A/S financial statements

Income statement

(DKKm)	Note	2019	2018
Gross profit		4,806	0
Personnel expenses	2	(821)	0
Operating profit before depreciation, amortisation and special items (EBITDA)		3,985	0
Depreciation, amortisation and impairment losses		(3,416)	0
Operating profit (EBIT)		569	0
Profit/(loss) from subsidiaries		68	0
Other financial income		1	0
Financial expenses to group enterprises		(494)	0
Other financial expenses		(39)	0
Profit/(loss) before income taxes		105	0
Income taxes		(57)	0
Profit/(loss) for the year		**48**	**0**
Transferred to:			
Interim dividend		12,712	0
Reserve for revaluation under the equity method		68	0
Reserve for capitalised development projects		226	0
Retained earnings		(12,958)	0
Total		**48**	**0**

Balance sheet

Assets (DKKm)	Note	2019	2018
Non-current assets			
Intangible assets		10,689	0
Property, plant and equipment		13,477	0
Investments in subsidiaries		329	0
Investments in joint ventures and associates		2	0
Other receivables		25	0
Total non-current assets		**24,522**	**0**
Current assets			
Inventories		26	0
Trade receivables		459	0
Receivables from group enterprises		812	0
Other receivables		2	0
Prepaid expenses		94	0
Total current assets		**1,393**	**0**
Total assets		**25,915**	**0**

Equity and liabilities (DKKm)	Note	2019	2018
Equity			
Share capital		0	0
Revaluation surplus under the equity method		68	0
Reserve for capitalised development projects		226	0
Retained earnings		7,542	0
Total equity		**7,836**	**0**
Non-current liabilities			
Deferred tax		323	0
Provisions		287	0
Loans from parent company	3	12,712	0
Other loans	3	1,323	0
Other payables		37	0
Total non-current liabilities		**14,682**	**0**
Current liabilities			
Provisions		21	0
Other loans	3	91	0
Trade payables		1,834	0
Contract liabilities		217	0
Payables to group enterprises		741	0
Income tax payable		242	0
Other payables		251	0
Total current liabilities		**3,397**	**0**
Total liabilities		**18,079**	**0**
Total equity and liabilities		**25,915**	**0**
Related parties	4		
Other financial commitments	5		
Pledges and contingencies	6		
Events after the balance sheet date	7		

Statement of changes in equity

(DKKm)

	Share capital	Revaluation surplus under the equity method	Reserve for capitalised development projects	Retained earnings	Total
Equity at 1 January 2019	**0**	**0**	**0**	**0**	**0**
Contribution related to demerger	-	-	-	20,500	20,500
Profit/(loss) for the year	-	68	226	(246)	48
Distributed extraordinary dividend	-	-	-	(12,712)	(12,712)
Equity at 31 December 2019	**0**	**68**	**226**	**7,542**	**7,836**

Notes to financial statements

1 | Accounting policies

The financial statements 2019 of the company have been prepared in accordance with the Danish Financial Statement Act's provisions for class B companies. With reference to section 112 in the Danish Financial Statement Act, the company has not prepared consolidated financial statements. Please refer to note 4 Related parties.

The accounting policies are unchanged from last year.

Demerger from TDC A/S

The financial statements reflect the demerger of TDC A/S where part of the rights and obligations of TDC A/S was transferred to the subsidiaries Nuuday A/S and TDC NET A/S following the demerger on 11 June 2019 using the book-value method. The demerger had accounting effect 1 January 2019. The comparative figures for 2018 are not restated.

Gross profit

With reference to the Danish Financial Statements Act, Section 32, revenue, cost of goods sold and external expenses are summarised as one accounting item called gross profit in the income statement.

Revenue

Revenue is recognised in accordance with IFRS 15. Revenue is measured at the fair value of the consideration receivable, exclusive of sales tax and discounts relating directly to sales. Revenue comprises goods and services provided during the year. Goods and services may be sold separately or in bundled packages. Services include traffic and subscription fees, interconnection and roaming fees, fees for leased lines, network services, TV distribution as well as connection and installation fees. Goods include customer premises equipment, PCs, set-top boxes, etc.

TDC NET delivers services from plain access to full-service packages to service providers, which is partly regulated.

The significant sources of revenue are recognised in the income statements as follows:

- revenues from subscription fees and flat-rate services are recognised over the subscription period
- revenues from telephony are recognised at the time the calls are made
- sales related to prepaid products are deferred, and revenues are recognised at the time of use
- revenues from leased lines are recognised over the rental period
- revenues from the sale of equipment are recognised on delivery.
- Revenues from the equipment maintenance are recognised over the contract period

Revenue arrangements with multiple deliverables are recognised as separate units of accounting, independent of any contingent element related to the delivery of additional items or other performance conditions. Such revenues include the sale of equipment located at customer premises, e.g. switchboards.

The transaction price in revenue arrangements with multiple deliverables, are allocated to each performance obligation based on the stand-alone selling price. Where the selling price is not directly observable, it is estimated based on expected cost plus a margin. Discounts on bundled sales are allocated to each element in the contract.

Contracts with similar characteristics have been evaluated using a portfolio approach due to the large number of similar contracts.

In case of contracts for longer periods and if the payment exceeds the services rendered, contract liabilities are recognised.

Revenues are recognised gross when TDC NET A/S acts as the principal in a transaction. For content-based services and the resale of services from content providers where the company acts as the agent, revenues are recognised net of direct costs.

The percentage-of-completion-method is used to recognise revenue from contract work in progress based on an assessment of the stage of completion. Contract work in progress includes installation of telephone and IT systems, systems integration and other business solutions.

Non-refundable up-front connection fees are included in the total transaction price for the contract with the customer and thereby allocated to the identified performance obligations (services).

The period between the transfer of the service to the customer and the payment by the customer is not of an extent that gives reason to adjust the transaction prices for the time value of money.

Other income

Other income comprises mainly accounting items of a secondary nature compared with the company's principal activities.

Cost of sales

Cost of sales includes transmission costs and cost of goods sold. Transmission costs include external expenses related to operation of mobile and landline networks and leased transmission capacity as well as interconnection and roaming costs related directly to the company's primary income.

Cost of goods sold includes terminal equipment and transmission material.

1 | Accounting policies (continued)

External expenses

External expenses include expenses related to IT, property, expenses related to staff, capacity maintenance, service contracts, etc.

Expenses in connection with operating leases are recognised in the income statement over the term of the contract. The company's total commitment regarding operating leases are stated under other financial commitments.

Personnel expenses

Wages, salaries, social security contributions, paid leave and sick leave, bonuses and other employee benefits are recognised in the year in which the employee renders the related services.

Tax

Tax for the year comprises current income tax, changes in deferred tax and adjustments from prior years and is recognised in the income statement.

Current income tax liabilities and current income tax receivables are recognised in the balance sheet as income tax payable or income tax receivable.

Deferred tax is measured under the balance-sheet liability method on the basis of all temporary differences between the carrying amounts and the tax bases of assets and liabilities at the balance sheet date. However, deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or if it arises from initial recognition of an asset or liability in a transaction other than a business combination that affects neither accounting nor taxable profit/loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by TDC NET A/S and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets including the tax value of tax-loss carryforwards are recognised at the value at which they are expected to be realised. Realisation is expected to be effected either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Intangible assets

Goodwill are recognised at cost less accumulated amortisation and impairment losses and are amortised on a straight-line basis over the estimated useful life. Based on an assessment of the strong market position, the long capacity of earning and an analysis of the underlying business plan, the amortisation period is estimated to 30 years.

Brands, licences, proprietary rights, etc. are measured at cost less accumulated amortisation and impairment losses, and are amortised on a straight-line basis over their estimated useful lives.

Development projects, including costs of computer software purchased or developed for internal use, are recognised as intangible assets if the cost can be calculated reliably and if they are expected to generate future economic benefits. Costs of development projects include wages, external charges, depreciation and amortisation that are directly attributable to the development activities as well as interest expenses in the production period.

Development projects that do not meet the criteria for recognition in the balance sheet are expensed as incurred in the income statement.

The main amortisation periods are as follows:

Goodwill	30 years
Brands	10 years
Mobile licenses	16-22 years
Development projects	3-7 years

Development projects in process and intangible assets of indefinite useful lives are tested for impairment at least annually and written down to recoverable amounts in the income statement if exceeded by the carrying amount.

Intangible assets are recorded at the lower of recoverable amount and carrying amount.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and write-downs for impairment.
Cost comprises purchase price and costs directly attributable to the acquisition until the date on which the asset is ready for use. The cost of self-constructed assets includes directly attributable payroll costs, materials, depreciation, parts purchased and services rendered by sub-suppliers or contractors as well as interest expenses in the construction period. Cost also includes estimated decommissioning costs if the related obligation meets the conditions for recognition as a provision.

Directly attributable costs comprise personnel expenses together with other external expenses calculated in terms of time spent on self-constructed assets.

The depreciation base is measured at cost less residual value and any write-downs. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The main depreciation periods are as shown in the next table.

The useful lives and residual values of the assets are reviewed regularly. If the residual value exceeds the carrying amount of an asset, depreciation is discontinued.

1 | **Accounting policies** (continued)

Buildings	20 years
Network infrastructure:	
mobile networks	20 years
copper	20 years
coax	20 years
fibre	30 years
exchange equipment	3-15 years
other network equipment	3-20 years
Equipment (computers, tools and office equipment)	3-15 years

Property, plant and equipment that have been disposed of or scrapped are eliminated from accumulated cost and accumulated depreciation. Gains and losses arising from sale of property, plant and equipment are measured as the difference between the sales price less selling expenses and the carrying amount at the time of sale. The resulting gain or loss is recognised in the income statement under other income.

Installation materials are measured at the lower of weighted average cost and recoverable amount.

Customer-placed equipment (e.g. set-top boxes) is capitalised and depreciated over the estimated useful life of the individual asset, not exceeding five years.

Property, plant and equipment are recognised at the lower of recoverable amount and carrying amount.

Investments in subsidiaries, joint ventures and associates
The equity method is used for measuring the investments in subsidiaries, joint ventures and associates. Under the equity method, the investment in a subsidiary, a joint venture or an associate is recognised on initial recognition at cost, and the carrying amount is increased or decreased to recognise TDC NET's share of the profit or loss of the investment after the date of acquisition. The company's share of profit or loss is recognised in the company's profit or loss. Dividends received from investments in subsidiaries, joint ventures and associates reduce the carrying amount of the investment.

Receivables
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. TDC NET operates with standard customer payment terms where customer subscriptions are billed and paid in advance of the subscription period, while usage and one-off services are billed and paid after the subscription period. The receivables are generally due for settlement within 20-30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The company applies the simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables, contract assets and lease receivables. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Contract and liabilities
Deferred subscription income recognised as a liability comprises payments received from customers covering income in subsequent years.

Reserve for capitalised development projects
In accordance with the Danish Financial Statements Act, the company has established a non-distributable reserve in equity regarding development projects capitalised. This reserve will be reversed as the development projects are amortised or impaired.

Loans
Loans are recognised initially at the proceeds received net of transaction expenses incurred. In subsequent periods, loans are measured at amortised cost so that the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other financial liabilities are measured at amortised cost.

2 | Personnel expenses

(DKKm)	2019
Wages and salaries (including short-term bonus)	(1,055)
Pensions	(146)
Social security	(19)
Total	**(1,220)**
Of which capitalised as non-current assets	399
Total	**(821)**
Average number of full-time employee equivalents	1,860

3 | Loans

(DKKm)	Loans from parent company	Other loans	Total
Recognised in the balance sheet at present value:			
Current	0	91	91
Non-current	12,712	1,323	14,035
Total	**12,712**	**1,414**	**14,126**
Maturing within 1 year	0	91	91
Maturing between 1 and 3 years	2,186	210	2,396
Maturing between 3 and 5 years	2,220	347	2,567
Maturing after 5 years	8,306	766	9,072
Total	**12,712**	**1,414**	**14,126**

4 | Related parties

TDC NET A/S is owned by TDC A/S, Copenhagen, and is included in the consolidated financial statements for TDC Group, which can be downloaded from www.investor.tdc.dk

TDC NET A/S is also included in the Group Annual Report of the ultimate parent company DKT Holdings ApS.

5 | Other financial commitments

(DKKm)	2019
Lease commitments for all operating leases	
Properties and mobile sites	3,149
Machinery, equipment, computers, etc.	92
Total	**3,241**
Capital and purchase commitments	
Commitments related to IT and administrative services from group companies	318
Investments in intangibles	553
Investments in property, plant and equipment	1,379
Commitments related to outsourcing agreements	408

Lease commitments totalling DKK 2,611m are against group companies.

6 | Pledges and contingencies

Receivables from group enterprises with a carrying amount of DKK 812m are pledged as security for the parent company TDC A/S's long-term loans.

TDC NET A/S is jointly registered for Danish VAT with the parent company TDC A/S and the majority of its Danish subsidiaries and is jointly and severally liable for payment of VAT.

TDC NET A/S participates in joint taxation with DKT Holdings ApS, which is the ultimately owner of the TDC Group and management company in the joint taxation. The jointly taxed companies are jointly and severally liable for the total income taxes, taxes paid on account and outstanding residual tax (with additional payments and interest) relating to the joint taxation.

TDC NET A/S is liable for obligations attributable to the activities, assets and liabilities of TDC A/S that existed at the demerger on 11 June 2019. The joint and several liabilities of TDC NET A/S and TDC A/S respectively cannot exceed an amount corresponding to the net value of the assets and liabilities.

7 | Events after the balance sheet date

The implications of Covid-19 with many governments across the world deciding to ”close down their countries” will have great impact on the global economy. Management considers the implications of Covid-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

Management assesses that Covid-19 will not significantly impact the Company's revenue and net profit for 2020. However, the outbreak of Covid-19 is ongoing, and the impact on the Company and its operations remains uncertain.

Management statement

Today, the Board of Directors and the Executive Committee considered and approved the Annual Report of TDC NET A/S for 2019.

The Annual Report has been prepared in accordance with the Danish financial statement acts provisions for class B companies.

In our opinion, the financial statements give a true and fair view of the financial position at 31 December 2019 of the company and of the results of the company's operations for 2019.

In our opinion, the management's review includes a true and fair account of the developments in the operations and financial circumstances of the company, of the results for the year and of the financial position of the company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 27 April 2020

Executive Committee

Andreas Albert Pfisterer
Chief Executive Officer

Ulrik Laudrup Bølling
Chief Financial Officer

Board of Directors

Henrik Clausen
Chairman

Lasse Rudebeck Pilgaard

Jens Aaløse

Svend Bank Andreasen

Ole Mølgaard Andersen

Independent auditor's report

To the shareholders of TDC NET A/S

Our opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2019, and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of TDC Net A/S for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover 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 Management's Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

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 the 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 these financial statements.

As part of an audit conducted in accordance with ISAs and the 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 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 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.

Hellerup, 27 April 2020

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