

T-Systems Nordic A/S

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

Annual Report for 2018

Adopted at the Annual General
Meeting on 31 May 2019

Chairman

Casper Malig

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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 2018.

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 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

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 2019

Executive Board

Jesper Kryhmand
CEO

Board of Directors

Casper Malig
Chairman

Bernhard Josef Fohringer

Thomas Deeg

Christian Lukas Eigenmann

Jesper Kryhmand

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 2018, and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of T-Systems Nordic A/S for the financial year 1 January - 31 December 2018, 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 the 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 2019

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 2018

Domicile: Ballerup

Board of Directors

Casper Malig, Chairman
Bernhard Josef Fohringer
Thomas Deeg
Christian Lukas Eigenmann
Jesper Kryhmand

Executive Board

Jesper Kryhmand

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:

	2018	2017	2016	2015	2014
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Revenue	509.532	549.899	568.893	516.934	507.502
Gross profit	43.360	68.510	84.626	55.393	31.746
Profit/loss before net financials	-27.948	4.373	23.948	409	-26.525
Net financials	-5.431	-5.264	-2.774	-3.574	-4.730
Profit/loss for the year	-34.777	-956	20.002	-3.164	-36.415
Balance sheet total	287.075	348.779	367.170	322.423	380.631
Investment in property, plant and equipment	6.270	17.024	8.741	13.491	6.326
Equity	8.032	28.333	29.199	8.790	11.955
Number of employees	56	54	51	50	49
Financial ratios					
Gross margin	8,5%	12,5%	14,9%	10,7%	6,3%
EBIT margin	-5,5%	0,8%	4,2%	0,1%	-5,2%
Return on assets	-8,8%	1,2%	6,9%	0,1%	-10,0%
Solvency ratio	2,8%	8,1%	8,0%	2,7%	3,1%

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, 37,500 employees, and external revenue of 6.9 billion euros (2018), 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 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 conform to Germany's strict data privacy laws. This cloud ecosystem already comprises as many as 150 partner solutions. 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.

Many T-Systems' cloud products are available from the House of Clouds, the byname for the company's high-performance data center in Biere, near the German city of Magdeburg. In the House of Clouds, 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.

Management's Review

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. 2018, T-Systems launched operations for the next expansion stage of the high-performance data center in Biere on schedule after 18 months of construction. With this step, Biere now provides 150 petabytes for processing and storing cloud data.

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 NarrowBand 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. The next 5G generation of mobile communications will be rolled out piecewise with the availability of usable frequencies. For large companies in particular, coverage on campus, including production sites, is becoming increasingly important in addition to nationwide coverage. This can already be guaranteed today for 4G and in the future also for 5G with the necessary quality parameters. Sensors in production control, the control of autonomous vehicles or drones, video surveillance requires comprehensive coverage, low latency and maximum safety. With 5G Campus Networks, T-Systems can already guarantee its customers a complete solution comprising mobile and fixed network connectivity, security, edge or cloud computing, digitization applications (industry 4.0).
3. T-Systems focus on the development of managed SD-WAN solutions - based on technologies from market-leading SD-WAN partners. The T-Systems IP-VPN platform IntraSelect will be extended by SD-WAN functionalities. This creates an end-to-end solution for large companies with complex network requirements. Standardized solutions are also offered as managed SD-WAN overlay services.
4. 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

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

Smart parking is one example of how the interplay of the cloud and networks are making IoT capable of real-time operation. The system has been introduced in 2018 in Hamburg, Germany to simplify the search for parking spaces in the city. Car drivers are now able to find, reserve and pay for vacant parking spaces, through a T-Systems app. To achieve this, the city council and its service providers have digitized a total of 11,000 public parking spaces. On-street sensors send information to drivers' smartphones on where vacant parking spaces can be found. What makes digitization projects live and breathe is scalability. This is why Deutsche Telekom is developing its smart parking offer across the entire country. Numerous city councils across Germany have expressed interest in the new parking solution and many cities intend to introduce it.

Management's Review

Security and Quality in the Digital World

Cloud computing, mobile solutions and big data all pose entirely new challenges for IT security. What is more, cyber-attacks 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 “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 1,400 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. Furthermore, Telekom Security operates its own integrated Cyber Defense and Security Operation Center (SOC) in Bonn. The new defense center is one of the largest and most modern in Europe.

In addition, T-Systems launched the zero-outage quality program to ensure the uninterrupted availability of its systems and infrastructure. It also established an ecosystem of partners who are all committed to the zero-outage principle and comply with shared quality management standards.

Business Review

A new managing director was appointed for the Nordic organization as of 1 August 2018 and the management team has since initiated, organizational changes in order to support the change in our International organization and refine the growth strategy for T-Systems Nordic.

The Company’s income statement for the year ending 31 December 2018 shows a net profit/loss of DKK - 34.777 k and the balance sheet at 31 December 2018 shows shareholders' equity of DKK 8.032 k.

Result in the foreign branches

Denmark: In 2018 our Danish entity was able to stabilize a positive development on our existing customers.

In addition in 2018 the transfer pricing arbitration process between the Danish and German tax authorities was finalized and the result of 7.4 MDKK was taken into consideration in our balance sheet.

Sweden: The result of our Swedish Branch was mainly influenced by one project. The management team has however made successful efforts to re-establish the potential of this account going forward. With the implemented organizational changes, the organization expects to re-iterate its focus on business development in Sweden in 2019.

Management's Review

Finland: Overall the result of our Finish Branch was a success and in line with our expectations. The entity managed to stabilize and further develop its relations with existing customers and also initiated successful steps towards further growth in the Finnish market by hiring new staff to support that expected growth.

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

Estonia/Latvia/Lithuania: Implementation of the business was successful and went live January 1st, 2018. The Nordic organization is considering initiatives to explore the region further in 2019.

Corporate Governance

Our responsible corporate governance and business success are based on our shared corporate values and our Guiding

Principles, which are as follows:

- Customer delight and simplicity drive our action
- Respect and integrity guide our behavior
- Team together – Team apart
- Best place to perform and grow
- I am T – count on me

Management's Review

We want to be a sustainably growing company that delights its customers, creates value for its investors, and in which employees enjoy their work.

As a leading ICT service provider, T-Systems offers business customers a portfolio of integrated products and solutions. With offerings for fixed and mobile communications, IT infrastructure, digitalization, and security, in addition to global partnerships, we offer our customers help and guidance to implement digital business models.

T-Systems is realigning itself towards a portfolio-based structure under the transformation program launched at the start of 2018. Alongside an integrated and customer-centric sales unit, operations are split over ten portfolio units with full profit and loss accountability (TC Services, SAP, Digital Solutions, Public Cloud, Security, Internet of Things, Classified ICT, Road Charging, Managed Infrastructure Services and Private Cloud, and Dedicated SI Solutions), plus the emerging business unit, Health. A new organizational structure took effect on January 1, 2019 on the basis of these business areas. A comprehensive cost-saving program has also been launched.

Embracing diversity

For over a decade now, Deutsche Telekom and all consolidated subsidiaries have sustainably and comprehensively supported diversity throughout the Group. Deutsche Telekom integrates all aspects of diversity, and reinforces them with a host of flagship projects.

Just as much as demographic developments and different perceptions of roles, social trends such as globalization must not lead to certain groups being shut out of the labor market.

Equal opportunities are essential for social stability and business alike. Respecting human individuality and harnessing individuals' distinctive traits for joint success is just as important for our Group as developing a shared identity. A Culture & Diversity team, based in the HR Development unit, was created specifically for this task.

Management's Review

Women and men, young and old, as well as people with different abilities and cultural backgrounds from roughly 150 countries work together very effectively at our Company. This diversity helps us remain competitive around the world with good ideas and outstanding products, and consolidate our position as an attractive employer. Developments in the proportion of women in leadership positions and serving on the supervisory boards are reported to and discussed in-depth by the Board of Management every six months, while the age structure and internationality of the workforce is recorded on an annual basis in our Personnel Structure Report. For us, diversity also means offering our employees numerous opportunities to develop personally and grow professionally, regardless of their gender, age, sexual preference, health situation, ethnic background, religion, or culture.

Our Group-wide Diversity Policy, five Guiding Principles, the Employee Relations Policy, and Code of Human Rights & Social Principles form the foundation of our commitment to diversity. We are also a founding member of the corporate Diversity Charter initiative and strive to promote diversity within and outside of our Company. We meet the requirements set out in the Act to Promote Transparency of Pay Structures by publishing a remuneration report every five years.

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 2018, 19% of the staff was female.

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 STRATEGY

We are in the middle of the growth strategy phase and will continue on the path chosen for the next years. T-Systems Nordic brings together connectivity, IT and digital solutions to help streamline and improve performance across companies to strengthen agility and security, and simplifying of new technology within their existing infrastructure. Competencies are bonded together in our four focus areas of Connectivity, Digital Solutions, Cloud and Infrastructure and Security to create value for companies in the Nordic market integrated by the unique T-Systems approach. We can build and transform innovative digital solutions for many industries that benefit from the potential within Cloud, IoT, M2M, SAP and IT-security as the trusted provider to ensure End-2-End business.

Traditional IT business is likely to decline due to price competition, while cloud services, mobility, and cyber security may reach double-digit growth. In view of this, we continue to plan to step up investments in growth markets – especially in digitalization, cloud services, cyber security, and smart network solutions.

All the activities will support the overall Deutsche Telekom strategy to become the “Leading TC provider in Europe”.

Nordic market - Transformation and Challenges

The economic and political situation in the Nordic market is quite stable and gives the trust to increase business within the Nordic market, but pressure and intense competition are expected to persist.

The market for IT and Telecommunication is undergoing radical transformation, due to ongoing standardization and automation, demand for smart services, and the changes being wrought by cloud services in outsourcing business.

Today's business processes are digital and globally connected. Demands for transmission speed, user friendliness, and mobile access are increasing. By bringing connectivity and intelligence to the edge, we are seeing companies create new business models, drive new levels of productivity and transform their customers' experience. Companies need to get the most out of their data from any edge to any cloud. This requires a high level of reliability, responsibility and expertise.

Management's Review

Digital business is still a top business priority attracting increased budget and more attention from management in the Nordics. Companies are now changing their business models in response to market forces, and they see information technology and communication (ICT) as key to enabling the new business models. The best performing organizations adopt product-centric delivery models to deliver better consumer experiences and here is cyber security central to this new model. Many companies continue to shift the IT spend from on-premises legacy to new technologies as a number of emerging technologies become ripe for adoption.

Technologies that will have the greatest impact includes cloud, mobile, big data and analytics, and internet of things (IoT). There is also high expectations for the business value of technologies that are in earlier stages of adoption, such as robotics, cognitive computing/artificial intelligence (AI), 3D printing, augmented reality/virtual reality (AR/VR), and even blockchain.

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.telekom.com/en/investor-relations/publications/>

Annual Report 2018 Of DEUTSCHE TELEKOM AG

Including:

- SUSTAINABLE DEVELOPMENT GOALS (overview page 22)
- CORPORATE RESPONSIBILITY AND NON-FINANCIAL STATEMENT (page 76ff)

Accounting Policies

The Annual Report of T-Systems Nordic A/S for 2018 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 2018 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

Costs of 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, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity 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	3-15 years

Depreciation period and residual values are reassessed annually.

Assets costing less than DKK 13.500 are expensed in the year of acquisition.

Useful life incl. residual values are reassessed annually.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is tested 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

Dividends

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 payables, 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	$\frac{\text{Profit/loss before financials} \times 100}{\text{Average assets}}$
Solvency ratio	$\frac{\text{Equity at year-end} \times 100}{\text{Total assets at year-end}}$

Income Statement 1 January - 31 December

	<u>Note</u>	<u>2018</u> DKK	<u>2017</u> DKK
Revenue	2	509.532.437	549.898.965
Raw materials and consumables		-436.034.541	-446.567.713
Other external expenses		-30.137.484	-34.821.711
Gross profit		43.360.412	68.509.541
Staff costs	3	-61.982.239	-55.818.736
Earnings Before Interest Taxes Depreciation and Amortization		-18.621.827	12.690.805
Depreciation of property, plant and equipment		-9.326.637	-8.317.621
Profit/loss before net financials		-27.948.464	4.373.184
Financial income	4	48.529	155.813
Financial costs	5	-5.479.572	-5.419.738
Profit/loss before tax		-33.379.507	-890.741
Tax on profit/loss for the year		-1.397.536	-65.555
Profit/loss for the year		-34.777.043	-956.296
Distribution of profit	6		

Balance Sheet 31 December

	<u>Note</u>	<u>2018</u> DKK	<u>2017</u> DKK
Assets			
Other fixtures and fittings, tools and equipment		<u>21.978.521</u>	<u>25.402.415</u>
Tangible assets	7	<u>21.978.521</u>	<u>25.402.415</u>
Deposits		<u>1.540.944</u>	<u>1.151.271</u>
Fixed asset investments		<u>1.540.944</u>	<u>1.151.271</u>
Total non-current assets		<u>23.519.465</u>	<u>26.553.686</u>
Trade receivables		125.069.186	179.278.915
Receivables from group enterprises		28.780.586	58.761.376
Other receivables		3.528.713	1.579.821
Corporation tax		5.200.830	7.645.912
Prepayments		<u>9.457.698</u>	<u>5.825.341</u>
Receivables		<u>172.037.013</u>	<u>253.091.365</u>
Cash at bank and in hand		<u>91.518.026</u>	<u>69.133.856</u>
Total current assets		<u>263.555.039</u>	<u>322.225.221</u>
Total assets		<u>287.074.504</u>	<u>348.778.907</u>

Balance Sheet 31 December

	<u>Note</u>	<u>2018</u> DKK	<u>2017</u> DKK
Equity and liabilities			
Share capital		5.500.000	5.500.000
Retained earnings		<u>2.531.839</u>	<u>22.833.465</u>
Equity	8	<u>8.031.839</u>	<u>28.333.465</u>
Trade payables		19.452.946	29.443.630
Payables to group enterprises		214.979.537	257.857.398
Other payables		<u>44.610.182</u>	<u>33.144.414</u>
Total current liabilities		<u>279.042.665</u>	<u>320.445.442</u>
Total liabilities		<u>279.042.665</u>	<u>320.445.442</u>
Total equity and liabilities		<u>287.074.504</u>	<u>348.778.907</u>
Capital Resources	1		
Rental agreements and leases	9		
Contingencies, etc.	10		
Related parties and ownership structure	11		
Subsequent events	12		

Statement of changes in equity

	Share capital	Retained earnings	Total
	DKK	DKK	DKK
Equity at 1 January 2018	5.500.000	22.833.465	28.333.465
Currency adjustments	0	-524.583	-524.583
Net profit/loss for the year	0	-34.777.043	-34.777.043
Contribution from group	0	15.000.000	15.000.000
Equity at 31 December 2018	5.500.000	2.531.839	8.031.839

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 87.4 million as of 31 December 2018. 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 91.5 million as of 31 December 2018 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 214,8 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>
2018								
Revenue	55.306.332	246.629.845	195.407.568	9.575.859	804.049	795.313	1.013.471	509.532.437
2017								
Revenue	59.805.297	257.201.842	223.092.674	9.546.717	58.617	125.042	68.776	549.898.965

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

Notes to the Financial Statements

	<u>2018</u> DKK	<u>2017</u> DKK
3 Staff costs		
Wages and salaries	51.621.046	45.258.954
Pensions	5.254.337	5.188.023
Other social security costs	<u>5.106.856</u>	<u>5.371.759</u>
	<u>61.982.239</u>	<u>55.818.736</u>
Average number of employees	<u>56</u>	<u>54</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>48.529</u>	<u>155.813</u>
	<u>48.529</u>	<u>155.813</u>
5 Financial costs		
Financial expenses, group entities	1.705.342	2.629.215
Other financial costs	312.571	273.442
Exchange loss	<u>3.461.659</u>	<u>2.517.081</u>
	<u>5.479.572</u>	<u>5.419.738</u>
6 Distribution of profit		
Retained earnings	<u>-34.777.043</u>	<u>-956.296</u>
	<u>-34.777.043</u>	<u>-956.296</u>

Notes to the Financial Statements

7 Tangible assets

	Other fixtures and fittings, tools and equipment
	<u>DKK</u>
Cost at 1 January 2018	117.564.548
Currency correction of beginning in local currencies	6.977
Additions for the year	6.270.474
Disposals for the year	<u>-2.036.149</u>
Cost at 31 December 2018	<u>121.805.850</u>
Impairment losses and depreciation at 1 January 2018	92.535.876
Currency correction of beginning in local currencies	-36.228
Depreciation for the year	9.326.637
Impairment and depreciation of sold assets for the year	<u>-1.998.956</u>
Impairment losses and depreciation at 31 December 2018	<u>99.827.329</u>
Carrying amount at 31 December 2018	<u>21.978.521</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>2018</u> DKK	<u>2017</u> DKK
9 Rental agreements and leases		
Obligations according to operational leasing contracts relating to cars and other equipment	3.158.492	3.158.492
Rent obligations	2.686.219	2.686.219

10 Contingencies, etc.

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 structure

Controlling interest

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

Notes to the Financial Statements

11 Related parties and ownership structure (Fortsat)

Consolidated financial statements

The company is included in the consolidated financial statements of the parent company

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.