

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

In accordance with the new Danish Financial Statements Act effective from January 1, 2002, TDC has changed a number of accounting policies. The new accounting policies are applied for 2002 and prior years, cf. details in the section on significant accounting policies.

In 2002, TDC delivered strong earnings growth and outperformed its Outlook set in the Annual Report for 2001. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 11.2% to DKK 14,313m and net income, excluding one-time items and fair value adjustments, increased 50.5% to DKK 2,169m. This strong growth reflects primarily TDC Switzerland's significantly improved financial performance in 2002, growth in TDC Mobile International, including impacts from the restructuring of Talkline, and TDC Internet's position as market leader in the domestic ADSL market. Conversely, the unfavorable regulatory environment in Denmark combined with migration from the traditional landline to Internet and

mobile services resulted in lower earnings in TDC Tele Danmark.

TDC's net revenues amounted to DKK 51,155m in 2002, a decrease of DKK 409m or 0.8% compared with 2001. On an ongoing basis¹, growth was 2.6%, impacted by growth in TDC Switzerland, TDC Mobile International and TDC Internet, offset partly by lower revenues in TDC Tele Danmark.

EBITDA increased DKK 1,443m or 11.2% to DKK 14,313m in 2002. On an ongoing basis, growth was 8.2%.

The ongoing EBITDA growth was driven primarily by improvements in TDC Switzerland, TDC Mobile International and TDC Internet. TDC Switzerland's EBITDA increased DKK 1,383m to DKK 1,269m in 2002, due primarily to increased landline and mobile customer bases and continued harvesting of synergies combined with stringent cost discipline. TDC Mobile International's EBITDA improved DKK 497m to DKK 3,228m in 2002, including growth in domestic operations of DKK 278m, or 20.7%, and in Talkline of DKK 106m

¹ The development from 2001 to 2002 was impacted by certain major changes in activities and ownership shares comprising: Talkline restructuring (closure of the landline and Internet activities at April 1, 2002 as well as divestment of Talkline Nederland at November 30, 2001) and deconsolidation of Ben (as from December 1, 2001) as well as inclusion of diAx (as from February 1, 2001, today part of TDC Switzerland). In the remaining part of this Management Discussion and Analysis, 'ongoing basis' refers to reported figures for the TDC Group or business lines adjusted for the impact of these changes.

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Key financial figures

DKKm

TDC Group	Excluding one-time items and fair value adjustments		
	2002	2001	Growth (%)
Net revenues	51,155	51,564	(0.8)
EBITDA	14,313	12,870	11.2
EBIT	5,135	4,339	18.3
Net income	2,169	1,441	50.5
EBITDA margin (%)	28.0	25.0	-
Capex, excluding share acquisitions	7,699	11,189	(31.2)

or 27.4%. Furthermore, EBITDA from European network operators increased DKK 113m or 11.3%, related mainly to Polkomtel and Connect Austria.

EBITDA in TDC Internet was positive in 2002 and increased DKK 398m to DKK 48m, driven primarily by increased ADSL sales. These increases were offset partly by a DKK 880m decrease in EBITDA to DKK 6,018m in TDC Tele Danmark in 2002, due primarily to lower regulatory prices combined with the impact of migration from traditional landline services to mobile and Internet services.

Earnings before interest and taxes (EBIT), excluding one-time items, increased DKK 796m or 18.3% to DKK 5,135m in 2002, reflecting the improved EBITDA, offset partly by increased depreciation and amortization. On an ongoing basis, growth was DKK 234m or 4.8%.

Net income, excluding one-time items and fair value adjustments, amounted to DKK 2,169m, up 50.5% compared with 2001, reflecting primarily the improved earnings before interest and taxes. On an ongoing basis, growth in net income, excluding one-time items and fair value adjustments, was 11.7%.

One-time items before tax amounted to DKK (1,133)m with a net income impact of DKK (859)m in 2002. Profit on sale of major enterprises amounted to DKK 466m before tax with a net income impact of DKK 507m, related primarily to divestments in Belgacom. Impairment losses, related to write-down of goodwill and fixed assets in TDC Internet Polska, Contactel and Tele Danmark InterNordica, amounted to DKK (1,066)m before tax with a net income impact of DKK (1,030)m. Restructuring costs, etc., totaled DKK (533)m before tax with a net income impact of DKK (336)m, including costs from Belgacom offset partly by reversal of provisions in Talkline.

One-time items

DKKm

TDC Group	2002		2001	
	EBIT	Net income	EBIT	Net income
Profit on sale of major enterprises	466	507	1,144	754
Impairment losses	(1,066)	(1,030)	(2,243)	(2,101)
Restructuring costs, etc.	(533)	(336)	(1,449)	(708)
One-time items, total	(1,133)	(859)	(2,548)	(2,055)

Fair value adjustments

DKKm

TDC Group	2002		2001	
	EBT ¹	Net income	EBT ¹	Net income
Fair value adjustments of minority passive investments	3,119	3,133	581	570
Other fair value adjustments	138	99	42	30
Fair value adjustments, total	3,257	3,232	623	600

¹ EBT = Earnings before tax.

According to the new Danish Financial Statements Act, minority passive investments as well as derivatives and marketable securities are measured at market values. In 2002, fair value adjustments of minority passive investments had a net income impact of DKK 3,133m and related primarily to the divestment of the Dutch mobile operator Ben, including TDC's proportional share of Belgacom's divestment of Ben. Other (derivatives and marketable securities) fair value adjustments had a net income impact of DKK 99m in 2002.

Net income, including one-time items and fair value adjustments, amounted to DKK 4,542m, an increase of DKK 4,556m compared with 2001.

Compared with the Outlook for 2002 set in the Annual Report for 2001, actual net revenues were DKK 1.6bn lower, due to slightly disappointing market developments that led to lower sales in most business lines. However, actual EBITDA was DKK 0.3bn higher

than the Outlook, mainly as a result of higher EBITDA in TDC Switzerland, more than offsetting lower EBITDA in TDC Tele Danmark and TDC Directories. Actual net income, excluding one-time items and fair value adjustments, exceeded the Outlook by DKK 0.4bn, reflecting the improved EBITDA combined with improved net financials.

The same picture applies when compared with the latest Outlook for 2002 presented in the third quarter Earnings Release. Actual net revenues were DKK 0.8bn lower, EBITDA was DKK 0.1bn higher and net income exceeded the Outlook by DKK 0.1bn.

Capital expenditures, excluding share acquisitions, amounted to DKK 7.7bn in 2002, a decrease of DKK 3.5bn or 31.2% compared with 2001. The reduction was impacted by acquisition of a Danish UMTS license in 2001 and was supported by increased focus on optimizing capital expenditures. The capital expenditures to net revenues ratio for 2002 was 15.1%, compared

with 21.7% in 2001. Adjusted for acquisition of the Danish UMTS license, the capital expenditures to net revenues ratio was 20.2% in 2001.

Net interest-bearing debt amounted to DKK 25,557m at year-end 2002, a decrease of DKK 9,081m over the year. The decrease reflects primarily the cash inflow of DKK 4,860m from the divestment of the Dutch mobile operator Ben including the indirect impact from Belgacom. In addition, improvements in EBITDA and working capital as well as reductions in capital expenditures enhanced TDC's cash generation and subsequently reduced net debt.

Net revenues

TDC's net revenues amounted to DKK 51,155m in 2002, a DKK 409m or 0.8% decrease compared with 2001. On an ongoing basis, growth was 2.6% impacted by growth in TDC Switzerland, TDC Mobile International and TDC Internet, offset partly by lower net revenues in TDC Tele Danmark.

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Net revenues	DKKm		
	2002	2001	Growth (%)
TDC Tele Danmark	18,795	19,452	(3.4)
Landline, subscriptions (voice)	4,450	4,492	(0.9)
Landline, traffic (voice)	6,374	7,301	(12.7)
Leased lines	1,572	1,792	(12.3)
Data communications and Internet services	2,352	1,773	32.7
Terminal equipment etc.	2,700	2,727	(1.0)
Other ¹	1,347	1,367	(1.5)
TDC Mobile International	16,259	17,580	(7.5)
Domestic operations	5,152	4,808	7.2
European network operators	3,474	3,425	1.4
Talkline	7,633	9,347	(18.3)
TDC Switzerland	8,932	7,776	14.9
Mobile telephony	4,572	3,731	22.5
Landline telephony	3,766	3,477	8.3
Internet services	594	568	4.6
TDC Internet	1,743	1,029	69.4
TDC Directories	1,529	1,502	1.8
TDC Cable TV	1,338	1,191	12.3
Other²	2,559	3,034	(15.7)
TDC Group	51,155	51,564	(0.8)

¹ Including Mobile telephony and operator services.

² Including TDC A/S, TDC Services, Belgacom and eliminations.

TDC Tele Danmark

TDC Tele Danmark's net revenues amounted to DKK 18,795m in 2002, a decrease of DKK 657m or 3.4% compared with 2001, impacted by the unfavorable regulatory environment in Denmark and migration from traditional landline services to Internet and mobile services.

Net revenues from *landline subscriptions (voice)* amounted to DKK 4,450m

in 2002, a decrease of DKK 42m or 0.9% compared with 2001. This net revenue category consists of domestic connection and subscription fees. The decrease was driven primarily by a lower customer base, which decreased 2.0% to 3.1m customers at year-end 2002.

In 2002, net revenues from *landline traffic (voice)* amounted to DKK 6,374m, a decrease of DKK 927m or 12.7%

compared with 2001. This revenue category consists of domestic and international retail as well as wholesale traffic revenues. Domestic landline traffic revenues decreased DKK 659m or 13.4% in 2002, due primarily to lower retail and wholesale traffic volumes driven by the migration to Internet services and mobile telephony, as well as lower retail prices. Domestic landline traffic volume decreased 11.5% to 20,416m minutes in 2002.

Net revenues from international traffic amounted to DKK 2,107m, a decrease of DKK 268m or 11.3% compared with 2001, due primarily to price decreases. International traffic volume increased 0.2% to 2,199m minutes in 2002.

Net revenues from *leased lines*, including domestic and international leased line services, aggregated DKK 1,572m in 2002, a decrease of DKK 220m or 12.3% compared with 2001. The decline stemmed from imposed regulatory price reductions as well as migration to data communications and Internet services.

Net revenues from *data communications and Internet services* amounted to DKK 2,352m in 2002, growth of DKK 579m or 32.7% compared with 2001. This revenue category includes data communications services composed of dedicated data services as well as Internet services, primarily ADSL and dial up. Revenue growth in this category was driven mainly by an enlarged ADSL customer base, and increased sales of IP/VPN communications solutions, substituting traditional leased lines.

Net revenues from *terminal equipment etc.* amounted to DKK 2,700m, down 1.0% compared with 2001. This revenue category includes sales and installation of hardware ranging from hand-

sets to large PBX's and service agreements with domestic and international business customers. The decrease stemmed from a reduction in domestic sales, offset partly by increased sales in Norway and Sweden.

Net revenues from other services amounted to DKK 1,347m a decrease of DKK 20m or 1.5% compared with 2001. This revenue category includes mobile telephony and operator services.

TDC Mobile International

TDC Mobile International's net revenues amounted to DKK 16,259m in 2002, a decrease of DKK 1,321m or 7.5% compared with 2001. On an ongoing basis, net revenues increased 5.0%.

In 2002, net revenues from *domestic operations* amounted to DKK 5,152m, up DKK 344m or 7.2% compared with 2001. This category includes domestic subscription and connection fees as well as domestic mobile traffic. Growth was driven primarily by an increase in the mobile customer base and growth in voice, data and SMS traffic. The domestic mobile customer base grew 51,000 or 3.1% to 1.7m (2.0m including Duét customers) at year-end 2002, and the number of domestic voice traffic minutes increased 11.5% to 2,797m in 2002. In addition, the

number of domestic SMS messages grew 33.6% to a total of 521m in 2002.

Net revenues from *European network operators* amounted to DKK 3,474m, an increase of DKK 49m or 1.4% compared with 2001. On an ongoing basis, growth was 16.5%. Net revenues from Polkomtel, the 19.6% owned Polish mobile operator, totaled DKK 1,817m in 2002, up DKK 112m or 6.6% compared with 2001. On a pro rata basis, Polkomtel had 892,000 mobile customers by the end of 2002, up 32.1% compared with year-end 2001. Bité, the 100% owned Lithuanian mobile operator, achieved net revenues of DKK 751m in 2002, an increase of DKK 341m or 83.2% compared with 2001. The number of customers grew 77.5% to 488,000 at year-end 2002. Net revenues from Connect Austria, the 15.0% owned Austrian mobile operator, totaled DKK 631m in 2002, up DKK 54m or 9.4% compared with 2001. On a pro rata basis, Connect Austria had 246,000 customers by the end of 2002, growth of 5.6% compared with year-end 2001.

Net revenues from *Talkline* amounted to DKK 7,633m, down DKK 1,714m or 18.3% compared with 2001. On an ongoing basis, the decrease was 1.0%, driven mainly by a decline in the mobile customer base of 38,000 or 2.2% to 1.7m customers at year-

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end 2002. The decline in the mobile business was partly offset by growth in Talkline Infodienste.

TDC Switzerland

TDC Switzerland's net revenues amounted to DKK 8,932m in 2002, up DKK 1,156m or 14.9% compared with 2001. On an ongoing basis, net revenues increased 9.3%.

Net revenues from *mobile telephony* containing subscription and connection fees as well as mobile traffic amounted to DKK 4,572m in 2002, an increase of DKK 841m or 22.5% compared with 2001. On an ongoing basis, growth was DKK 528m or 13.1%, resulting from a higher customer base, up 190,000 or 20.1% to 1.1m at year-end 2002 and higher traffic volume, up 18.7% compared with 2001.

In 2002, net revenues from *landline telephony*, containing retail, including pre-fix and pre-select products, and wholesale activities, amounted to DKK 3,766m, up DKK 289m or 8.3% compared with 2001. On an ongoing basis, growth was DKK 217m or 6.1%, driven by a 66,000 or 8.4% increase in the retail customer base to 852,000 customers at year-end 2002, higher retail traffic volume, and increased wholesale activities.

Net revenues from *Internet services*, containing dial-up traffic and ADSL, totaled DKK 594m in 2002, an increase of DKK 26m or 4.6% compared with 2001. On an ongoing basis, growth was DKK 17m or 2.9%. The dial-up customer base grew to 518,000 at year-end 2002, equaling growth of 19,000 or 3.8%, while the ADSL customer base grew to 31,000 at year-end 2002.

TDC Internet

TDC Internet's net revenues amounted to DKK 1,743m in 2002, up DKK 714m or 69.4% compared with 2001. Net revenues from TDC Internet consisted of domestic activities, including Internet dial-up traffic, ADSL, other Internet services and Dan Net, as well as international activities, including Contactel (Czech Republic) and TDC Internet Polska (Poland). Domestic net revenues grew DKK 647m or 68.3% to DKK 1,594m in 2002, driven mainly by 127.9% growth in the ADSL customer base, which totaled 253,000 at year-end 2002, including 133,000 external ADSL customers in TDC Tele Danmark. Furthermore, Dan Net realized net revenues of DKK 315m in 2002, up 30.7% or DKK 74m on 2001. International net revenues grew DKK 67m or 81.7% to DKK 149m in 2002.

TDC Directories

TDC Directories' net revenues amounted

to DKK 1,529m in 2002, an increase of DKK 27m or 1.8% compared with 2001. TDC Directories' net revenues include printed directories, catalogs and on-line services. Net revenues from domestic operations totaled DKK 1,010m in 2002, an increase of DKK 24m or 2.4%, resulting from higher sale of business catalogs and Internet services. Net revenues from international operations were DKK 519m, almost unchanged compared with 2001.

TDC Cable TV

Net revenues from TDC Cable TV amounted to DKK 1,338m in 2002, up DKK 147m or 12.3% compared with 2001. Net revenues include basic cable-TV subscriptions and connection fees as well as revenues from cable modems and Selector, a digital set-top box used for accessing interactive TV and digital services. Growth was related to a larger customer base and higher average revenue per user, including revenues from cable modems. The customer base grew 6.9% to 885,000 at year-end 2002 impacted by the inclusion of almost 17,000 customers from NESKA Kabel TV A/S.

Other

Net revenues from other activities, including TDC Services, TDC A/S, Belgacom and eliminations, amounted to DKK 2,559m in 2002, down DKK 475m or

Total operating expenses

DKKm

	2002	2001	Growth (%)
TDC Tele Danmark	14,439	14,395	0.3
TDC Mobile International	13,425	15,612	(14.0)
TDC Switzerland	7,764	7,853	(1.1)
TDC Internet	1,769	1,434	23.4
TDC Directories	1,102	1,017	8.4
TDC Cable TV	1,322	1,258	5.1
Other ¹	(657)	(357)	(84.0)
TDC Group	39,164	41,212	(5.0)

¹ Including TDC A/S, TDC Services, Belgacom and eliminations.

15.7% on 2001, driven primarily by lower net revenues in Belgacom as well as higher eliminations of internal settlements. Net revenues from Belgacom amounted to DKK 6,424m in 2002, down DKK 186m compared with 2001.

Total revenues

Total revenues consist of net revenues, other operating income and work performed for own purposes and capitalized. Total revenues amounted to DKK 53,477m in 2002, a decrease of DKK 605m compared with 2001. On an ongoing basis, total revenues increased 2.1%. This increase stemmed primarily from TDC Mobile International, TDC Switzerland and TDC Internet.

Total operating expenses

TDC's total operating expenses, composed of transmission costs, raw materials and supplies; other external charges; and wages, salaries and pen-

sion costs, amounted to DKK 39,164m in 2002, down DKK 2,048m or 5.0% compared with 2001. On an ongoing basis, total operating expenses in 2002 increased DKK 6m compared with 2001.

Transmission costs, raw materials and supplies

Transmission costs, raw materials and supplies amounted to DKK 18,482m in 2002, a decrease of DKK 1,683m or 8.3% compared with 2001. On an ongoing basis, transmission costs, raw materials and supplies decreased DKK 186m to DKK 18,334m in 2002.

TDC Tele Danmark's transmission costs, raw materials and supplies amounted to DKK 5,835m, down DKK 170m or 2.8% compared with 2001. The decrease was due mainly to lower domestic costs, including lower costs for raw materials stemming from lower domestic terminal sales.

Transmission costs, raw materials and supplies in TDC Mobile International amounted to DKK 8,317m, down DKK 1,177m or 12.4% on 2001. On an ongoing basis, transmission costs, raw materials and supplies increased DKK 518m or 6.8% compared with 2001. The increase was due primarily to higher transmission costs in Talkline and Bité as a result of higher traffic.

In 2002, transmission costs, raw materials and supplies in TDC Switzerland amounted to DKK 3,749m, a decrease of 46m or 1.2% compared with 2001. On an ongoing basis, transmission costs, raw materials and supplies decreased DKK 244m or 6.1%, stemming from lower transmission costs, and lower costs related to resale of handsets.

TDC Internet's transmission costs, raw materials and supplies amounted to

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DKK 669m, up DKK 239m or 55.5% on 2001, due mainly to the increased domestic ADSL sales and increased ownership share in Contactel from September 2001 as well as the inclusion of TDC Internet Polska from May 2001.

In 2002, TDC Directories' raw materials and supplies amounted to DKK 355m, down DKK 21m or 5.6% compared with 2001.

Transmission costs, raw materials and supplies in TDC Cable TV amounted to DKK 868m, an increase of DKK 54m or 6.6% compared with 2001.

Transmission costs, raw materials and supplies from other activities decreased DKK 562m compared with 2001, due mainly to improvements in Belgacom, and elimination of TDC Group internal settlements. Transmission costs, raw materials and supplies from Belgacom amounted to DKK 1,778m, down DKK 155m compared with 2001.

Other external charges

Other external charges amounted to DKK 10,737m in 2002, a decrease of DKK 1,129m or 9.5% compared with 2001. On an ongoing basis, other external charges decreased DKK 731m or 6.4% compared with 2001. Other external charges include costs related to marketing activities and indirect production costs.

TDC Tele Danmark's other external charges amounted to DKK 4,302m, down DKK 130m or 2.9% on 2001. The decrease was impacted by stringent cost control.

Other external charges in TDC Mobile International amounted to DKK 3,905m in 2002, a decrease of DKK 906m or 18.8% compared with 2001. On an ongoing basis, other external charges decreased DKK 356m or 8.5% compared with 2001 and related mainly to Talkline.

In 2002, TDC Switzerland's other external charges amounted to DKK 2,745m, a decrease of DKK 197m or 6.7%. On an ongoing basis, other external charges decreased DKK 349m or 11.3%, due primarily to stringent cost control and continued harvesting of synergies.

TDC Internet's other external charges were DKK 496m, an increase of DKK 14m or 2.9% compared with 2001.

In 2002, TDC Directories' other external charges amounted to DKK 310m, up DKK 39m or 14.4% on 2001.

For TDC Cable TV, other external charges decreased DKK 23m to DKK 224m in 2002.

Other external charges from other activities increased DKK 74m compared with 2001. The increase was due mainly to increased costs in TDC Services and elimination of TDC Group internal settlements, offset partly by lower costs in Belgacom. Other external charges from Belgacom amounted to DKK 934m, down DKK 173m compared with 2001.

Wages, salaries and pension costs

Wages, salaries and pension costs amounted to DKK 9,945m, up DKK 764m, or 8.3%, compared with 2001. On an ongoing basis, growth was DKK 923m, or 10.2%, and average full-time equivalents increased 787 or 3.6% to 22,427 in 2002.

In TDC Tele Danmark, wages, salaries and pension costs increased DKK 344m, or 8.7%, to DKK 4,302m in 2002 and average full-time equivalents amounted to 11,409, an increase of 174 average full-time equivalents. Domestic wages increased DKK 238m or 6.4% compared with 2001. The increase was impacted by a general increase in average wages. A higher number of average full-time equivalents in Norway and Sweden also contributed to the total increase in 2002.

TDC Mobile International's wages, salaries and pension costs decreased DKK

104m to DKK 1,203m in 2002. On an ongoing basis, wages, salaries and pension costs increased DKK 134m or 12.8%, due to an addition of 140 average full-time equivalents to 2,683. The growth was related mainly to domestic activities where average full-time equivalents grew 167 to 1,216 in 2002. Furthermore, a general increase in average wages in Talkline also contributed to the increase.

In 2002, TDC Switzerland's wages, salaries and pension costs amounted to DKK 1,270m, an increase of DKK 154m. On an ongoing basis, the increase was DKK 75m or 6.2% compared with 2001, stemming from an addition of 112 average full-time equivalents or 5.2% to 2,275 in 2002 and a general increase in average wages.

Wages, salaries and pension costs in TDC Internet increased DKK 82m or 15.7% to DKK 604m in 2002, due mainly to increased ownership share in Contactel from September 2001, the inclusion of TDC Internet Polska from May 2001, an addition of 101 average full-time equivalents or 8.5% to 1,286 in domestic activities and a general increase in average wages.

In 2002, wages, salaries and pension costs in TDC Directories totaled DKK 437m, an increase of DKK 67m or

18.1% on 2001. This related to higher domestic and Nordic activities in 2002, resulting in an increased number of average full-time equivalents of 11.8% as well as higher average wages compared with 2001.

TDC Cable TV wages, salaries and pension costs amounted to DKK 230m in 2002, an increase of DKK 33m, stemming primarily from an increase of 63 average full-time equivalents or 10.0% to 694 in 2002 and higher average wages.

Wages, salaries and pension costs from other activities resulted in an increase of DKK 188m, stemming primarily from higher pension costs, and from TDC Services.

Earnings before interest, taxes, depreciation and amortization

EBITDA increased DKK 1,443m or 11.2% to DKK 14,313m in 2002. On an ongoing basis, growth was 8.2%. The ongoing EBITDA growth was driven primarily by improvements in TDC Switzerland, TDC Mobile International and TDC Internet. TDC's EBITDA margin increased from 25.0% in 2001 to 28.0% in 2002. On an ongoing basis, the EBITDA margin increased from 26.7% in 2001 to 28.0% in 2002.

In TDC Tele Danmark, EBITDA decreased DKK 880m or 12.8% to DKK 6,018m in

2002. The decrease was due primarily to lower regulatory prices combined with the impact of migration from traditional landline to mobile and Internet services.

In 2002, EBITDA for TDC Mobile International increased DKK 896m from DKK 2,332m in 2001 to DKK 3,228m in 2002. On an ongoing basis, TDC Mobile International's EBITDA improved DKK 497m or 18.2% in 2002, including growth in domestic operations of DKK 278m or 20.7% and in Talkline of DKK 106m or 27.4%. Furthermore, EBITDA from European network operators increased DKK 113m or 11.3%, which related mainly to Polkomtel and Connect Austria.

EBITDA for TDC Switzerland increased DKK 1,346m from DKK (77)m in 2001 to DKK 1,269m in 2002. On an ongoing basis, TDC Switzerland's EBITDA increased DKK 1,383m compared with 2001, due primarily to increased landline and mobile customer bases and continued harvesting of synergies combined with stringent cost discipline, as well as some non-recurring improvements.

In TDC Internet, EBITDA increased DKK 398m to DKK 48m in 2002 which related primarily to increased ADSL sales.

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EBITDA		DKKm		
	2002	2001	Growth (%)	
TDC Tele Danmark	6,018	6,898	(12.8)	
TDC Mobile International	3,228	2,332	38.4	
Domestic operations	1,618	1,340	20.7	
European network operators	1,117	878	27.2	
Talkline	493	114	-	
TDC Switzerland	1,269	(77)	-	
TDC Internet	48	(350)	-	
TDC Directories	439	503	(12.7)	
TDC Cable TV	30	(50)	-	
Other¹	3,281	3,614	(9.2)	
TDC Group	14,313	12,870	11.2	

¹ Including TDC A/S, TDC Services, Belgacom and eliminations.

In 2002, TDC Directories' EBITDA decreased DKK 64m to DKK 439m, and comprised a decrease in domestic activities of DKK 18m and a decrease in international activities of DKK 46m.

In TDC Cable TV, EBITDA increased DKK 80m to DKK 30m in 2002. The increase was driven mainly by a larger customer base and improved sales of cable modems.

The decrease in 'Other' of DKK 333m was due primarily to lower EBITDA in TDC Services, increased elimination of internal profit and higher pension costs, offset partly by higher EBITDA from Belgacom.

Depreciation, amortization and write-downs

Depreciation, amortization and write-downs increased DKK 647m or 7.6% to DKK 9,178m in 2002. On an ongoing basis, depreciation and amortization increased DKK 847m or 10.2%.

Depreciation and amortization in TDC Tele Danmark increased DKK 195m or 7.6% to DKK 2,770m in 2002, reflecting primarily write-down of customer placed equipment and write-down of installation materials.

Depreciation and amortization in TDC Mobile International amounted to DKK 1,542m in 2002, almost unchanged compared with 2001. On an ongoing basis, depreciation and amortization in TDC Mobile International increased

DKK 283m or 22.5% and related primarily to a new domestic customer care and billing system and reassessment of useful lives on domestic assets, as well as higher depreciation in European network operators.

In 2002, TDC Switzerland's depreciation and amortization increased DKK 283m or 12.8% to DKK 2,493m. On an ongoing basis, depreciation and amortization in TDC Switzerland increased DKK 207m or 9.1%, reflecting primarily an increase in the asset base.

Depreciation and amortization in TDC Internet increased DKK 290m or 161.1% to DKK 470m in 2002, driven primarily by higher ADSL sales as well as reassessment of useful lives on

domestic assets and write-down of customer placed equipment.

Depreciation and amortization in TDC Directories increased DKK 18m or 20.0% to DKK 108m in 2002.

In 2002, depreciation and amortization in TDC Cable TV decreased DKK 16m or 7.0% to DKK 214m in 2002.

Depreciation and amortization from other activities amounted to DKK 1,581m, down DKK 131m or 7.7%, due primarily to higher elimination of depreciation and amortization related to TDC Internet's capitalization of ADSL purchased from TDC Tele Danmark.

Earnings before interest and taxes

Earnings before interest and taxes increased DKK 796m or 18.3% to DKK 5,135m in 2002, reflecting primarily the improved EBITDA, offset partly by higher depreciation and amortization. On an ongoing basis, growth was DKK 234m or 4.8%.

One-time items

In 2002, one-time items amounted to DKK (1,133)m before tax, with a net income impact of DKK (859)m compared with DKK (2,548)m before tax with a net income impact of DKK (2,055)m in 2001. One-time items included profit on sales of major

enterprises, impairment losses and restructuring costs, etc.

Profit on sales of major enterprises in 2002 amounted to DKK 466m before tax with a net income impact of DKK 507m, related primarily to a gain on Belgacom's sale of shares in Ben and Belgacom France.

Impairment losses in 2002 amounted to DKK (1,066)m before tax with a net income impact of DKK (1,030)m, including DKK (336)m before tax from TDC Internet Polska, DKK (378)m before tax from Contactel and DKK (352)m before tax from Tele Danmark Inter-Nordia, all related to write-down of goodwill and other assets.

Restructuring costs, etc. in 2002 amounted to DKK (533)m before tax with a net income impact of DKK (336)m, including a charge for BeST, Belgacom's restructuring program with a pre-tax impact of DKK (925)m with a net income impact of DKK (610)m. Further, restructuring costs, etc. in 2002 included a reversal of unused provisions in Talkline of DKK 350m before tax with a net income impact of DKK 245m. Other restructuring costs, etc. amounted to DKK 42m before tax with a net income impact of DKK 29m, related to a reversal of unused provisions.

In 2001, one-time items amounted to DKK (2,548)m before tax, with a net income impact of DKK (2,055)m. Profit on sales of major enterprises in 2001 resulted in a pre-tax gain of DKK 1,144m with a net income impact of DKK 754m, which related primarily to Belgacom and an option gain in Ceske Radiokomunikace. Impairment losses in 2001 amounted to DKK (2,243)m before tax with a net income impact of DKK (2,101)m, related primarily to Talkline. Restructuring costs, etc. in 2001 amounted to DKK (1,449)m before tax with a net income impact of DKK (708)m, related primarily to Talkline.

Net financials

Net financials amounted to an income of DKK 2,133m in 2002, an increase of DKK 2,920m on 2001. Net financials include income before income taxes from investments, fair value adjustments as well as financial income and expenses, net.

Income before income taxes from investments improved from DKK (55)m in 2001 to DKK (10)m in 2002. This change related primarily to UMC and HTCC.

In 2002, fair value adjustments totaled an income of DKK 3,257m. Fair value adjustments of minority passive investments amounted to DKK 3,119m in 2002 and related primarily

MANAGEMENT'S DISCUSSION AND ANALYSIS

to Ben, including TDC's proportional share of Belgacom's divestment of Ben. Other fair value adjustments amounted to DKK 138m in 2002. In 2001, fair value adjustments aggregated an income of DKK 623m, comprising fair value adjustments of minority passive investments of DKK 581m, related primarily to Ben, and other fair value adjustments of DKK 42m.

Interest and other financial income amounted to DKK 2,448m in 2002, an increase of DKK 568m compared with 2001.

Interest and other financial expenses totaled DKK (3,562)m in 2002, an increase of DKK 327m compared with 2001.

Net interest and other financial expenses and income, net, amounted to DKK (1,114)m in 2002, a decrease of DKK 241m, compared with DKK (1,355)m in 2001, due to lower interest rates and some non-recurrent items, including exchange rate adjustments, offset partly by higher average net interest-bearing debt.

Income taxes

In 2002, income taxes totaled DKK 1,686m, up DKK 261m on DKK 1,425m in 2001.

Income taxes related to income, excluding one-time items and fair value adjustments, totaled DKK 1,899m in 2002, DKK 56m higher than in 2001.

Income taxes related to one-time items amounted to a tax income of DKK 238m in 2002 related primarily to restructuring costs, compared with a tax income of DKK 441m in 2001.

Income taxes related to fair value adjustments amounted to a tax expense of DKK 25m in 2002 compared with a tax expense of DKK 23m in 2001.

Adjusted for one-time items and fair value adjustments, the effective tax rate was 47.3% in 2002. The difference of 17.3 percentage points between the effective tax rate and the Danish statutory corporate tax rate of 30.0% stemmed primarily from the international operations in which the tax value of losses was not capitalized, the change in distribution of income between companies with different tax rates and amortization of goodwill non-deductible for tax purposes.

Minority interests' share of net income

In 2002, minority interests' share of net income, excluding one-time items and fair value adjustments, aggregated

an income of DKK 57m compared with an income of DKK 355m in 2001. This decrease of DKK 298m related mainly to improvements in earnings before tax in TDC Switzerland.

Minority interests' share of one-time items and fair value adjustments amounted to DKK 36m in 2002 compared with DKK 52m in 2001.

Net income

Net income, excluding one-time items and fair value adjustments, amounted to DKK 2,169m, up 50.5% compared with 2001. On an ongoing basis, growth was 11.7%.

Net income, including one-time items and fair value adjustments, amounted to DKK 4,542m in 2002, an increase of DKK 4,556m compared with 2001.

Balance Sheets

The Consolidated Balance Sheets totaled DKK 90,597m at year-end 2002, down DKK 3,096m compared with 2001.

The decrease in assets during 2002 was due mainly to a decrease in accounts receivable and fixed assets offset partly by an increase in marketable securities and cash.

Shareowners' equity aggregated DKK 35,306m at year-end 2002, an increase

of DKK 2,032m compared with year-end 2001. This increase was generated by net income in 2002, which amounted to DKK 4,542m, net of dividends paid of DKK 2,363m in 2002.

Liabilities amounted to DKK 55,291m, down DKK 5,128m compared with year-end 2001, and related mainly to bonds, long-term and short-term bank loans.

Net interest-bearing debt amounted to DKK 25,557m at year-end 2002, a decrease of DKK 9,081m over the year. The decrease reflects primarily the cash inflow of DKK 4,860m from the divestment of the Dutch mobile operator Ben including the indirect impact from Belgacom. In addition, improvements in EBITDA and working capital as well as reductions in capital expenditures enhanced TDC's cash generation and subsequently reduced net debt.

At year-end 2002, the solvency ratio was 39.0%, calculated as total shareholders' equity as a percentage of total liabilities and shareholders' equity.

Statements of Cash Flow

Cash flow from operating activities amounted to DKK 12,541m in 2002, an increase of DKK 5,541m compared with 2001, due primarily to higher earnings and improvements in work-

ing capital stemming mainly from TDC Switzerland and TDC Mobile International.

Cash flow from investing activities amounted to DKK (2,060)m in 2002, an improvement of DKK 18,781m compared with 2001, stemming mainly from the acquisition of diAx in 2001 and sale of Ben shares in 2002.

Cash flow from financing activities totaled DKK (7,402)m in 2002 compared with DKK 10,511m in 2001.

TDC's cash and cash equivalents increased from DKK 2,538m at year-end 2001 to DKK 5,594m at year-end 2002.

Capital expenditures

In 2002, capital expenditures amounted to DKK 8,885m, a decrease of DKK 14,416m compared with DKK 23,301m in 2001. This decrease was related primarily to share acquisitions, which accounted for DKK 1,186m in 2002 compared with DKK 12,112m in 2001.

Capital expenditures, excluding share acquisitions, aggregated DKK 7,699m in 2002 compared with DKK 11,189m in 2001, corresponding to 15.1% of net revenues in 2002 compared with 21.7% in 2001.

TDC Tele Danmark's capital expenditures, excluding share acquisitions, aggregated DKK 3,072m in 2002, a decrease of DKK 557m compared with 2001. The main driver for the decrease was a general decline in PSTN and ISDN volumes partly offset by higher IT investments related primarily to a customer care and billing system. Also, the completion of TDC's ADSL roll-out plan in June 2002 entailed lower capital expenditures compared with 2001, where roll-out continued throughout the full year.

TDC Mobile International's capital expenditures, excluding share acquisitions, aggregated DKK 1,645m in 2002, a decrease of DKK 1,884m compared with 2001. Capital expenditures in *domestic operations* amounted to DKK 704m, a decrease of DKK 1,229m compared with 2001, due mainly to the acquisition of a DKK 768m Danish UMTS license in 2001. The remaining decrease related primarily to the acquisition of a customer care and billing system in 2001. Capital expenditures in *European network operators* amounted to DKK 881m in 2002, a decrease of DKK 401m, related primarily to Connect Austria's completion of the GSM network upgrade in 2001 and the deconsolidation of UMC as of October 1, 2002. Capital expenditures in *Talkline* amounted to DKK 60m in 2002, a decrease of DKK 254m, due

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Capital expenditures	DKKm	
	2002	2001
TDC Tele Danmark	3,072	3,629
TDC Mobile International	1,645	3,529
Domestic operations	704	1,933
European network operators	881	1,282
Talkline	60	314
TDC Switzerland	1,557	1,709
TDC Internet	762	631
TDC Directories	248	252
TDC Cable TV	29	22
Other¹	386	1,417
TDC, excl. share acquisitions	7,699	11,189
Share acquisitions in other companies	1,186	12,112
TDC, incl. share acquisitions	8,885	23,301

¹ Including TDC A/S, TDC Services, Belgacom and eliminations.

mainly to the closure of landline and Internet activities and to the acquisition of a new billing system in 2001.

TDC Switzerland's capital expenditures, excluding share acquisitions, aggregated DKK 1,557m in 2002, a decrease of DKK 152m compared with 2001, due mainly to lower network investments.

TDC Internet's capital expenditures, excluding share acquisitions, aggregated DKK 762m in 2002, an increase of DKK 131m compared with 2001. The increase related primarily to ADSL.

TDC Cable TV's capital expenditures, excluding share acquisitions, aggre-

gated DKK 248m in 2002, a decrease of DKK 4m compared with 2001.

The category 'Other' includes TDC A/S, TDC Services, Belgacom and eliminations. Capital expenditures, excluding share acquisitions, aggregated DKK 386m in 2002, a decrease of DKK 1,031m compared with 2001, related primarily to Belgacom.

Financial management and market-risk disclosures

TDC is exposed to certain market and credit risks related to its financial portfolio, investments in foreign companies, and purchases and sales of goods and services denominated in foreign currencies.

As a result, TDC has established risk management policies and procedures to identify, monitor and control each of these risks. The Management approves these policies and procedures, and the Board of Directors defines the highest acceptable levels of exposure.

The market values of financial assets and liabilities and of interest-rate, exchange-rate, credit and share-price exposures are computed on a daily basis.

Generally, TDC holds or issues derivatives for hedging purposes only.

Value at risk on net interest-bearing debt¹

DKKm

	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02
Interest rates	430	790	721	579	765	878	1,042	950
Foreign exchange rates	77	72	60	45	41	68	45	46

¹ End-of-period figures for TDC A/S, TDC Tele Danmark A/S, TDC Mobile International A/S, TDC Internet A/S, TDC Directories A/S, TDC Services A/S and TDC Cable TV A/S. The above value-at-risk figures do not include risks related to net investments in foreign companies.

Market risk

Market risk generally represents the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates, exchange rates and equity prices. Furthermore market risk includes credit risk and the refinancing risk of the loan portfolio.

Refinancing

In order to reduce its refinancing risk, TDC's aim is for 80% of the loan portfolio to mature after one year. To reduce the refinancing risk on short-term debt, TDC has a buffer of committed credit lines.

Interest rate

TDC has raised floating and fixed interest-rate loans with maturities of up to 10 years.

Debt management involves surveillance of the duration of loans and the interest-rate risk of TDC's net liabilities according to a value-at-risk model.

Interest-rate swaps are used to achieve the target duration.

Exchange rate

At the end of 2002, the net exchange-rate exposure from the Company's business and financial activities and investments abroad were predominantly in CHF and EUR. Foreign exchange-rate swaps are used to minimize exposure.

As a general rule, TDC does not hedge investments in foreign companies. The investment in TDC Switzerland is, however, fully hedged. Currency gains/losses resulting from this activity are reflected in currency translation adjustments under shareowners' equity.

Value at risk

Statistical models based on historical prices can estimate potential losses that could arise from changes in market conditions. The estimates are calculated using a probability-based approach for measuring the Company's exposure to market risk.

TDC has performed a value-at-risk analysis of all its significant financial

instruments. The calculation has a one-year time horizon and a 95% confidence level. Volatilities of and correlations between exchange rates and interest rates are included.

The estimate represents the maximum potential loss to TDC, at a 95% confidence level, from adverse changes in either interest rates or foreign exchange rates over a one-year period.

The estimated maximum loss incurred as a consequence of adverse changes in interest rates amounted to DKK 950m compared with DKK 579m at year-end 2001.

The value-at-risk amount from adverse changes in foreign exchange rates was DKK 46m compared with DKK 45m at year-end 2001.

Such risk is not significant compared with TDC's expected future earnings, equity or market capitalization.

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Year-end net interest-bearing debt and cash, cash equivalents and credit available

DKKm

TDC Group	2002	2001
Cash and marketable securities	5,594	2,538
Short-term debt	(2,357)	(15,052)
Net liquid assets	3,237	(12,514)
Long-term debt	(28,794)	(22,124)
Net interest-bearing debt	(25,557)	(34,638)
Cash and marketable securities	5,594	2,538
Undrawn committed short- and long-term credit lines	14,017	7,158
Total cash, cash equivalents and credit available	19,611	9,696

Credit risk

TDC is exposed to credit risks in a variety of areas: as a supplier of services to Danish and international customers and business partners, as a counterparty to financial contracts, and as a holder of securities.

To manage credit risks associated with the Company's financial contracts, a set of policies and procedures has been prepared stating approved maximum credit limits based on e.g. credit ratings of counterparties.

Share price

TDC has no significant shareholdings other than shares held in subsidiaries and associated enterprises.

To fulfill the commitments under the Company's share option scheme, TDC held 1,671,471 shares or 0.77%

of the common shares at year-end 2002.

TDC has entered into investment advice agreements with its related pension funds that all operate defined benefit plans to protect investments and optimize return. TDC is obliged to cover any shortfall in these pension funds' ability to comply with the premium reserve requirements under the Danish Act on Company Pension Funds.

Financial position

Overall, TDC's financial position reflects the cash flows generated by its operating activities and investments in companies and assets, net of dividends paid out.

At year-end 2002, cash and marketable securities aggregated DKK 5,594m

compared with DKK 2,538m at year-end 2001, while short-term debt totaled DKK 2,357m compared with DKK 15,052m at year-end 2001. This resulted in a net DKK 15,751m increase in net liquid assets from DKK (12,514)m to DKK 3,237m at year-end 2002.

Long-term debt amounted to DKK 28,794m compared with DKK 22,124m at year-end 2001.

Net interest-bearing debt amounted to DKK 25,557m at year-end 2002, a decrease of DKK 9,081m over the year. The decrease reflects primarily the cash inflow of DKK 4,860m from the divestment of the Dutch mobile operator Ben including the indirect impact from Belgacom. In addition, improvements in EBITDA and working capital as well as reductions in capital expen-

diture enhanced TDC's cash generation and subsequently reduced net debt.

At year-end 2002, TDC's total cash and credit available totaled DKK 19,611m compared with DKK 9,696m at year-end 2001, reflecting an increase of DKK 9,915m in cash and committed credit lines.

Legal proceedings

TDC is a party to certain pending lawsuits in Denmark and other countries and in certain pending cases with Danish authorities and complaints boards. The Management is of the opinion that, even if the outcome of these cases is not in TDC's favor, there will be no significant adverse effect on TDC's financial position.

The TDC Group is a party to certain arbitration cases brought against other telecommunications companies. A favorable outcome for TDC of these arbitration cases could potentially result in a substantial income. Due to the nature of the arbitration cases it is not possible for TDC to disclose further information.

Recent developments

As of February 27, 2003, TDC has full ownership of TDC Switzerland, since all other shareholders exercised their options to sell their shares to TDC. The

purchase price was CHF 1,553m. The impact of this is included in TDC's Outlook for 2003.

On January 16, 2003, TDC finalized the pricing of EUR 1bn 7-year bonds. The proceeds from the offering have been used to buy the remaining shares mentioned above.

Legally effective as of January 1, 2003, TDC merged TDC Tele Danmark A/S and TDC Internet A/S into a new single business line TDC Solutions A/S. The legal process will be finalized during the first half of 2003.

Other than the matters described in this Annual Report and above, no events have occurred since December 31, 2002 that materially affect the assessment of the Group's financial position. Further, it is estimated that no material changes of major significance to the Group's financial position have occurred in the financial markets, including developments in interest and foreign exchange rates.

Outlook

Information concerning the Outlook for 2003 is by nature associated with a certain level of risk and uncertainty. These risks are elaborated in the Safe harbor statement and section on Risk factors.

In general, all figures are excluding one-time items and fair value adjustments.

The Outlook is based on thorough financial plans for each individual business line, and is an overall continuation of the development seen in 2002 with growth in TDC Switzerland and TDC Mobile International. Although growth in these two business lines will be somewhat lower than in 2002, this will be partly offset by improved growth performance in the new merged business line TDC Solutions.

Net revenues for the TDC Group are expected to total DKK 52.6bn in 2003, a 2.8% increase compared with 2002. EBITDA is expected to increase 3.4% to DKK 14.8bn.

TDC's net income is expected to decrease 12.4% from DKK 2.2bn in 2002 to DKK 1.9bn in 2003. This development is significantly impacted by the acquisition of the remaining shares in TDC Switzerland in February 2003. Adjusted for this, net income is expected to increase 14.7%.

TDC Solutions, the new merged business line of the former TDC Tele Danmark and TDC Internet, will focus on improving customer orientation and branding of TDC, broadband

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Outlook for 2003 (excluding one-time items and fair value adjustments)

DKKbn

	2003	2002	Growth (%)
TDC Solutions			
Net revenues	19.5	19.4	0.5
EBITDA	5.7	5.8	(1.4)
TDC Mobile International			
Net revenues	16.8	16.3	3.3
EBITDA	3.5	3.2	8.4
TDC Switzerland			
Net revenues	9.6	8.9	7.5
EBITDA	1.7	1.3	34.0
TDC Cable TV			
Net revenues	1.5	1.3	12.1
EBITDA	0.1	0.0	-
TDC Directories			
Net revenues	1.5	1.5	-
EBITDA	0.4	0.4	-
Other¹			
Net revenues	3.7	3.8	(2.6)
EBITDA	3.4	3.6	(4.7)
TDC Group			
Net revenues	52.6	51.2	2.8
EBITDA	14.8	14.3	3.4
Net income	1.9	2.2	(12.4)

¹ Includes TDC Services, Belgacom, TDC A/S and eliminations.

expansion with one customer interface and improving profitability and productivity. As a result, TDC Solutions' net revenues are expected to total DKK 19.5bn, with EBITDA of DKK 5.7bn in 2003. EBITDA is almost unchanged compared with 2002, reflecting a significant improvement on the development from 2001 to 2002, where EBITDA decreased 7.5%.

TDC Mobile International will continue to focus on defending and expanding its leading domestic position and continue the growth in international activities. Net revenues are expected to increase 3.3% to DKK 16.8bn in 2003. EBITDA is expected to grow 8.4% to DKK 3.5bn in 2003. Growth in 2003 will be impacted by the deconsolidation of UMC and the restructuring of Talkline; and adjusted

for this, 6.8% growth in net revenues and 13.4% growth in EBITDA is expected, driven by improved financial performance in all operations.

With the current weak Swiss economic climate, TDC Switzerland will focus on consolidating and increasing current market positions in all segments during 2003. TDC Switzerland is also expected to continue to realize merger

synergies and subsequent cost decreases, although at a lower pace than seen so far. Consequently, net revenues of DKK 9.6bn and EBITDA of DKK 1.7bn are expected in 2003, equaling growth of 7.5% and 34.0%, respectively, compared with 2002. EBITDA growth is impacted by some non-recurrent EBITDA gains in 2002.

During 2003, TDC Cable TV will focus on expanding its domestic position through increasing the customer base. Net revenues of DKK 1.5bn and EBITDA of DKK 0.1bn are expected in 2003.

After a year with some disappointing results, TDC Directories will consolidate its Nordic and leading domestic position in the printed and online supply of directory information. In line with this strategy, however, facing tough competition in a weak advertising market, net revenues of DKK 1.5bn and EBITDA of DKK 0.4bn are expected in 2003.

The category 'Other' includes TDC Services, TDC A/S, Belgacom and the elimination of internal settlements between business lines. Net revenues from this category are expected to aggregate DKK 3.7bn in 2003, and EBITDA is expected at DKK 3.4bn.

Risk factors related to TDC's business

This section describes risks related to our markets, technology, regulation and litigation.

Markets and technology

The Danish telecommunications sector is highly competitive and to remain profitable in this market, TDC must maintain attractive prices. TDC's competitors in the landline sector have been lowering their prices for national and international calls. Prices in the mobile market are also decreasing due to strong competition. Although traditionally TDC's prices for landline and mobile telephony as well as leased lines have been among the lowest in the European Union, market pressures continue to intensify. TDC therefore expects to encounter increasing competition in the Danish telecommunications market, which may result in a reduction of tariffs and loss of market share. Any such reductions would adversely affect TDC's revenues and profit margins.

The mobile communications sectors in Denmark and Switzerland have some of the highest penetration rates in the world. TDC's ability to achieve further revenue growth in these sectors will depend on a number of factors, including the ability to develop and market attractive services at competitive prices. If TDC fails to maintain its

established position in these markets, its ability to introduce new products and services and correspondingly achieve revenue growth in the mobile telephony sector will be hindered. In Switzerland, the future growth in the medium and long term is primarily dependent on the ability to enter the business market.

TDC's activities within international mobile communications markets range from markets with high penetration rates, such as Denmark, to those with relatively low penetration rates, such as Poland. TDC's ability to achieve further revenue growth in these markets will depend on a number of factors, including TDC's ability to increase customer bases in areas with low mobile penetration rates and TDC's ability to develop and market attractive services at competitive prices.

TDC was awarded one of four UMTS licenses in the September 2001 Danish UMTS auction. TDC's operations in Switzerland, Poland and Austria were also awarded UMTS licenses in 2000 and 2001. TDC's ability to provide UMTS services in Denmark and within its international markets will depend on the successful roll-out of UMTS networks within these countries. The use of UMTS technology will require the reuse of existing GSM sites and deployment of a number of new

MANAGEMENT'S DISCUSSION AND ANALYSIS

base station sites to be built to serve these operations. TDC's strategic partners and TDC may experience difficulties in procuring sufficient new sites due to the limited availability of new sites and increasing public concern over possible adverse health effects related to the electromagnetic transmissions emitted from mobile base stations, as well as aesthetic and other public concerns. TDC's strategic partners and TDC may also experience technical difficulties in setting up UMTS networks, as installation of new equipment must be based on a technology that has so far been commercially proven only on a limited scale. The strict rules on radiation regulations that apply in Switzerland increase the costs for GSM and UMTS networks and could further increase costs.

TDC's operations also depend on the timely availability of network equipment and commercially viable handsets from suppliers. The uncertainty surrounding the availability of equipment and handsets could have an adverse effect on TDC's strategy for offering UMTS services. Furthermore, there is no guarantee of the extent to which UMTS products and related products will penetrate the Danish or international markets. Finally, increased competition may be expected from the new UMTS-based mobile operators in

the Danish market, resulting in potential increases in customer acquisition costs.

TDC also expects to encounter increasing competition in the Danish Internet, cable-TV and directories markets. Due to market pressures, TDC may need to reduce prices to remain profitable in these sectors, or risk losing market share.

TDC Cable TV is expected to face increased competition from a number of sources, including large antenna associations, satellite television providers and other alternative content sources.

As TDC Directories' business moves online, the company expects competition to intensify in the printed directories market.

The success of the landline, mobile, Internet, cable-TV and directories operations will depend on TDC's ability to keep pace with continuing changes in technology. TDC expects technology to continue developing rapidly in all product lines: landline, mobile, Internet, cable TV and directory services. If TDC is too slow in developing new technologies in these areas TDC's services may become non-competitive. In addition, these technologies may not prove commercially viable in

the long run and there is a risk that TDC may be unable to earn an adequate return on, or recover the costs of, the investments TDC is making to develop and market products relying on these technologies. Especially for landline telephony, increased competition is foreseen from IP-based virtual private networks and the migration from fixed to mobile telephony for certain market segments.

TDC expects to continue the successful integration of the existing portfolio into its business, thereby continuing to harvest synergies. Because TDC's expansion has taken place in a number of countries, TDC needs to ensure that it recognizes and addresses management and communications difficulties that may arise in cross-border integrations, in order to carry on successfully integrating the company. If TDC is not able to integrate the acquired companies successfully, TDC may not achieve the benefits expected from expansion, and the business strategy, results of operations and financial condition may be adversely affected.

More than half of TDC's 2002 net revenues were generated outside Denmark, primarily in Switzerland, Belgium, Germany, Austria, Lithuania and Poland, where TDC's businesses conduct their operations and where

financial statements are prepared in currencies other than the Danish kroner. Any loss in the value of these currencies against the Danish kroner will have a negative impact on the value of TDC's investments in the relevant business and the amount of income TDC derives from it, in each case as reflected in TDC's Financial Statements, which are reported in Danish kroner.

On January 1, 2002 the euro was implemented as the single currency for a number of European countries, following its launch in the EMU zone on January 1, 1999. Denmark has not adopted the euro as its official currency. TDC has not faced increased pressure, nor does it expect any further business opportunities due to the euro launch.

The performance of the international operators in which TDC has minority interests may be dependent on the financial or strategic support of other shareowners. TDC has various minority interests in international mobile operators that may rely on TDC and/or other shareowners for strategic and financial support. Such other shareowners may fail to supply the required operational, strategic and financial resources relating to, among other things, the build-out of infrastructure, regulatory costs and effective market-

ing, which could be expected to adversely affect both the ability of these operations to compete and the return on our investment.

Regulatory issues

Since the mid-nineties, when the Danish telecommunications sector was liberalized and fully privatized, Denmark has developed a comprehensive regulatory regime governing its telecommunications sector. This regime requires TDC to deliver a broad range of products to the retail and wholesale markets, and also subjects TDC to price regulation. Concerning landline telephony, TDC is subject to specific regulation of retail and wholesale pricing, as well as specific requirements regarding accounting separation and reporting, whereas concerning mobile telephony, TDC is subject primarily to specific requirements regarding accounting separation and reporting as well as regulation allowing user number portability when switching between operators.

In addition to the Danish sector-specific telecommunications regulation, TDC is governed by general competition legislation.

As regards retail prices, TDC is subject to a price cap on basic landline telephony services according to the telecommunications regulation. The Danish

National IT and Telecom Agency has determined that TDC's retail prices on a basket of basic landline telephony services must be reduced in real terms by 4.0% in 2003 and 4.0% in 2004. The regulation will annually have an unfavorable effect on TDC's revenues and earnings as prices will continually be reduced.

On the wholesale market, the telecommunications regulation covers the majority of TDC's wholesale prices. Until 2002, these wholesale prices were regulated mainly on the basis of historical cost analyses and best-practice benchmarking against corresponding international prices.

From January 1, 2003, the prices on switched interconnection traffic, co-location, interconnect capacity, shared access and raw copper (unbundled access to the local loop) as well as related co-location are based on the results of the long-run average incremental cost model (or LRAIC), which with respect to pricing switched interconnection, co-location and interconnection capacity imply substantially lowered prices. This regulatory initiative will have an adverse effect on TDC's revenues and profit margins, as the prices TDC can charge for wholesale services are reduced. As regards raw copper, the implementation of LRAIC prices will result in increased

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prices. However, in 2003, the price of raw copper will remain equal to the price in 2002, as the price increase will be implemented over an expected period of seven years from 2004. It is expected that the marginal update of the LRAIC model in 2004 and 2005 will result in only minor changes in interconnection prices. Each third year, again in 2006, the model may be subject to a substantial update or revision.

The EU has passed five new directives on the regulation of the telecommunications market, which are required to be implemented in Danish legislation by July 25, 2003. The main principles of the EU package in relation to regulating interconnect traffic is that the Danish National IT and Telecom Agency has to carry out market analyses on a number of markets to be identified on the basis of a recommendation from the EU Commission. Based on the market analyses, the authority has to decide whether the market is subject to competition imperfections. If imperfections are identified, the authority must designate one or more operators as having significant market power (SMP-status) on the relevant market and must decide to adopt one or more regulatory measures appropriate to eliminate the imperfections. The market analyses are expected to be initiated in

mid-2003. Until the market analyses of relevant markets are carried out and the authority has decided whether or not to adopt regulative measures, the existing level of regulation will be maintained on the relevant market.

More than half of TDC's 2002 net revenues are related to European operations outside Denmark. TDC has substantial international operations that may be affected by a lack of foreign liberalization of the telecommunications sector and political, economic and legal developments in foreign countries.

While the telecommunications markets in Western Europe are highly developed, the Swiss market is slightly less developed than the rest of Western Europe and the markets in Eastern Europe are currently subject to minimal liberalization. As a result, TDC operations in Europe could be subject to unexpected political, economic or legal developments in the telecommunications sector, i.e. TDC Switzerland's access to the unbundled local loop and other resources that are currently hindered.

Safe harbor statement

Certain sections of this Annual Report contain forward-looking statements that are subject to risks and uncertainties. Examples of such forward-

looking statements include, but are not limited to: projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure, other net financials or ratios; statements of our plans, objectives or goals including those related to products or services; statements of future economic performance; and statements of assumptions underlying such statements. Words such as 'believes', 'anticipates', 'expects', 'intends', 'aims' and 'plans' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by us or on our behalf. These factors include, but are not limited to, economic trends and developments in financial markets and the economic impact of unexpected events; technological developments; changes in applicable Danish

and EU legislation; changes in interconnect rates; developments in competition within domestic and international communications solutions; introduction of and demand for new services and products; developments in the demand, product mix and prices in the mobile market, including marketing and customer acquisition costs; developments in the market for multimedia services; the possibilities of being awarded licenses; developments in TDC's international activities, which also involve certain political risks; and investments and divestitures in domestic and foreign companies.

We caution that the above list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and events. Such forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.