

March 2005

Chairman's report at TDC's Annual General Meeting on March 17, 2005

**Slide 1 - Front page**

2004 was a good year for TDC with good financial results on all key parameters. In light of the fierce competition characterizing the telecom market and the extensive regulation of TDC's business, we can even refer to our results as impressive.

2004 also turned into a very exciting year for TDC with SBC's sale of its TDC shares, with the divestment of our shares in Belgacom, and with the acquisition of Song Networks and NetDesign. Just to mention a few of the events that I will return to later in this report.

**Slide 2 – Primary financial results (revenues, EBITDA, adjusted net revenues)**

At last year's Annual General Meeting, President and Chief Executive Officer Henning Dyremose highlighted the development in revenues as a big challenge for TDC. After several years of decreasing revenues, we had succeeded in stopping the decline and the time had now come to turn things around.

This year, we are very pleased to announce that we have succeeded in creating net revenue growth. And by as much as 5.2 percent. A highly satisfactory turn of events.

An even more positive development is seen in earnings before interest, taxes, depreciation and amortization, or in other words in one of the key terms for the telecom sector: EBITDA. EBITDA grew an impressive 6.7 percent in 2004. The reason why EBITDA growth is higher than net revenue growth is that, in 2004, we have once again been able to keep operating expenses down.

Net income, excluding one-time items and fair value adjustments, totaled DKK 2,411m in 2004. This is just about the same as in 2003. However, if adjusted for our divestment of Belgacom, we see particularly satisfying growth of 27.4 percent.

### **Slide 3 – Growth in EBITDA**

TDC's management has defined three main financial parameters that we have special focus on. We call these value drivers, as we are convinced that a good development of these drivers creates long-term values for our shareholders:

Our value drivers are:

- EBITDA growth
- Cash flow
- Use of cash flows

As the slide behind me shows, we have succeeded in maintaining annual EBITDA growth of 8.9 percent on average since 2001.

### **Slice 4 – Cash flow**

The development in cash flow from operating activities is even more positive. Our efforts have been targeted at increasing the cash flow, partly by increasing EBITDA and partly through tight control of our capital expenditures. As you can see, this approach has been a success.

### **Slide 5 – Use of cash flows (1. dividends, 2. repurchase, 3. debt reduction)**

The improved cash flow has in particular made it possible for us to reduce debt, which peaked in the second quarter of 2003. At that point, TDC's interest-bearing debt totaled DKK 34bn. At year-end 2004, the debt had been reduced to DKK 20bn. A decrease of 41 percent. The repurchase and proposed annulment of treasury shares is TDC's response to the unique situation that arose in connection with SBC's sale of its TDC shares.

The debt reduction of DKK 8.7bn contributes to keeping our financial costs down at an acceptable level. This also impacts TDC's credit rating and thereby the interest that we have to pay when raising loans. It is therefore in TDC's best interest to maintain a good credit rating.

In his presentation of the Annual Report, the President and CEO will go into further detail about TDC's financial results in 2004.

### **Slide 6 – Dividend per share**

In TDC's work on creating value for our shareholders, we have applied a practice over the last ten years of increasing the dividend per share by DKK 0.50 per year. For 2004, we therefore propose paying a dividend per share of DKK 12.50.

### **Slide 7 – TDC's vision model**

In continuation of the Extraordinary General Meeting last fall with election of as many as three new board members and the changed shareholder composition, it was a natural next step for the Board of Directors to review TDC's strategy. This review has not resulted in any major changes to our strategy, but it has meant, among other things, that it is no longer crucial for TDC to own the network in all our operations. Our ownership of both Telmore and Talkline proves that – in some cases – it may constitute a sound business model to operate as service provider, i.e. lease capacity in other operators' networks.

In addition, there is increased focus on implementing the Nordic strategy, which the acquisitions of Song and NetDesign are examples of.

TDC's vision is still that we will strive to be the best provider of communications solutions in Europe. This is an ambitious qualitative vision, but it is also realistic if we constantly develop and strengthen our relations with our four most important stakeholders: our customers, our employees, our shareholders, and society.

#### Customers

Customer focus is a keyword everywhere in the TDC Group. Years ago, everyone had heard at least one story about how a customer's encounter with TDC had not lived up to the customer's expectations. We have changed that so that, today, TDC is considered one of the most customer-friendly telecommunications companies in the Danish market.

One of the reasons for this is that we constantly focus on developing new and exciting products for our customers. And products, mind you, that are based on the customers' needs.

The subscription form TDC Call (TDC Samtale), where the customer pays a flat rate per month for unlimited landline telephony, is a good example of such a product. Another example is TDC Mobile Fly, which gives mobile customers the chance to use their mobile phone for many other things than just calls and text messages (SMS). They get access to for example news, entertainment, and games direct on their mobile phone.

The number of complaints also shows that TDC has good customer relations. In 2004, TDC's Danish business received 6,753 bill complaints. In light of the fact that we have 7.4 million Danish customer relations and sent out more than 15.2 million bills, this corresponds to only 0.4 per thousand of the bills forwarded ending in a complaint.

It is also noteworthy that only 2.9 percent of those of our customers who had a complaint processed in 2004 subsequently chose to file the complaint with the Telecommunications Appeals Board, which is an independent complaints board in the telecommunications sector. 83.1 percent of the TDC customers who filed complaints in 2004 were satisfied with the complaints handling.

Besides, the annual report of the Telecommunications Appeals Board showed that TDC is the telecommunications company in the Danish market that receives the lowest number of customer complaints compared with our market share. The figures also show that TDC is right at the top when it comes to the outcome of the complaints. In two out of three complaint cases, the Telecommunications Appeals Board either found for TDC or rejected the complaint. This is the best result among the telecommunications companies that, like TDC, cover all three telecom areas, i.e. mobile, landline, and Internet.

### Employees

It has often been said that companies can only deliver impressive results if they have skilled, competent, and motivated employees. This may sound cliché, but is nonetheless truer than ever. The fierce competition and the rapid technological development make it essential to have the right employees if you want to keep

delivering impressive results year after year. And the employees' competencies will come to play an even bigger role for companies' success or failure in the years to come.

We are very conscious of this at TDC. Supplementary training and competence development are therefore key elements in TDC's staff development programs. We need to ensure that our employees keep developing their competencies, both in order to get better at what they are doing now and in order to be able to handle other functions wherever TDC may need them in future.

TDC's management development program is a good example of our very goal-oriented staff development policy. For TDC, it is a great advantage to develop and retain own managers who can be deployed to other parts of the business at short notice. We have therefore established an extensive and systematic management training program where both the management candidates' professional and personal competencies are developed on an ongoing basis.

The program comprising some 250 managers is hugely successful. In 2004, for example, we were able to recruit 95 percent of all management candidates in the management development program internally, and we succeeded in retaining 90 percent of the existing managers.

Last year, I was able to tell you that our employee share ownership program for employees in TDC's Danish business had been a huge success. We therefore decided to offer employees in TDC's fully-owned foreign subsidiaries the chance to buy share options. We are happy to see that around 64 percent of the employees have accepted the offer. This is a clear sign that the employees in our foreign subsidiaries also have strong faith in TDC.

2004 was also the year when the second phase of the redundancy programs that we announced in 2003 was implemented.

The primary reason for the staff reductions is that TDC is streamlining business procedures to ensure our customers shorter delivery times and to cut costs. Moreover, the fact that customers are switching from traditional, labor-intensive landline telephony to mobile and IP-based broadband solutions and the fact that more and more customers are serving themselves via the Internet and choose do-it-

yourself installations, also have an impact. This development will continue and will most likely intensify further in the years to come.

It has therefore turned out to be necessary to reduce the staff by about 630 additional employees in the course of 2005. Regretfully, we can see that we will not be able to handle the reduction without dismissals.

And we can see that many of the other large European telecommunications companies are also forced to reduce staff.

In order to help the employees who are to leave the company, TDC has earmarked an amount corresponding to two months' pay per employee who is leaving the company. The funds are spent on activities that are to help the employees move on. This may, for instance, be anything from a personal talk, professional training, courses in IT tools and job hunting, to business start-up courses, etc.

TDC is a strong and healthy company. This is because we continuously adapt and reorganize the company in time to new technologies and new market conditions. Having to reduce staff due to this ongoing adaptation and reorganization is never a pleasant task, but only thus can we ensure that TDC will remain a healthy and competitive company for the benefit of our customers and the many remaining employees.

### Shareholders

In the part of our vision that relates to our shareholders, we say that we will create outstanding value for our shareholders by outstanding and sustainable growth in earnings and that we will be open and provide information that truly and fairly reflects our strategy and financial performance.

I am therefore pleased that we can present yet another range of strong financial results today.

Much of what I am talking about today has a natural direct or indirect impact on our relationship with our shareholders. Therefore, I am not going to go into more detail about this right now.

### Society

TDC is part of the society in which we operate our business. And we cannot operate our business in a sensible manner without relating to the society that we are part of. It is therefore natural for us to attach importance to being a company with a commitment to society.

Our commitment to society means that we share responsibility for the development of society within a long range of areas.

TDC plays a large – and growing – role in the social area, in particular. We give high priority to open-mindedness, tolerance, and social responsibility in our HR policy, among other things by focusing on diversity, equality, and retaining of employees with reduced working capacity.

But TDC also plays an important role in Danish society at a more overall level.

The Danish Government has formulated a goal of turning Denmark into the world's leading IT nation. This is a goal that we support one hundred percent. And we are very proud that TDC's extensive investments in Danish telecom infrastructure to a large extent contribute to promoting this goal.

The fact that Denmark today has the highest broadband penetration in Europe is chiefly attributable to TDC's rollout of ADSL to almost the entire population. With today's technology, we will be able to offer broadband to 98 percent of the population in the course of 2005. And we will be able to offer broadband solutions of as much as 8 Mbps to 85 percent of the population from October this year.

Some people claim that the ADSL technology is obsolete. This claim is completely unfounded. On the contrary: in the years to come we can expand the capacity significantly as customers start demanding higher bandwidth.

Concurrently with this, we are making heavy investments in fiber technology so that we can deliver even very high bandwidths to companies and others that already have such needs today. So we have already started to future-proof the Danish telecom infrastructure.

Let me illustrate TDC's role in this with a few figures:

In 2003, TDC's capital expenditures in the form of investments in telecom networks, central offices, IT equipment, and other installations amounted to DKK 3.5bn. This corresponds to 62 percent of the total investments in the telecom sector in Denmark. TDC's investments thereby constituted almost 2 percent of the total business investments in Denmark.

In our publication Shareholder Information (Aktionærinformation), which has been forwarded to all our private shareholders, you can read much more about TDC's commitment to society. Similarly, as of today, you can access more in-depth information about TDC's commitment to society, HR policy, and customer relations on our website [tdc.dk](http://tdc.dk).

I would like to take the opportunity to comment on what the media has dubbed the TDC case. In 2000, TDC reorganized its German subsidiary Talkline and in this connection got the opportunity to obtain a tax deduction for the resulting goodwill. Since then, this deduction has been the subject of a political debate.

Upon request from TDC, the National Assessment Council confirmed in August 2003 that TDC's deduction was completely in compliance with tax legislation. This fact does not change even though the Danish Parliament has subsequently amended the legislation so that neither TDC nor other companies can obtain a similar deduction in future.

TDC has been criticized for unethical conduct because the tax deduction was allegedly a "tax loophole". But in TDC's opinion it is not fair to force TDC or any other company or taxpayer to assess the underlying ethical intentions of the tax legislation. The tax legislation is much too complex for that.

We pay the taxes that we have to. Neither more nor less. And if a company refrains from making use of a legal tax deduction, it shirks its responsibilities toward its shareholders.

The National Assessment Council fixed the value of the tax deduction in November 2004. At TDC, we do not agree with the valuation and we have therefore, after much deliberation, appealed the decision to the National Tax Tribunal.

I would like to make it very clear that the extensive negative press coverage that TDC has received due to this case annoys me. We have been treated unfairly from many sides. Particularly in light of the fact that we complied with the legislation to the letter.

I am therefore very pleased that the president of the National Assessment Council, tax law professor Niels Winther-Sørensen, on January 14, 2005 stated the following to the national newspaper Politiken – I quote:

“It is now clear that this model has been known among tax consultants and has been used by other companies than TDC. But it is a bit grotesque that it is TDC that has been criticized in public when TDC was the only company to ask the authorities before it took advantage of this opportunity.”

I could not agree more.

### **Slide 8 – Major events in 2004**

As mentioned initially, 2004 turned into a very exciting year. Not only did we deliver particularly satisfactory results. We also made a number of acquisitions and divestments that all in all have strengthened TDC.

In January 2004, TDC concluded an agreement with the shareholders in Telmore on acquiring the remaining 80 percent of the shares so that we own 100 percent of the shares today. Telmore’s concept with simple mobile telephony, web-based customer care, and low prices is a fine supplement to TDC’s existing mobile products.

In the spring of 2004, we had the opportunity of divesting our stake in Belgium’s leading telecommunications company, Belgacom. TDC owned 16.5 percent of the shares and the sale yielded DKK 11.8bn.

In June 2004, SBC announced that it wanted to sell its 41.6 percent shareholding in TDC. SBC’s representatives retired from TDC’s Board of Directors after the sale. TDC acquired 8.4 percent of the offered shares.

June was also the month when TDC and Qatar Telecom in cooperation won the offered GSM mobile license in Oman. A new mobile company, Nawras Telecom, was

subsequently created with Qatar Telecom as main shareholder. TDC owns 16 percent of the shares.

2004 was also the year when we divested Dan Net at a particularly good price and when we acquired NetDesign, which is one of Denmark's leading providers of LAN and WAN infrastructure to business customers, i.e. customized solutions based on both local and external networks.

Everyone following the Danish business press will know that 2004 was also the year when TDC acquired Song Networks at a total purchase price of DKK 4.6bn. The takeover became reality after a long and hard battle with Tele2, which also wanted to get hold of Song's attractive Nordic telecom infrastructure.

Over the past few months, the press has reported extensively on TDC's possible interest in the Czech telecommunications company Cesky Telecom. We have made no secret of the fact that we were interested in taking over the company at an earlier point. But that was at a time when the price was much lower than it is now.

TDC does not go after revenues for the sake of revenues alone. We make acquisitions when this is within the framework of our strategy and when doing so is also good business. This may be because we thereby take over special competencies, attractive customer bases, or valuable fixed assets, or because we see a development potential in the companies. But no matter what, we always carry out a realistic assessment of whether the price is right – and it was not right in the case of Cesky Telecom.

The figures actually show that we are quite good at acquiring companies, developing them, and divesting them at a profit. Since 1998, we have sold stakes in eleven major companies. Our total annual rate of return on these activities is 24 percent. This must be deemed an extremely satisfactory return.

### **Slide 9 – Shareholder composition**

Due to SBC's sale of its stake in TDC, major shifts have taken place in TDC's ownership. Today, TDC is to a broad extent owned by pension funds and other institutional investors with long-term investment horizons.

We have also seen a growing number of private investors in TDC. In 2004 alone, approx. 10,000 new shareholders have been added so that there are almost 90,000 private shareholders in TDC today. A development that we very much ascribe to the great efforts that the Executive Committee is making to attract and retain private shareholders.

We are very pleased with both the growing number of institutional investors and the growing number of private investors as this in general means that TDC has a broad ownership circle today. This ensures stability in the business and good opportunities for us to make long-term plans and investments.

Corporate Governance is a subject that is often debated in the Danish corporate sector.

TDC's Board of Directors constantly considers how best to practice corporate governance. As you know, we therefore decided in September last year to propose that six board members be elected at the Annual General Meeting. A proposal which is reintroduced in item 6 on today's agenda.

As the TDC share is quoted on the New York Stock Exchange, TDC is subject to the very strict American rules on corporate governance, the Sarbanes-Oxley Act, which was adopted after a number of corporate scandals in the US. The Sarbanes-Oxley Act requires, among other things, appointment of an audit committee as a subcommittee to the Board.

At TDC, we appointed an audit committee immediately after the Extraordinary General Meeting in September last year. The audit committee consists of the board members Kurt Anker Nielsen, Christine Bosse, and Per-Arne Sandström. Kurt Anker Nielsen is chairman of the audit committee.

It is the responsibility of the committee to support the Board of Directors in its supervision of financial reporting, financial management systems, and conclusion of agreements with independent auditors, etc. The committee is already hard at work.

It appears from TDC's Annual Report that members of the audit committee receive a yearly additional remuneration of DKK 100,000, whereas the chairman receives DKK 150,000. It has turned out already from the outset that the duties of the chairman

in particular are highly demanding. The Board of Directors has therefore decided to increase the chairman's remuneration to DKK 250,000. The remuneration for the Board of Directors, including for the Chairman, will remain unchanged from 2004 to 2005.

I would also like to take this opportunity to comment on the subject of ownership limitation that we are to discuss later today.

After thorough deliberation, the Board has agreed on recommending lifting of the provision on ownership limitation. The ownership limitation is historically based. Originally, the limitation was incorporated in the Articles of Association in order to protect the Danish Government as majority shareholder. This protection was preserved when first Ameritech and later SBC took over the Government's shares. After SBC's sale of its controlling shareholding of 41.6 percent in TDC last year, the basis for the ownership limitation no longer exists.

As I have said several times before, there is no doubt at all that TDC is strong enough and has all the necessary competencies to make it on its own. It is therefore important for me to stress that the proposal on lifting of the ownership limitation should in no way be seen as an indication that we want to have a new dominant shareholder or strategic partner. The proposal is made solely because the ownership limitation no longer has any practical implications.

As I have mentioned already, we believe that the present broad ownership is an advantage to TDC as the liquidity of the share is thereby increased.

### **Slide 10 – Share price development**

Share prices are always of interest to shareholders for obvious reasons. I therefore think that we again this year should take a good look at how the TDC share has performed on the stock exchange. Similarly to earlier years, we compare TDC's share price to the Dow Jones Telecom Index, which is an overall index for European telecom shares.

As you can see, TDC's share price has risen 19.7 percent from January 2004 to today. In the same period, the Dow Jones Telecom Index rose by 9.5 percent.

All in all a very gratifying development.

To top it all, TDC pays a significantly higher dividend than is the practice in other telecommunications companies. If you factor this in, TDC's shareholders have received a total rate of return of 25.4 percent during the period compared with an average rate of return of 12.0 percent on investments in the other companies in the telecom index.

### **Slide 11 - TDC Logo**

Let me round off my report by emphasizing that there is every reason to maintain a positive outlook on TDC's opportunities in the years to come. Despite fierce competition in most of the markets we operate in, and despite extensive public regulation of large parts of our Danish business, there is every reason to believe that TDC will continue to be able to deliver impressive results in the years to come.

This optimism is particularly to the credit of our highly competent and committed employees, both in Denmark and abroad. I thank them all for their strong commitment and efforts.

Further, I would like to thank the Executive Committee and my colleagues on the Board for a very close, trusting, and promising working relationship. If the Annual General Meeting approves the proposal for reelection, I will look forward to continuing this working relationship in the year to come.

Finally, I would like to thank our loyal shareholders and particularly those of you who have taken the time to come here today. We look forward to a good dialog about TDC, both about the events that have characterized 2004 and about the challenges that we are facing in 2005 and the years ahead.