

# **Combination of Orange Switzerland & Sunrise: *Creating the leading nationwide alternative telecom operator in Switzerland***

**25 November 2009**



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# Transaction highlights

## Key highlights

- Combination of Orange Switzerland (“Orange”) and Sunrise creates the leading nationwide alternative telecom operator in Switzerland
- Significant value creation due to synergies with an NPV of €2.1bn
- FT achieves another major in-market consolidation, following on the UK joint venture between Orange and T-Mobile
- TDC crystallises immediate value whilst retaining value upside as a 25% shareholder, after a series of transactions

## Key terms

- FT and TDC to combine Orange and Sunrise
- FT to acquire 75% of the combined entity (fully consolidated by FT) for a total net cash consideration of €1.5bn
  - As a result, TDC will own the remaining 25% of the combined entity
- Share buy-back programme, targeted at TDC’s 25% stake
  - Pre-defined valuation multiples (based on €1.2bn target NPV for full 25% stake)
  - TDC has priority right to tender its shares as part of any annual share buyback
  - To be decided by the Board of the combined entity on a yearly basis
- FT call option on TDC stake from 1 year after closing
  - Subject to floor value of €1.2bn, compounded at 7% from 31 March 2010
- Key transaction terms agreed, subject only to confirmatory due diligence

## Key conditions & milestones

- Binding agreement subject to:
  - Confirmatory due diligence over period of eight weeks
  - Approval by relevant authorities
- Operations managed independently up to closing

# Transaction rationale

## Emergence of a strong #2 player in the Swiss telecom market

- Creating the leading alternative operator in the Swiss telecoms market
  - Total subscriber base of c. 3.4m mobile subscribers and c. 1.1m fixed subscribers benefiting from the best of both partners' offers
- Creating a strong #2 player in the Swiss mobile market
  - Combined subscriber market share of c. 38%
  - Servicing all key market segments: from business customers to prepaid / postpaid consumers and wholesale customers (carrying 7 out of 8 service providers / MVNOs in Switzerland)
- Benefiting from a solid platform to become full service provider
  - Subscriber market share of c. 13% in broadband through existing Sunrise ULL platform to be further strengthened with FT Group expertise in ADSL, VoIP and IPTV
  - 730,000 fixed voice customers: mix of VoIP and CPS, representing an 18% penetration of PSTN / ISDN lines in Switzerland

## Delivering strong benefits to Swiss customers

- Competitive mobile network coverage and broadband capacity
- Wide range of mobile and fixed offerings from both partners, with potential to push convergent services
- Scale effects allowing improved investment in networks and future technologies
  - Accelerated and broader roll out of 3G network
  - New access technologies
- Enhanced distribution through a combined network of over 100 locations
- Notable environmental benefits through large reduction of duplicate antennas

# Transaction rationale (cont'd)

## Costs savings through integration and scale

- Significant synergy potential: NPV of net opex and capex savings of c. CHF3.2bn (€2.1bn equivalent)
  - Opex run-rate synergies of over CHF200m per annum
  - Capex run-rate synergies of c. CHF65m per annum
- Key sources of synergies include network rationalisation, marketing efficiencies and elimination of duplicate functions
- Run-rate synergies expected to be fully implemented by year end 2014
- Expected integration costs of c. CHF140m

## Value creation for shareholders

### FT

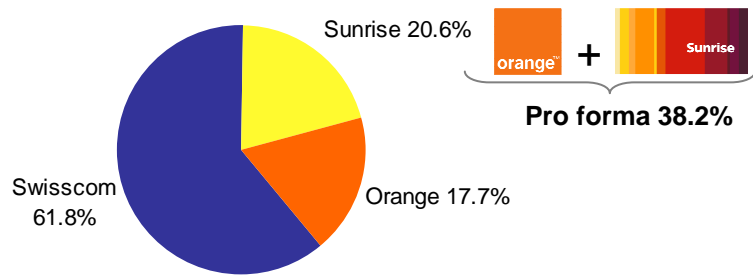
- Majority ownership of a larger, more profitable asset
- Significant value creation potential from in-market consolidation synergies
- Free Cash Flow accretive from 2010, EPS accretive from 2011
- FT Group leverage ratio to remain within the stated group policy of net debt to EBITDA below 2.0x; no change in dividend policy

### TDC

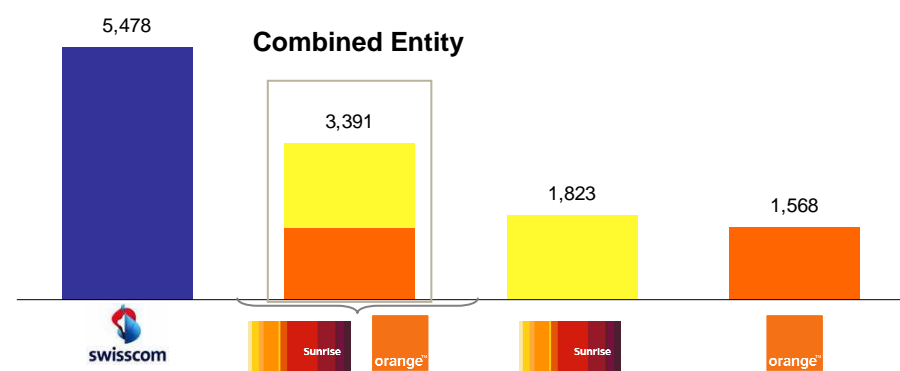
- Upfront value crystallisation
- Retain value upside through 25% stake in larger, more profitable asset
- Liquidity through share buyback mechanism
- Optimise TDC capital structure
- Increased management focus on core Nordic operations

# The combination will create a strong alternative in the Swiss telecommunications market

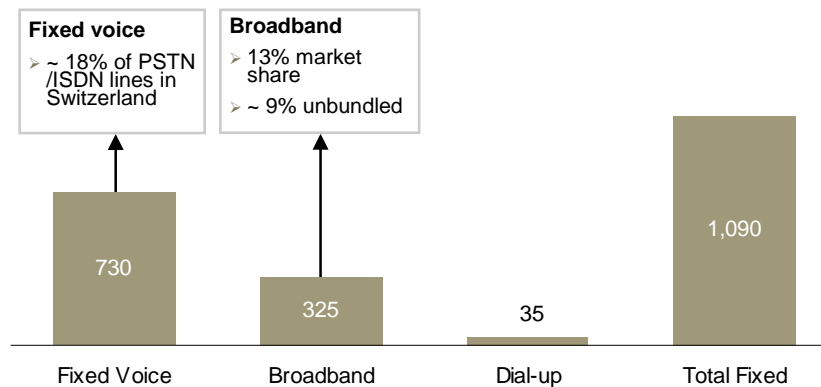
**Swiss mobile subscribers market shares (30 June 2009)**



**Total Swiss mobile subscribers ('000 subs 30 June 2009)**



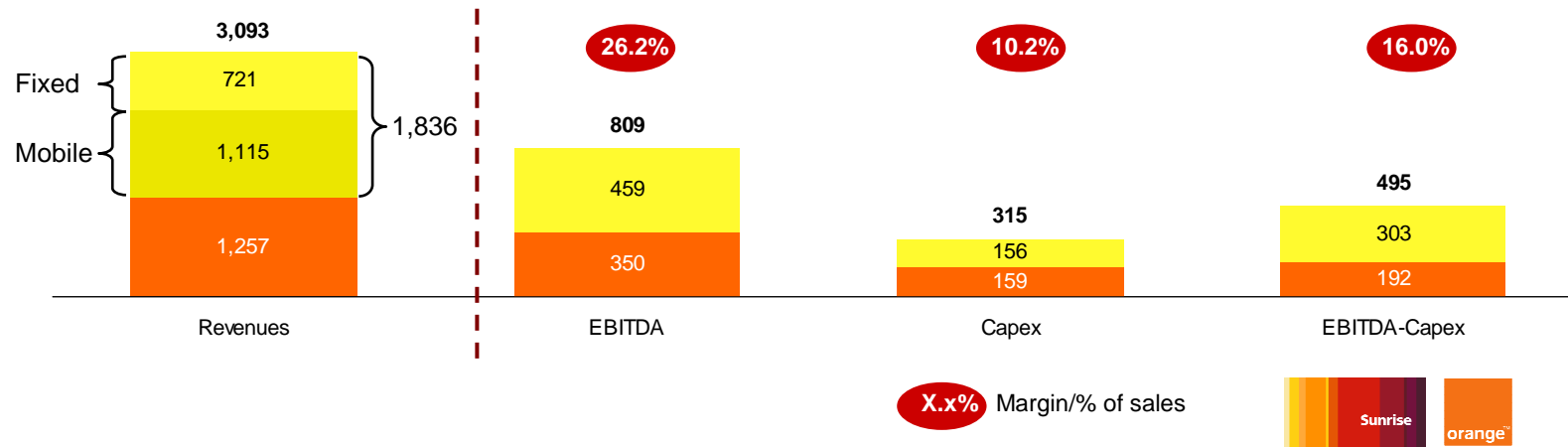
**A strong platform in fixed and broadband ('000 subs 31 Dec 2008)**



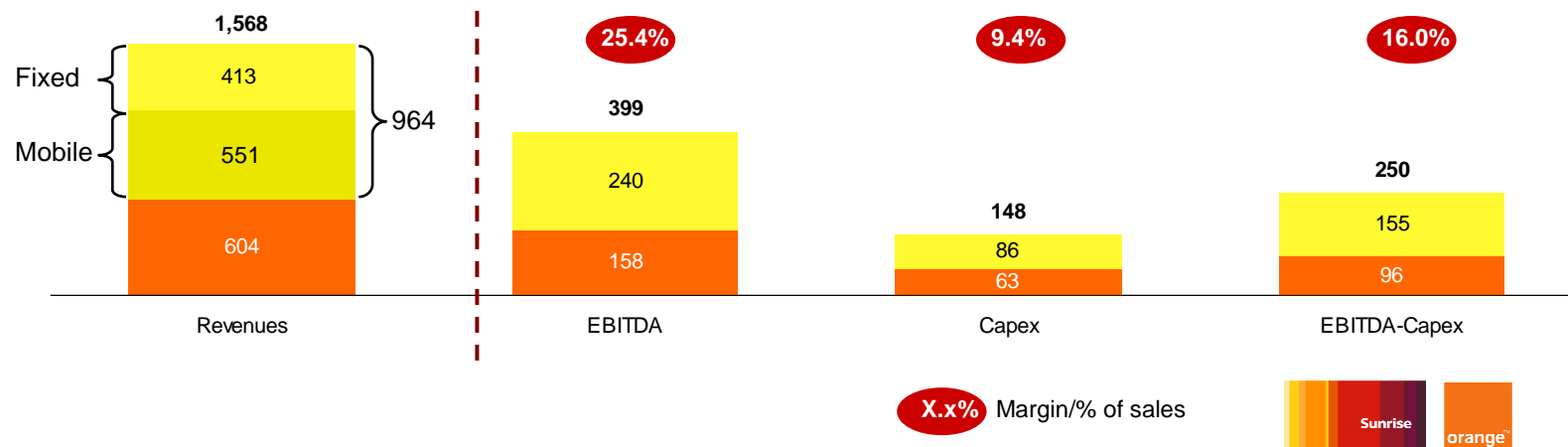
Source: Company filings, Annual Reports, Quarterly Reports. Mobile subscriber numbers and market share exclude MVNO subscribers on the relevant networks

# The combination will create a strong alternative in the Swiss telecommunications market (cont'd)

## Combined entity financials (CHFm, 2008 PF)



## Combined entity financials (CHFm, H1 2009 PF)



Source: Company filings, Annual Reports, Quarterly Reports. Revenues adjusted for recharge commission and intercompany eliminations as per management estimates

# The combined entity will deliver strong benefits to Swiss consumers and businesses

## A new, compelling customer offer

- Increased scale and resources allow for additional investments in products and services as well as technology innovations
- On-net community of combined company will be doubled to c. 38% of the mobile market, lowering calling costs for the customer
- Positioned to offer truly convergent fixed mobile services

## Enhanced retail and brand presence

- Consolidation of retail shop networks will lead to a larger street presence and better locations, with over 100 shops
- Branding strategy to be reviewed, with the objective to target all customer segments
- Ability to build best-in-class customer services

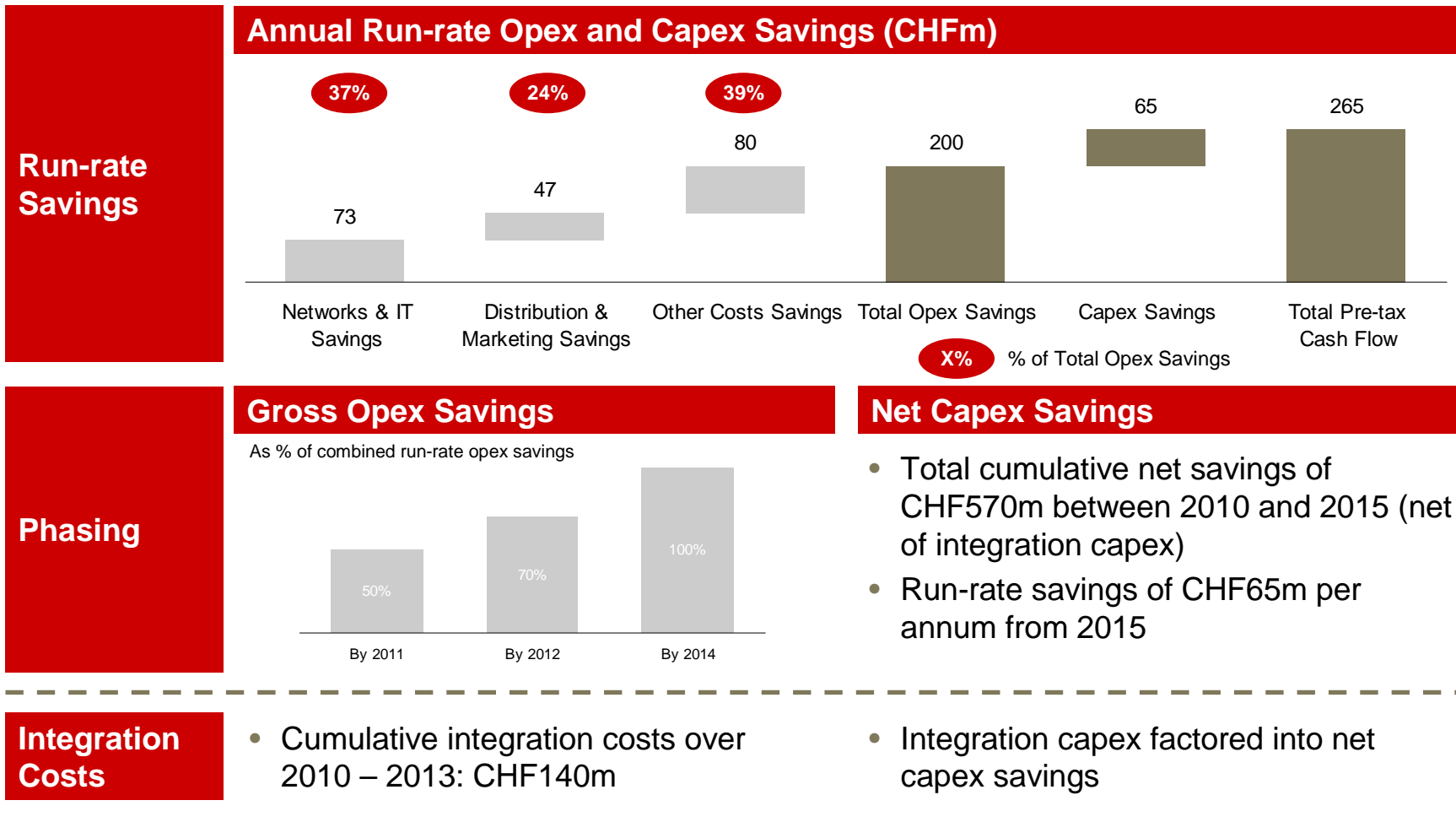
## Enhanced network quality

- Faster and broader build-out of 3G coverage, with more capacity and less antennas
- Further develop ULL broadband base through FT Group expertise in ADSL, VoIP and IPTV
- Network quality improvements to benefit our service providers / MVNOs customers



**The combination creates a stronger competitor, providing a high quality, competitive alternative in the Swiss telecommunications market**

# NPV of synergies of CHF3.2bn (€2.1bn), net of integration costs

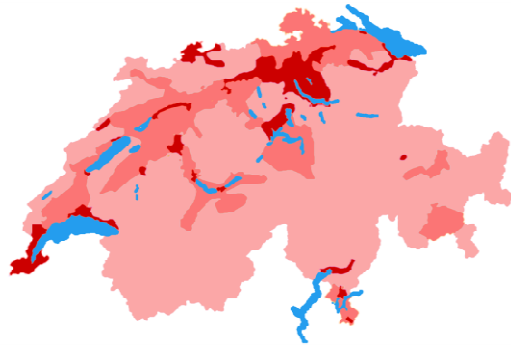


# Sources of synergies and integration costs

	Sources of synergies	Related integration costs
<b>Network &amp; IT</b>	<ul style="list-style-type: none"><li>• Combining best-of-partners' 2G and 3G existing radio networks and jointly extending 3G network coverage</li><li>• Backhaul, backbone and core network consolidation</li><li>• Front-office &amp; back-office IT unification</li></ul>	<ul style="list-style-type: none"><li>• Decommissioning of redundant sites</li><li>• Renegotiation of supplier contracts</li><li>• Network integration opex</li></ul>
<b>Distribution &amp; Marketing</b>	<ul style="list-style-type: none"><li>• Lower marketing &amp; communication fixed costs due to future branding strategy (to be defined during the integration phase)</li><li>• Lower distribution costs from rationalised and moderately extended retail network, with higher share of own distribution</li></ul>	<ul style="list-style-type: none"><li>• Costs associated with implementation of future branding strategy</li><li>• Closure of redundant shops</li></ul>
<b>Other costs savings</b>	<ul style="list-style-type: none"><li>• Reduction of G&amp;A, especially in real estate</li><li>• Progressive optimisation of workforce</li><li>• Elimination of duplicate costs and rationalization of processes</li></ul>	<ul style="list-style-type: none"><li>• Costs associated with rationalisation of processes, elimination of duplications and optimisation of workforce</li></ul>

# Network: large savings from combining existing & complementary 2G/3G networks, and jointly extending 3G network coverage

## Integrating best of partners' RAN assets for better and faster mobile broadband coverage



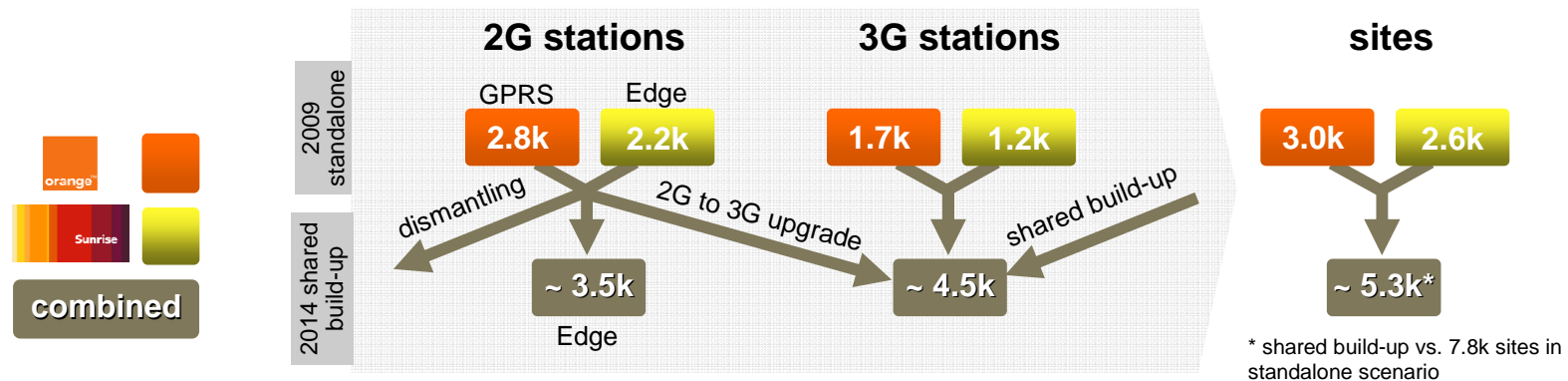
### Situation today

- **Cities:** both operators have deployed 2G (Edge by Sunrise, GPRS by Orange) and 3G
- **Suburbs:** most 3G stations originate from Orange
- **Rural areas:** Edge deployed by Sunrise, GPRS by Orange; few 3G assets from both partners

### Integration approach

- Merge Sunrise and Orange assets, leveraging EDGE and 3G capabilities in densest areas
- Use Orange sites as a base for integration and upgrade for capacity to EDGE and 3G
- Use Sunrise sites (900Mhz grid) as a base for integration, extend 3G coverage and reduce overall number of sites

## One single network with ~40% less stations and ~30% less sites than sum of standalone



# Distribution / Marketing: rationalized distribution platform and more efficient commercial spend

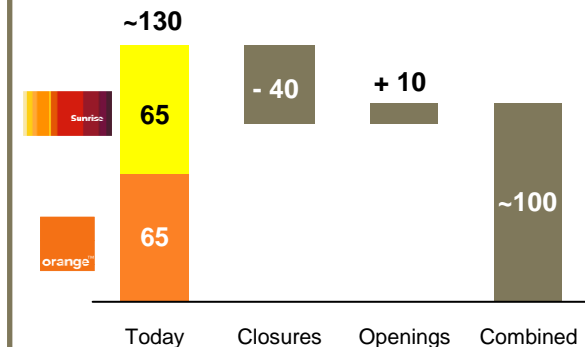
## Distribution network strengthened by integrating best store locations and moderately extending reach

- Significant rationalization of overlap in premium locations
- Reduction in distribution costs through increased share of own distribution by 5 to 10%
  - Increased scale and quality of own shops network
- Implementation costs of c. CHF10m to be spread over 2010-2012 period
  - Termination costs for closed shops
  - Refurbishment costs for retained shops

## Significant savings in marketing costs

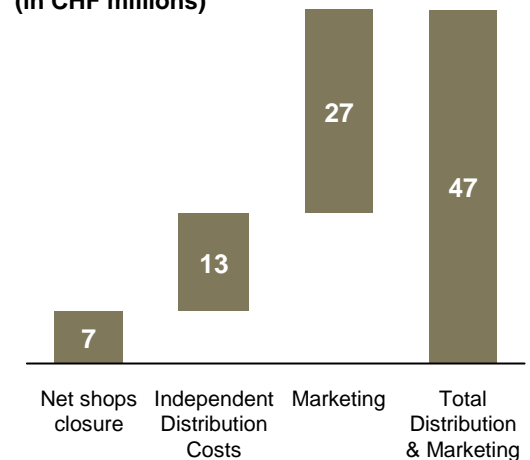
- Reduction of combined fixed marketing costs
- Costs related to future branding strategy of c. CHF20m to be spread over 2010-2011

## Own shops network<sup>1</sup>



## Annual run-rate synergy breakdown<sup>2</sup>

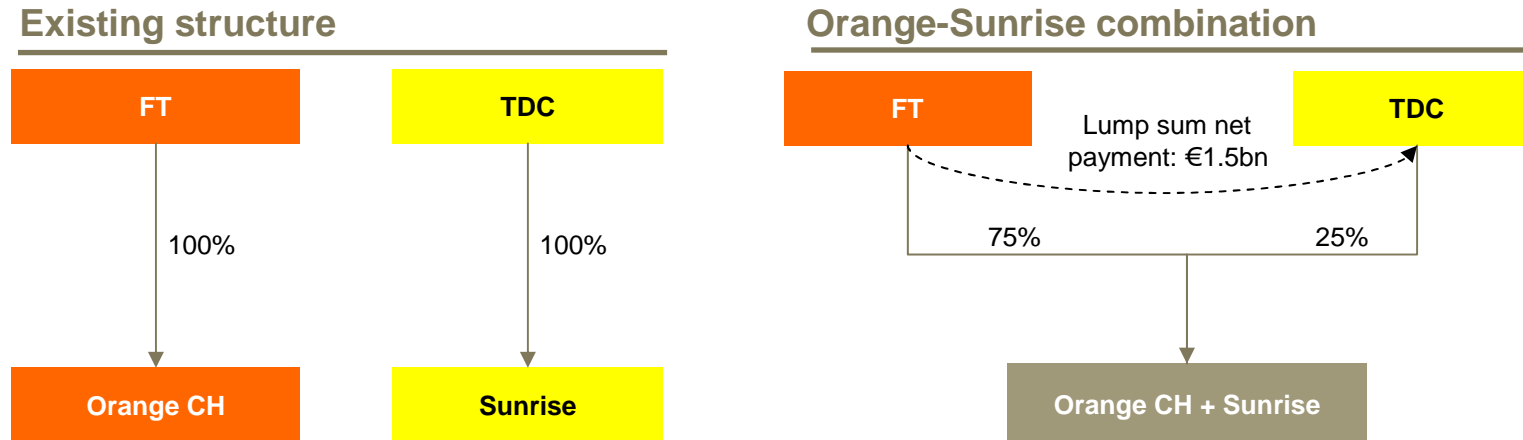
(in CHF millions)



<sup>1</sup> Estimated 2009 shops

<sup>2</sup> Run-rate opex post 2012

# Transaction terms and structure



- Key steps at closing
  - FT and TDC to combine Orange Switzerland and Sunrise
  - FT simultaneously makes a net €1.5bn cash payment to TDC to reach a 75% ownership level in the combined entity after a series of transactions
  - Both assets contributed on a cash free and debt free basis as of 31 March 2010, with closing expected in Q2 2010

# Combined entity governance principles

## Board composition and voting rights

- Board composed of 5 directors
  - 3 appointed by FT, including Chairman (Olaf Swantee), and 2 appointed by TDC
- Most decisions taken by simple majority
- TDC to benefit from customary protections for a large minority shareholder

## Key managers

- Tom Sieber will be CEO of the combined entity
- Christoph Brand will supervise initial integration post closing
- Incentive scheme in place to facilitate integration process involving both management teams
- Other key managers to be selected out of the two organisations on the basis of “best person for the job”
- Governance designed to ensure large autonomy to local management

## Distribution policy

- Cash return to shareholders subject to approval of the Board of the combined entity
- As part of the share buyback programme, TDC has priority right to tender its shares

# Alternative exit routes for TDC

## Share buy-back

- Annual buy-backs spread over 3 years from 2012 to 2014, which if executed, offers full exit to TDC
  - Exercisable in Q1 of each year at a price derived by applying fixed EBITDA multiples to the prior year audited EBITDA, net of prior year end net debt
  - Fixed EBITDA multiples pre-determined in order to achieve a target Net Present Value for the full 25% stake of €1.2bn
  - Price paid will depend on actual EBITDA performance

## FT call option

- FT call option on TDC stake from 1 year after closing
- Exercise price based on the higher of
  - Floor value of €1.2bn compounded at a rate of 7% per annum for the full 25% TDC stake
  - Value implied by applying pre-agreed EBITDA multiple of the respective year from the share buy-back mechanism

## IPO / Sale to third parties

- Sale to third party possible from 2 years after closing
- Right to IPO from 3 years after closing

## FT payment obligations

- Mechanism put in place in connection with the exit routes of TDC
  - FT to pay €100m per year to TDC in each of 2012, 2013 and 2014 (NPV of liability of €245m)
  - Such payment(s) will not occur in the respective year(s) in which the share buyback is implemented, or if the FT call option has been exercised
  - These payments may be reduced or reimbursable under certain exit scenarios for TDC (exercise of FT call option, IPO or sale to a third party)

# FT pro forma impact – immediately FCF accretive

## Key principles

- Full consolidation of combined entity
- Full access to cash flows of the combined entity through cash pooling
- NPV of liability associated with mechanism put in place in connection with TDC's exit will be accounted for as zero coupon debt in the FT accounts (NPV of c. €245m), from closing of the transaction
- Group net debt to remain below stated policy objective of 2.0x Net Debt / LTM EBITDA
  - Impact on net debt below 0.06x EBITDA
- Group guidance unchanged

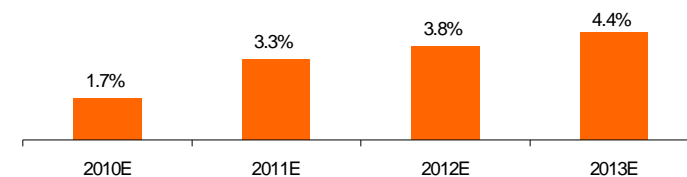
## Financial impact

### Impact on Key Financial Metrics

	2008PF UK <sup>1</sup>	2008 Pro Forma
Revenues	€47.6bn	€48.7bn
EBITDA	€17.3bn	€17.6bn
EBITDA Margin	36.4%	36.1%
Capex	€6.4bn	€6.5bn
Capex as % of Revenue	13.5%	13.4%
Net Debt	€35.1bn	€36.9bn
Net Debt/EBITDA	2.03x	2.09x

### EPS and FCF per Share Accretion<sup>2</sup>

- EPS neutral in 2010 and accretive from 2011 (2013 accretion of 2.9%)
  - Immediately free cash flow accretive
- Free cash flow per share



<sup>1</sup> FT 2008 data as reported, pro forma for the impact of the joint venture between Orange and T-Mobile in the UK

<sup>2</sup> Based on Broker consensus estimates. Estimates exclude any potential effect from one-off transaction-related accounting impacts and from Purchase Price Accounting.

# TDC pro forma impact – deleveraging the Group

## Key principles

- Full consolidation of Sunrise until it is considered highly probable that the transaction will be completed
- After closing, combined entity will be accounted for as an associate (equity method)
- Group guidance unchanged
- €1.5bn of proceeds will be used to optimise the capital structure of TDC to achieve credit targets in line with industry standards

## Financial impact

### Impact on Key Financial Metrics

	2008A	2008 Pro Forma
Revenue	DKK35.6bn	DKK26.9bn
EBITDA	DKK12.2bn	DKK10.1bn
EBITDA Margin	34.3%	37.5%
Capex	DKK4.7bn	DKK4.0bn
Capex as % of Revenue	13.2%	14.8%
Net Debt	DKK30.1bn <sup>1</sup>	DKK17.3bn <sup>2</sup>
Net Debt/EBITDA	2.5x	1.7x

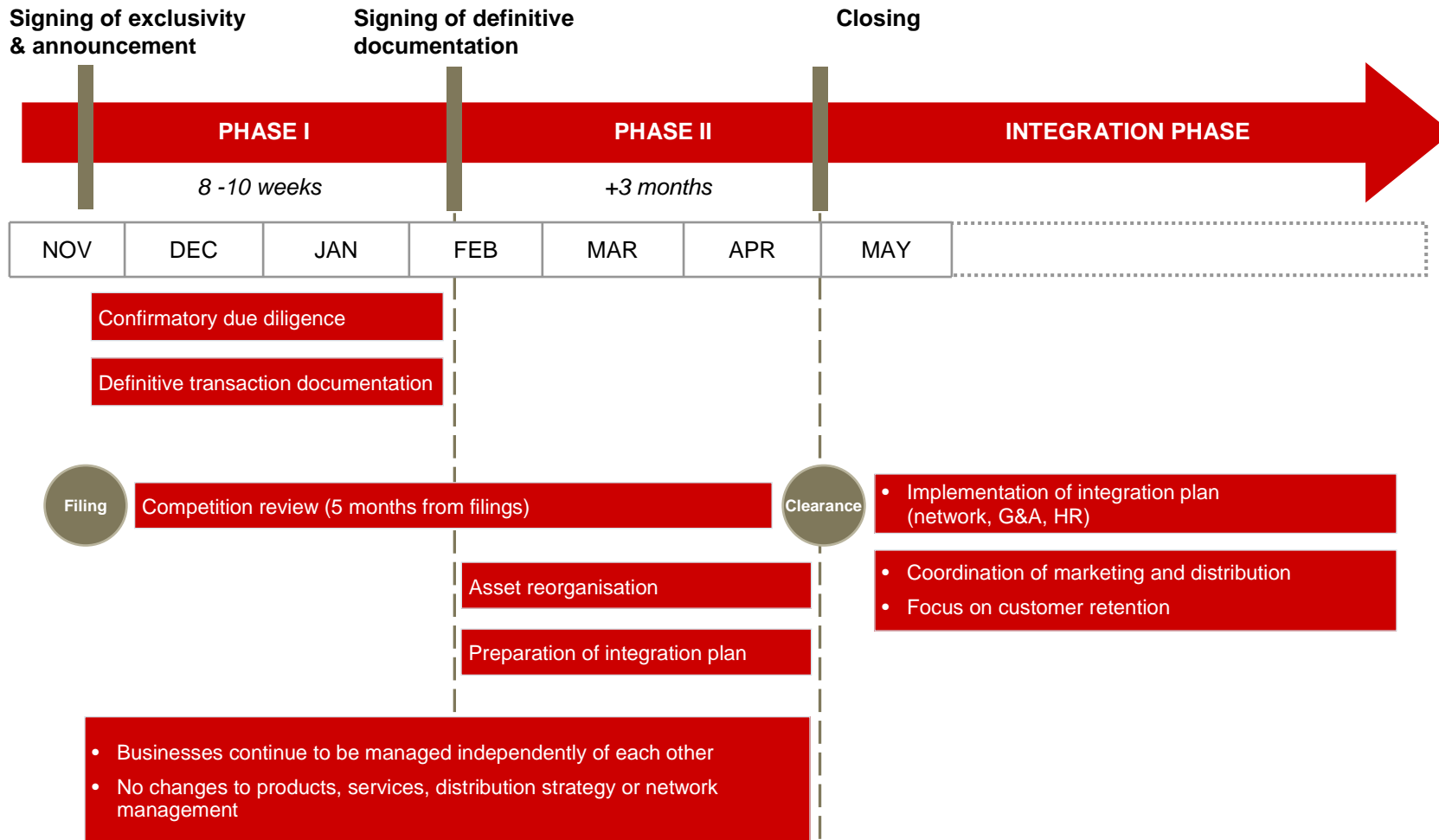
### Highlights

- Group net leverage to decrease from 2.5x to 1.7x as a result of €1.5bn cash payment from FT
- Uplift in EBITDA margin from 34.3% to 37.5%

<sup>1</sup> Pro forma for sale of Invitel had been divested. Reported Net Debt was DKK 35.1bn.

<sup>2</sup> Based on DKKEUR exchange rate of 0.1343 as of December 31, 2008

# Expected transaction timetable



# Summary: creating a stronger competitor in Switzerland

- The leading alternative for Swiss consumers
  - Larger scale
  - More resources and capabilities
  - Platform for convergent services
- Significant value creation due to synergies with an NPV of €2.1bn
- Accretive transaction for FT shareholders
  - Free Cash Flow per share accretive from 2010
  - 2013 EPS accretion of 2.9% and Free Cash Flow accretion of 4.4%
- FT completes another major in-market consolidation, following on the UK joint venture between Orange and T-Mobile
- TDC receives €1.5bn and retains value upside as a 25% shareholder
  - Clear path to exit, at valuation parameters predefined to achieve an NPV of €1.2bn
  - Proceeds will be used to optimize TDC's capital structure