

T-Systems Nordic A/S

Lautrupvang 8
DK-2750 Ballerup
CVR no. 14 81 52 44

Annual Report for 2017

Adopted at the Annual General
Meeting on 31 May 2018

Chairman

Casper Malig

Contents

	Page
Statements	
Statement by Management on the Annual Report	1
Independent Auditor's Report	2
Management's Review	
Company Details	5
Financial Highlights	6
Management's Review	7
Financial Statements	
Accounting Policies	16
Income Statement 1 January - 31 December	21
Balance Sheet 31 December	22
Statement of Changes in Equity	24
Notes to the Financial Statements	25

Statement by Management on the Annual Report

The Executive Board and Board of Directors have today discussed and approved the Annual Report of T-Systems Nordic A/S for the financial year 1 January - 31 December 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

In our opinion, Management's Review includes a fair review of the matters dealt with in the Management's Review.

Management recommends that the Annual Report should be approved at the Annual General Meeting.

Ballerup, 31 May 2018

Executive board

Rudolphus Johannes
Wilhelmus Antonius Hellemons
CEO

Board of Directors

Casper Malig
Chairman

Bernhard Josef Fohringer

Thomas Deeg

Christian Lukas Eigenmann

Rudolphus Johannes
Wilhelmus Antonius
Hellemons

Independent Auditor's Report

To the Shareholder of T-Systems Nordic A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017, and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of T-Systemt Nordic A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("Financial Statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

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

Independent Auditor's Report

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 31 May 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR no. 33 77 12 31

Leif Ulbæk Jensen

State Authorised Public Accountant

mne23327

Company Details

The Company

T-Systems Nordic A/S
Lautrupvang 8
DK-2750 Ballerup

Telephone: +45 70 12 26 26

CVR no.: 14 81 52 44

Reporting period: 1 January - 31 December 2017

Domicile: Ballerup

Board of Directors

Casper Malig, Chairman
Bernhard Josef Fohringer
Thomas Deeg
Christian Lukas Eigenmann
Rudolphus Johannes Wilhelmus Antonius Hellemons

Executive Board

Rudolphus Johannes Wilhelmus Antonius Hellemons, CEO

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Financial Highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

	2017	2016	2015	2014	2013
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Revenue	549.899	568.893	516.934	507.502	296.591
Gross profit	68.510	84.626	55.393	31.746	36.811
Profit/loss before financial income and expenses	4.373	23.948	409	-26.525	-18.610
Net financials	-5.264	-2.774	-3.574	-4.730	-1.255
Profit/loss for the year	-956	20.002	-3.164	-36.415	-21.579
Balance sheet total	348.779	367.170	322.423	380.631	152.138
Investment in property, plant and equipment	17.024	8.741	13.491	6.326	-5.227
Equity	28.333	29.199	8.790	11.955	3.370
Number of employees	54	51	50	49	61
Financial ratios					
Gross margin	12,5%	14,9%	10,7%	6,3%	12,4%
Profit margin	0,8%	4,2%	0,1%	-5,2%	-6,3%
Return on assets	1,2%	6,9%	0,1%	-10,0%	-14,1%
Solvency ratio	8,1%	8,0%	2,7%	3,1%	2,2%
Return on equity	-3,3%	105,3%	-30,5%	-475,2%	-252,1%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the summary of significant accounting policies.

Management's Review

T-Systems company profile

With a footprint in more than 20 countries, 43,700 employees, and external revenue of 7.9 billion euros (2016), T-Systems is one of the world's leading vendor independent providers of digital services headquartered in Europe.

T-Systems is partnering its customers as they address the digital transformation. The company offers integrated solutions for business customers. The Deutsche Telekom subsidiary offers one-stop shopping: from the secure operation of legacy systems and classical ICT services, the transition to cloud-based services (including international networks, tailored infrastructure, platforms and software) as well as new business models and innovation projects in the Internet of Things. T-Systems can provide all this thanks to its global reach in fixed-network and mobile communications, its highly secure data centers, a comprehensive cloud ecosystem built around standardized platforms and global partnerships, and the ability to offer top levels of security.

The Internet of Things (IoT) is making its presence felt in the business world – the real-time world has reached the engine room. Sensors can measure the current state of different factors with virtually no delay time and immediately pass on data such as location, temperature, vibrations or any deviations from predefined normal ranges. This is the basis for new business models and depends crucially on fast networks for the transmission of data and a high-performance cloud to transport the data to where it is stored and analyzed. In addition, the transmission channels and data pools must be secured against unauthorized access. Deutsche Telekom and T-Systems have spent billions on connectivity, cloud, IoT and security to ready themselves for the connected world.

A cloud made in Germany

Cloud solutions transport the data from myriad sources and sensors safely to T-Systems' data centers, where our corporate customers can use the accumulated information for analysis. That provides a firm foundation for both new and existing business models. Customers want to use the secure German cloud. be it as a reaction to current political events, scandals over eavesdropping or Internet crime. That is why Deutsche Telekom has developed a cloud ecosystem over the years that conforms to Germany's strict data privacy laws.

This cloud ecosystem already comprises as many as 150 partner solutions. Deutsche Telekom achieved revenues of about 1.6 billion euros in cloud business in 2016. That represents an increase of 12 percent, and more than two-thirds of that figure was accounted for by T-Systems. The business has long achieved its cloud revenues through its private cloud sales alone (that is through specialized solutions provided especially for a single customer). Now, however, proprietary public-cloud applications such as the Open Telekom Cloud are making headway.

Management's Review

Many T-Systems' cloud products are available from the House of Clouds, the by-name for the company's high-performance data center in Biere, near the German city of Magdeburg. In the House of Clouds, all major cloud providers can be found side by side. Customers benefit from being able to process and analyze data swiftly – under one roof as it were. The data center in Biere provides customers with a "high-density cloud" service. It is considered to be the Fort Knox among data centers and has grown to become a European data hub. As Biere 1 has already reached its capacity limits, Biere 2 is currently under construction. After the latter's completion in 2018, the data center's performance will be double what it is today.

New networks, new partners

Deutsche Telekom is constantly refining its net infrastructure as the motor of digitization and invests billions of euros for this purpose every year. The Internet Protocol (IP) is increasingly becoming the technical basis. Next-generation networks (NGN) and all-IP networks make it possible for companies to offer their services and applications over the Internet using new business models. A series of innovations for fixed-network and mobile communications form the basis of this integrated network strategy:

(1) The creation of a Narrow Band IoT network in eight European countries. This network provides excellent building penetration and provides coverage in locations usually inaccessible to radio waves, such as basements and underground parking lots.

(2) Investments in 5G, the core prerequisite for real-time communication. Such cutting-edge network technology is set to come into its own at industrial and business facilities, or airports for example, before it becomes available nationwide at the beginning of the next decade. It promises capacities a thousand times greater, transfer speeds ten times faster and ten times shorter latencies than the technology available in today's networks. With 5G, telecommunications service providers can guarantee their business customers the quality of service they need.

(3) A new partnership with BT will allow T-Systems to connect its own networks with the latter's, thus expanding T-Systems' global reach by more than 60 percent and offering seamless connectivity.

(4) Developing ngena, a worldwide network to make IoT applications available at the push of a button (software-defined network). With 15 partners, already on board, the initiative already spans the globe – from North and South America to Australia and large parts of Europe, Africa and Asia.

(5) T-Systems is also going global when it comes to mobile networks. Via Freemove (in Europe), Bridge Alliance (in Asia) and T-Mobile US, the company can provide its customers with reliable mobile coverage in 100 countries across the globe – giving it the best 4G network worldwide.

Management's Review

High-performance networks for enterprises

Deutsche Telekom is constantly refining its high-performance infrastructure and invests billions of euros for this purpose every year. The Internet Protocol (IP) is increasingly becoming the technical basis. Next-generation networks (NGN) and all-IP networks make it possible for companies to offer their services and applications over the Internet, through new business models. The integrated network strategy is based on fixed-mobile convergence, the development of 5G, and a pan-European network (Pan-Net).

Advancements in the development of the 5G standard mean that Deutsche Telekom has recently been able to reduce latency to under one millisecond, which is a requirement for real-time applications such as self-driving cars, remote medical procedures, and even high-performance games.

The T-Systems telecommunications portfolio is divided into several different areas: connectivity and network access, corporate networks, and end-user communications. It includes access services for high-performance mobile and fixed networks, and secure corporate networks (LANs and WANs) based on VPN technology and including operations, maintenance and updates. T-Systems also offers communication services such as Unified Communications, voice over IP and videoconferencing systems on the basis of public and proprietary networks. For years now, Deutsche Telekom networks have ranked very high in tests for network coverage, voice quality and data transmission speeds.

The Internet of Things: connecting everything

Market researchers surpass each other with estimates of how many "things" will be connected to the Internet by 2020. As a matter of fact, millions of new things are already being connected every day. Most of them are products that had nothing to do with the Internet until now, from baby monitors, parking spaces and electricity meters to whole production systems. All these things not only send data via the cloud to the storage pools for later analysis, they also communicate among themselves. No wonder, then, that companies from SMEs to multinationals want to mine the "gold of digitization" and advance their digital business models together with partners. To this end, T-Systems offers its customers easy and fast access to public and private clouds, to the best network – be it mobile or fixed-line networks – and to tailored platforms in highly secure data centers that comply with Germany's strict data privacy laws. Additionally, the services include also systems integration across all technologies. Thus, new applications for industry and the public sector are generated with the help of one key contact. Example: Digital parking space management

Management's Review

Smart parking is one example of how the interplay of the cloud and networks is making the IoT capable of real-time operation. The system is about to be introduced by the city of Hamburg to simplify the search for parking spaces in the city. By 2018, motorists there should be able to use a T-Systems app to find reserve and pay for vacant parking spaces, and the city council and its service providers are digitizing a total of 11,000 public parking spaces to achieve that. On-street sensors will then send information to motorists' smartphones on where vacant parking spaces can be found. What makes digitization projects live and breathe is scalability. This is why Deutsche Telekom intend to offer this smart parking solution across the entire country. Numerous city councils across Germany have expressed interest in the new parking solution and cities such as Dortmund, Darmstadt, Merzig and Moers already intend to introduce it.

Security and quality in the Internet of Things

Cloud computing, mobile solutions and big data all pose entirely new challenges for IT security. What is more, cyberattacks on corporate networks and IT systems are getting ever more sophisticated and have become a huge threat to the economy. Data privacy and data security are thus crucial criteria for success in all technical developments. That is why Deutsche Telekom established the new "Telekom Security" business unit under the umbrella of T-Systems. Telekom Security concentrates all the company's security activities, and channels the experience of its some 1,200 security experts. The Group is doing everything it can to protect its own ICT systems and networks from Internet-based attacks. Furthermore, it offers customers – from citizen to corporation – new security solutions. To this end, Deutsche Telekom continuously adapt its Magenta Security portfolio to changing requirements. In addition, five years ago T-Systems launched the zero-outage quality program to ensure the uninterrupted availability of its systems and infrastructure. It also began establishing an ecosystem of partners who are all committed to the zero-outage principle and comply with shared quality management standards.

Strategy

T-Systems Nordic aims to be the preferred Nordic provider of innovative, platform based products along with Security, reliable information and communication solutions. We will support and guide our business customers in an increasingly complex connected world.

The Strategy of T-Systems Nordic is to meet our customers' needs with the best of two worlds of Telecommunication and Information Technology. In this regards T-Systems Nordic engage locally and deliver with global capacity and know how.

Since 2004, T-Systems has been active in the Nordic market. In 2012, the T-Systems Nordic strategy was adjusted. Previously, T-Systems Nordic mainly focused on SAP solutions and open platform solutions etc. belonging to the Small and Medium Business (SMB) segment since the majority of the Nordic companies belongs here.

Management's Review

However, since T-Systems differentiates itself from the majority of competitors through their global ability to supply both IT and telecommunication, it was decided to focus on “bringing the whole of T-Systems to the Nordic” instead of building up a “T-Systems Nordic” (with its own Nordic profile).

T-Systems Nordic - BALTIC countries

Deutsche Telekom AG (DTAG) decided to enter in the European inflight connectivity market as one of the few remaining growth segments for connectivity. DTAG Execution Committee (EXCOM) approved in 2014 the investment and strategic partnership with the leading satellite communications provider Inmarsat to develop, build and operate the European Aviation Network (EAN). The network will be rolled out in all EU 28 member states (excl. Cyprus) plus Norway and Switzerland.

A pan-European rollout is likely fraught with technological, financial, legal and regulatory challenges. An efficient cooperation with T-Systems LBUs, NatCos and Telekom Deutschland GmbH (TDG) is essential for the timely delivery and the success of the project.

T-Systems Nordic was chosen as operating company for currently covered Nordic countries and new branches in the Baltic. Based on the decision of DTAG, T-Systems Nordic started the foundation process in the Baltic countries Lithuania, Latvia and Estonia, in order to have the branches registered in the respective countries by 01.04.2017, to safeguard the success of the project.

Business Review

The Company's income statement for the year ending 31 December 2017 shows a net profit/loss of DKK -956 k and the balance sheet at 31 December 2017 shows shareholders' equity of DKK 28.333 k.

The result of T-Systems Nordic is mainly influenced by the growth strategy including investments in additional employees, marketing activities and relationship management. Within 2017 we are on track with our strategy to growth within the Nordic market. Overall the development of the financial result is in line with our ambitious growth strategy.

Foreign branches

Denmark: Our Danish Entity underperformed the expectations in regards of new business. For 2018 we are expecting to increase the market share due to new sales resources.

Sweden: Business development in our Swedish Branch was quite successful in 2017. Development of existing customers contributes to the positive result together with our new customers.

Management's Review

Finland: Our Finish Branch fulfilled the business expectations. Main focus for 2018 is to hunt for new business in the area of MNC (Multi-National-Customers).

Norway: The business in Norway was stable and continues on the level of the last years.

Estonia/Latvia/Lithuania: In 2017 the Branches in the Baltic countries was established. Implementation of the business was successful and went live January 1st, 2018.

Corporate Governance

Commitment

We have high expectations – especially of ourselves. T-Systems follow comprehensive principles of good corporate governance, which include accounting guidelines, compliance and ethical standards.

These principles fulfill the requirements of our parent company, Deutsche Telekom AG, and the public, as well as complying with the legal framework. For us, corporate governance means that we publish transparent financial reports, control our subsidiaries effectively, implement guidelines and rules in full, ensure that our business development is sustainable, maintain high ethical standards and promote integrity and commitment.

These principles allow our company T-Systems with its 43,700 employees worldwide to:

- meet high quality and security standards,
- offer products and services through more than 100 subsidiaries in more than 20 countries,
- and to achieve long-term financial success together with our partners.

The framework of guidelines and documentation of corporate governance at T-Systems is provided by the Corporate Governance Rules of Deutsche Telekom, the Code of Conduct, the Corporate Vision, the environmental goals of the business units, and our financial, environmental and social reporting.

An additional factor is the assumption of ethical responsibility – for example in connection with sport and cultural sponsoring, involvement in society and the promotion of education and training through the Telekom Foundation.

Management's Review

Diversity

Diversity is a core underlying theme that runs through everything we do and is the enabler of outstanding performance, in an environment that offers the space to develop personally and the best conditions for finding the ideal work-life balance. We are an international network whose goal is to overcome challenges with teamwork and team spirit. And we support all employees in their efforts to put our social responsibility into practice. We firmly believe that changes bring new opportunities for development and innovation – and that people who pursue maximum performance can achieve and ideally exceed their potential and create something new.

Today we offer our staff the work environment of tomorrow – through a Group-wide, broad spectrum of innovative opportunities to design their careers. Our flexible working time models, opportunities for personal development in service-oriented and technical professions, and our groundbreaking approach to the promotion of women make us one of the most modern employer.

Towards sustainable development

What we do today impacts the world we live in tomorrow. That's why T-Systems is committed to the principle of sustainable development.

While pursuing our business objectives, we take care to use resources wisely and sparingly. In doing so, we not only protect our natural environment. We are also helping to make T-Systems more competitive.

We therefore need our employees to be aware of green issues. And we help them to develop the skills needed to create innovative products for our customers, and efficient business processes for our company.

As a provider of information and communication technology (ICT) solutions, T-Systems plays a key role in shaping modern society – for example, by promoting new forms of employment that improve the work-family balance; by encouraging the intelligent use of ICT in education and training; and by developing systems that make public-sector organizations more citizen-friendly and more efficient. In our view, all these factors contribute to sustainability.

Effect on external environment

Active climate protection

As part of the Deutsche Telekom Group, the main goal of our climate protection policy is to systematically and verifiably minimize the CO₂ emissions we generate. The Group also promotes the efficient use of resources, dialog with its customers and society on climate protection, and reductions in CO₂ emissions.

Management's Review

Subsequent events

No subsequent events have occurred, which could materially affect the assessment of the Company's financial position.

Outlook

Market Transformation and Challenges

The market for IT and Telecommunication is undergoing radical transformation. Today's business processes are digital and globally connected. Demands for transmission speed, user friendliness, and mobile access are increasing. IT services from the cloud, applications for analyzing large amounts of data in real time (Data Analytics), and solutions for connecting objects (Internet of Things), machines (M2M, machine-to-machine) and Security are spreading rapidly.

Nordic market

The economic situation in 2017 in the Nordic market is hardly influenced by the EU sanction of Russia and the huge drop of the oil price. Nevertheless the political situation is quite stable and will give the trust to increase business within the Nordic market.

T-Systems Nordic is in the middle of the growth strategy phase and will continue on the path chosen. Marketing activities in the Nordic increased the visibility of T-Systems in the market. With the new portfolio Digitalization and Security of T-Systems we will be the trusted provider to ensure End-2-End business. All the activities will support the overall Deutsche Telekom strategy to become the "Leading TC provider in Europe".

Focus for the next years is to execute our growth strategy and become more market shares in the digitalized IT business in the Nordic.

Statutory Corporate Social Responsibility (CSR) Report

The Company has not drawn up any CSR report as the parent company has prepared this for the Group. The report may be downloaded on this link:

<https://www.annualreport.telekom.com/site0218/home.html>

Annual Report 2017 Of DEUTSCHE TELEKOM AG

Including:

- SUSTAINABLE DEVELOPMENT GOALS (Overview page 22)
- CORPORATE RESPONSIBILITIES (page 77ff)

Management's Review

Embracing diversity

For over a decade now, DEUTSCHE TELEKOM and all consolidated subsidiaries have sustainably and comprehensively supported diversity throughout the Group.

DEUTSCHE TELEKOM integrate all aspects of diversity, and reinforce them with a host of flagship projects, such as our initiatives for the advancement of women.

In 2015, the Act on the Equal Participation of Women and Men in Management came into force in Germany, creating a statutory obligation to fill 30.0 percent of supervisory board positions with women. We have gone a step further, setting ourselves the goal of filling 30.0 percent of board of management and managing board positions and 30.0 percent of management level 1 and 2 positions with women.

Deutsche Telekom AG had already achieved one of these goals at the end of 2016, with 40.0 percent of its Supervisory Board positions held by women. The corresponding figures for management levels 1 and 2 at year-end 2016 were gratifying as well, at 29.6 percent and 25.5 percent respectively. Only at Board of Management level was the share of women – at 14.3 percent – not yet close to the target level. We continue our efforts to promote gender equality and focus on raising the profile of this issue in HR processes.

Gender balance in management

T-Systems Nordic set a target in 2020 for gender balance of the company's board of directors. The aim is that the underrepresented gender is never lower than one fifth (20%) of the general meeting elected members. Our objective is not yet achieved.

T-Systems Nordic commits to working for equal career opportunities for all employees regardless of gender. In recruiting, training programs etc., T-Systems Nordic will therefore always let talent, skills and qualifications decide who is employed in various positions.

According to T-Systems Nordic policies on gender balance, 20% of the staff should be female. In 2017, 19% of the staff was female

Accounting Policies

The Annual Report of T-Systems Nordic A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied are consistent with those of last year.

The Annual Report for 2017 is presented in DKK.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Deutsche Telekom AG, the Company has not prepared a cash flow statement.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Accounting Policies

Leases

Leases for items of property, plant and equipment that transfer substantially all the risks and rewards incident to ownership to the company (finance leases) are recognised in the balance sheet as assets. On initial recognition, assets are measured at estimated cost, corresponding to the lower of fair value of the leased asset and the present value of the future lease payments. In calculating the net present value of the future lease payments, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently depreciated as the company's other non-current assets.

The capitalised residual lease commitment is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The company's total liabilities relating to operating leases and other rent agreements are disclosed under 'Contingencies, etc.'.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign-exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency transactions are considered cash flow hedges, the value adjustments are taken directly to equity.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

Revenue from the sale of services is recognised in the income statement when the risks and rewards relating to the services sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Accounting Policies

Raw materials and consumables

Expenses for raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Other operating expenses

Other operating expenses comprise items of a secondary nature relative to the Company's activities, including losses on the sale of property, plant and equipment.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

Balance sheet

Tangible assets

Fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Accounting Policies

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

	Useful life
Other fixtures and fittings, tools and equipment	3-5 years

Depreciation period and residual values are reassessed annually.

Assets costing less than DKK 13.200 are expensed in the year of acquisition.

Useful life incl. residual values are reassessed annually.

Impairment of fixed assets

The carrying amount of property, plant and equipment is reviewed for impairment, other than what is reflected through normal amortisation and depreciation, on an annual basis.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Dividend

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the Annual General Meeting.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Accounting Policies

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Liabilities

Liabilities, which include trade receivables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Financial Highlights

Definitions of financial ratios.

Gross margin ratio	$\frac{\text{Gross Profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit/loss before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$

Income Statement 1 January - 31 December

	Note	2017 DKK	2016 DKK
Revenue	2	549.898.965	568.892.984
Raw materials and consumables		-446.567.713	-450.853.679
Other external expenses		-34.821.711	-33.412.944
Gross profit		68.509.541	84.626.361
Staff costs	3	-55.818.736	-52.041.785
Earnings Before Interest Taxes Depreciation and Amortization		12.690.805	32.584.576
Depreciation of property, plant and equipment		-8.317.621	-8.636.823
Profit/loss before financial income and expenses		4.373.184	23.947.753
Financial income	4	155.813	149.283
Financial costs	5	-5.419.738	-2.923.415
Profit/loss before tax		-890.741	21.173.621
Tax on profit/loss for the year		-65.555	-1.171.952
Net profit/loss for the year		-956.296	20.001.669
Distribution of profit	6		

Balance Sheet 31 December

	<u>Note</u>	<u>2017</u> DKK	<u>2016</u> DKK
Assets			
Other fixtures and fittings, tools and equipment		25.402.415	17.213.038
Tangible assets	7	<u>25.402.415</u>	<u>17.213.038</u>
Deposits		1.151.271	1.172.432
Fixed asset investments		<u>1.151.271</u>	<u>1.172.432</u>
Fixed assets total		<u>26.553.686</u>	<u>18.385.470</u>
Trade receivables		179.278.915	252.333.498
Receivables from group enterprises		58.761.376	37.062.441
Other receivables		1.579.821	1.274.289
Corporation tax		7.645.912	3.675.850
Prepayments		5.825.341	8.642.647
Receivables		<u>253.091.365</u>	<u>302.988.725</u>
Cash at bank and in hand		<u>69.133.856</u>	<u>45.795.398</u>
Current assets total		<u>322.225.221</u>	<u>348.784.123</u>
Assets total		<u>348.778.907</u>	<u>367.169.593</u>

Balance Sheet 31 December

	<u>Note</u>	<u>2017</u> DKK	<u>2016</u> DKK
Liabilities and equity			
Share capital		5.500.000	5.500.000
Retained earnings		22.833.465	23.698.887
Equity	8	<u>28.333.465</u>	<u>29.198.887</u>
Trade payables		35.185.987	30.561.681
Payables to group enterprises		257.857.398	271.877.383
Corporation tax		0	488.416
Other payables		27.402.057	35.043.226
Short-term debt		<u>320.445.442</u>	<u>337.970.706</u>
Debt total		<u>320.445.442</u>	<u>337.970.706</u>
Liabilities and equity total		<u>348.778.907</u>	<u>367.169.593</u>
Capital Resources	1		
Rental agreements and leases	9		
Contingent assets, liabilities and other financial obligations	10		
Related parties and ownership	11		
Subsequent events	12		

Statement of changes in equity

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
	DKK	DKK	DKK
Equity at 1 January 2017	5.500.000	23.698.887	29.198.887
Currency adjustments	0	90.874	90.874
Net profit/loss for the year	0	-956.296	-956.296
Equity at 31 December 2017	<u>5.500.000</u>	<u>22.833.465</u>	<u>28.333.465</u>

Notes to the Financial Statements

1 Capital Resources

The activities of T-Systems Nordic A/S has in several years been financed by short term intercompany loans amounting to DKK 87.6 million as of 31 December 2017. The creditfacilities made available for the Company is agreed with the ultimate Parent Company Deutsche Telekom AG based on the activities and plans of T-Systems Nordic A/S.

Based on cash at bank and in hand, DKK 69.2 million as of 31 December 2017 and the ongoing contracts with major customers Management assesses that Deutsche Telekom AG, as in previous years, will continue to support the Company with sufficient liquidity and that intercompany trade payables of DKK 257.8 million not will be called unless the liquidity position of T-Systems Nordic A/S is adequate to justify such repayment. Management assesses on this basis, capital resources to be satisfactory and prepared the Financial Statements, under the precondition of continued operation.

2 Information on segments

Geographical segments

DKK	<u>Denmark</u>	<u>Sweden</u>	<u>Finland</u>	<u>Norway</u>	<u>Lithuania</u>	<u>Estonia</u>	<u>Latvia</u>	<u>Total</u>
2017								
Revenue	59.805.297	257.201.842	223.092.674	9.546.717	58.617	125.042	68.776	549.898.965
2016								
Revenue	74.719.394	197.572.997	289.348.211	7.252.382	0	0	0	568.892.984

Information of geographical segments are based on the Companys risks and returns and its internal financial reporting system.

Notes to the Financial Statements

	<u>2017</u> DKK	<u>2016</u> DKK
3 Staff costs		
Wages and salaries	45.258.954	43.041.091
Pensions	5.188.023	4.623.024
Other social security costs	<u>5.371.759</u>	<u>4.377.670</u>
	<u>55.818.736</u>	<u>52.041.785</u>
Average number of employees	<u>54</u>	<u>51</u>
According to section 98 B(3) of the Danish Financial Statements Act, remuneration to the Executive Board has not been disclosed.		
4 Financial income		
Other financial income	<u>155.813</u>	<u>149.283</u>
	<u>155.813</u>	<u>149.283</u>
5 Financial costs		
Financial expenses, group entities	2.629.215	1.225.814
Other financial costs	273.442	116.325
Exchange loss	<u>2.517.081</u>	<u>1.581.276</u>
	<u>5.419.738</u>	<u>2.923.415</u>
6 Distribution of profit		
Retained earnings	<u>-956.296</u>	<u>20.001.669</u>
	<u>-956.296</u>	<u>20.001.669</u>

Notes to the Financial Statements

7 Tangible assets

	Other fixtures and fittings, tools and equipment
	<u>DKK</u>
Cost at 1 January 2017	105.859.812
Currency correction of beginning in local currencies	-2.513.621
Additions for the year	17.023.758
Disposals for the year	<u>-1.271.010</u>
Cost at 31 December 2017	<u>119.098.939</u>
Impairment losses and depreciation at 1 January 2017	88.646.774
Currency correction of beginning in local currencies	-2.200.644
Depreciation for the year	8.317.621
Reversal of depreciation of sold assets	<u>-1.067.227</u>
Impairment losses and depreciation at 31 December 2017	<u>93.696.524</u>
Carrying amount at 31 December 2017	<u>25.402.415</u>
Depreciated over	<u>3-5 år</u>

8 Equity

The share capital consists of 55.000 shares of a nominal value of DKK 100. No shares carry any special rights.

Notes to the Financial Statements

	<u>2017</u> DKK	<u>2016</u> DKK
9 Rental agreements and leases		
Obligations according to operational leasing contracts relating to cars and other equipment	3.158.492	2.925.603
Rent obligations	2.686.219	3.074.254

10 Contingent assets, liabilities and other financial obligations

Contingent assets

The Company has a non recognized tax asset on DKK 190 million mainly relating to tax losses carried forward.

Contingent liabilities

The Danish Tax Authorities ("SKAT") have requested transfer pricing documentation. T-Systems Nordic A/S has in May 2014 received SKATs draft tax assessment regarding FY 2008-2011. Management has decided to challenge the assessment from the Danish authorities and believe that the current setup has been done in accordance with general accepted transfer pricing guidelines. The potential impact on the financial position of the Company will be limited due to the non-recognized deferred tax asset as mentioned above under contingent assets.

11 Related parties and ownership

Controlling interest

T-Systems International GMBH, Parent Company, owns 100%

Consolidated financial statements

The Company is included in the group annual report of the ultimate Parent Company, Deutsche Telekom AG.

Notes to the Financial Statements

11 Related parties and ownership (continued)

The group annual report of the ultimate Parent company, Deutsche Telekom AG, may be obtained at the following address:

Deutsche Telekom AG
Friedrich-Ebert-Alle 140
D-53113 Bonn
Germany

12 Subsequent events

No events materially affecting the assessment of the financial position have occurred after the balance sheet date.