Appendix 2: Description of and rationale for the proposed changes to TDC's Remuneration Policy

After careful consideration and a constructive dialogue with several market participants including shareholders, we have decided to propose an update of TDC's Remuneration Policy for approval at the AGM.

The Remuneration Policy provides an overview of the current remuneration of TDC's Executive Committee and describes the principles behind the fixed pay, the variable compensation (incentive programs) and the requirement to own TDC shares.

The proposed update of the Remuneration Policy can be seen in Appendix 1, while a rationale for the changes can be found below.

The overall rationale behind the update is threefold:

- to further strengthen the alignment of managements' incentives with long and short term shareholder value creation as set out in our main strategic goals of *Best Customer Satisfaction* and *Best Cash Flow Generation*
- reinforce our ability to continue to attract and retain talent
- maintain incentive programs that are within market practise among large Danish corporates

TDC's Executive Committee currently has three programs for variable compensation, please see the table below:

Program	On-target payout-% of fixed pay	Current Performance criteria	Historical payout for settled programs
STI Short term incentive (1 year vesting in cash)	50%	- Customer Satisfaction - Equity Free Cash Flow	2010: 105% 2011: 91% 2012: 44% 2013: 103% 2014: 94% 2015: 147% 2016: 126%
LTI: Deferred Annual Bonus (**DAB**) - Based on Performance Share Units (PSUs) - 3 years vesting in shares	25%-50%[1]	- 3 year accumulated Equity Free Cash Flow	2012-2014: Money back plus a 51% return 2013-2015: Money back plus a 87% return 2014-2016: Money back plus a 60% return
LTI: Performance share program (**PSP**) - Based on Performance Share Units (PSUs) - 3 years vesting in shares	30%	- Total shareholder remuneration (TSR) relative to peer group	2011-2013: 100% 2012-2014: 50% 2013-2015: 0% 2014-2016: 0%

[1]50% of STI must be deferred for 3 years and the remaining 50% can voluntarily be deferred

In addition to this, members of the Executive Committee are required to own TDC shares with a value corresponding to twice their annual fixed pay after tax after 5 years employment and with minimum ownership of 10%, 20%, 30%, 60% and 100% after respectively 1, 2, 3, 4 and 5 years´ employment.

TDC’s BoD are proposing three changes to the Remuneration Policy:

1) **Reinforcement of the Executive Committee share ownership requirement**

   The BoD proposes to change the minimum share ownership requirement from 10%, 20%, 30%, 60% and 100% after respectively 1, 2, 3, 4 and 5 years´ employment to 20%, 40%, 60%, 80% and 100%.

   The implementation of this change is intended to increase alignment with shareholders through managements’ direct ownership of shares. This requirement can be quite challenging for some members of the Executive Committee given the high degree of income and wealth equality in Denmark (driven by tax laws and compensation practices) compared to many other countries in Europe and in the USA.

2) **Close down of the DAB program**

   The BoD proposes to close down the DAB program. Program participants will receive a one-time compensation in the form of shares with a 3-year lock up plus cash to settle tax on compensation for the lost program value.

   The main reason for the proposal is that a deferral program is beyond market practice in Denmark and therefore can be a hindrance in TDC’s efforts to attract and retain talent.

   It will also simplify the structure of management incentive programs and reduce the administrative burden related to incentive programs.

   The reduction in management’s share ownership from the close down of the DAB program is compensated through the proposed reinforcement of the Executive Committee share ownership requirement as presented in 1) above.

   The DAB program contained a performance criterion based on cash flow generation, and this metric is now going to be rolled into the LTI program as it remains one of the key strategic goals for the company.

3) **Change of PSP performance criterion**

   The BoD proposes to change the performance criterion in the PSP program from 100% Total Shareholder Return (TSR) relative to the peer group to a combined 50% TSR criterion (unchanged 0-150% payout) and 50% cash flow-growth criterion over a 3 year horizon (proposed 0-200% payout).

   This change is introduced to create a strong focus on the long term generation of cash flows thereby aligning with the creation of shareholder value and one of TDC's main strategic goals *(Best Cash Flow Generation)*.

Cash flow-growth is also considered a more concrete metric by many and one that can be influenced more directly by management. Therefore, it can serve well to complement TSR as a long term goal while still being aligned with the overall goal of creating shareholder value

Since the short term incentive program is also partly based on cash flow generation the change aligns short term and long term incentives on this important metric. Also, having long term cash flow generation as a performance criterion in the LTI program will ensure that cash flows are not optimized in the short term at the expense of the ability to generate and grow cash flows over the mid to long term.

The program is still heavily exposed to the absolute return to shareholders (and therefore creates incentives that are directly aligned with shareholders' interest) since it is based on an award of Performance Share Units (PSUs) that vest as shares after 3 years.

The new performance criterion has a vesting scheme that allows for a 200% payout which makes the total potential payout from the program slightly higher than previously.

However, the vesting scheme for the new performance criterion has been set so the 200% payout only is obtained for an absolutely outstanding performance level which again is in the shareholders' interest.

Despite this slight increase in the maximum payout for the LTI program the total maximum payout opportunity related to variable compensation has been reduced due to the closing of the DAB program as shown in the table below.

	Maximum opportunity (as % of base salary)			
	LTI	**STI**	**DAB[1]**	**Total**
Current policy	45.0%	100%	100%	245%
New policy	52.5%	100%	0	152.5%
Increase/decrease	**7.5%**	0.0%	**-100%**	**-92.5%**

[1]Assuming maximum payout of STI and maximum deferral (100% of STI)

In conclusion, the BoD believes that the following elements of TDC's incentive programs create a strong incentive structure and full alignment with our shareholders:

- the STI based on performance criteria composed of customer satisfaction and cash flow generation

- the LTI in the form of the PSP based on equity-linked awards and performance criterion composed of TSR and long-term cash flow-growth