DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V.

MAASTRICHT

MANAGEMENT REPORT

for the year ended December 31, 2018

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Directors' report

The Board of Management is pleased to present the management report and financial statements of Deutsche Telekom International Finance B.V. ("the Company") for the financial year ended December 31, 2018.

Business activities

In 2018 the Company issued a number of bonds comprised as follows:

Name	Start	Maturity	CCY	Amount
EUR 2Y-fix	29.01.2018	29.01.2020	EUR	200,000,000
EUR 4½Y-float	01.06.2018	01.12.2022	EUR	400,000,000
EUR 4½Y-fix	01.06.2018	01.12.2022	EUR	500,000,000
EUR 7½Y-fix	01.06.2018	01.12.2025	EUR	1,000,000,000
EUR 11½Y-fix	01.06.2018	01.12.2029	EUR	1,000,000,000
USD 10Y-fix	21.06.2018	21.06.2028	USD	1,200,000,000
USD 20Y-fix	21.06.2018	21.06.2038	USD	550,000,000
EUR 15Y-fix	25.07.2018	25.07.2033	EUR	250,000,000
GBP 7Y-fix	10.10.2018	10.10.2025	GBP	300,000,000

In 2018 the Company repaid two EUR bonds with nominal amounts of EUR 500 million and EUR 50 million respectively. Furthermore, the Company repaid a USD 850 million bond.

The Company made a net profit of EUR 18,818 thousand in 2018 versus a net loss of EUR 38,820 thousand in 2017.

Management policy with respect to risks

The Board of Management is responsible for the strategy, operations, financial position, financial reporting and compliance of the Company. Within each of these fields the Company faces certain risks which are managed by the Board of Management. Each of the risk fields are reviewed and discussed in the Board of Management meetings and measurements are mitigated.

The strategic decisions are liaised with Deutsche Telekom AG (DTAG) - Group Treasury and the Supervisory Board of the Company. Therefore, the risks related to the Company's strategy are minimized.

The operational activities of the Company are performed by a small team of experienced staff. Nevertheless, management has established a fall-back procedure for mitigating the risks relating to the operational activities. Furthermore, the company participates in the DTAG's Internal Control System (ICS). The accounting-related ICS comprises both preventive and detective controls which include general IT management checks, 4 eyes principle, segregation of functions and the monitoring of the accounting reporting process. The internal audit department of DTAG is responsible for independently reviewing the functionality and effectiveness of the ICS and the Audit Committee of DTAG monitors the effectiveness of the ICS and the DTAG risk management system. The control tests in July 2018 and in the beginning of 2019 have proved that the ICS of the Company is effective.

The main financial risks arising from the Company's financial instruments are currency risk, interest rate risk, credit and counterparty default risk and liquidity risk. Management of these risks is performed in accordance with DTAG Group financial risk management policy. We regard effective management of the interest rate risk and foreign currency risk as one of our main tasks. The currency risk is mitigated by means of raising the funds in the same currency as the corresponding financing provided to the borrowers. However, currency results under IFRS arise because the Company concluded some USD interest financial instruments in the past which are classified and valuated differently compared to the USD loans for which these contracts were concluded. The interest rates on and the maturity dates of the Company's funding do in principle match with the interest rates on and the maturity dates of the corresponding loans provided by the Company. The credit and counterparty default risk is mainly covered by the guarantee agreement with DTAG. In this guarantee agreement the own risk for the Company is limited to EUR 10 million in total for all outstanding financial assets.

The Company has obligations to disclose annual and non-audited semi-annual external financial reporting and a monthly internal financial reporting. Since the activities of the Company and the kind of transactions closed do not differ much from previous ones, the risk of false or misleading reporting is low.

Compliance with rules and regulations is a main risk which has a narrow focus with the Board of Management. Within DTAG there is close contact with the departments Group Compliance, Legal and Tax in order to mitigate the risks related to relevant changes in laws and regulations. Furthermore, the Board of Management has access to a network of external legal and tax advisors in order to mitigate possible risks and uncertainties.

For further details of the risk policies we refer to note 1 of the notes to the financial statements.

Future business developments and financing

The management expects limited new financing activities during the current financial year. Since derivatives are carried at fair value and the non-derivative instruments at amortized costs and no hedge accounting is applied, the result of the Company under IFRS is volatile. However, we expect net positive cash flows for the year ending December 31, 2019 as well as in each of the following years.

Other Events

On June 11, 2018 the Management Board resolved to have new bank accounts opened with two different banks in order to mitigate the risk of being dependant on a single bank only. One USD and one EUR account with the first bank have been opened effectively in 2018. The opening of a EUR and USD account with the second bank is still in progress.

Events after the statement of financial position date

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Management representation

The Board of Management certifies that, to the best of their knowledge:

- the financial statements give a true and fair view, in all material respects, of the assets, the liabilities, the financial position and profit and loss of the Company;
- the annual report gives a true and fair view, in all material respects, of the Company as per December 31, 2018 and the business activities during 2018; and
- the annual report describes the material risks that the Company is facing.

Maastricht, March 6, 2019

The Managing Directors,

Markus Schäfer

Frans Roose

Management report of the Supervisory Board

As per December 31, 2018 the Supervisory Board comprised the following members:

- Mr. S. Wiemann (chairman)
- Dr. Ch. Dorenkamp
- Dr. A. Lützner

The Supervisory Board met once on March 5, 2018. During this meeting the Board of Management presented the business results for the year 2017 and the Funding Plan and budget for 2018, which were discussed and resolved by the Supervisory Board. The Supervisory Board was informed about and resolved the action plan and time table related to the audit tendering process for the compulsory auditor firm rotation. Furthermore, the Supervisory Board nominated the Board of Management to perform the tasks related to the tender process.

In the reporting year, bonds and assignable loans to group companies matured in aggregate volumes per currency of EUR 550 million and USD 850 million, respectively. In 2018 the Company issued several bonds in total aggregate volumes per currency of EUR 3.35 billion, GBP 300 million and USD 1.75 billion. The proceeds were lent on to DTAG with the same nominal amounts and maturity dates as the external bonds.

The financial statements 2018 have been audited and were given an unqualified opinion by the independent auditor of PricewaterhouseCoopers Accountants N.V.. The independent auditor's report is included in this report.

The statement of comprehensive income for the year 2018 discloses a net profit of EUR 18,818 thousand. The Supervisory Board approves the proposal made by the Board of Management to distribute an amount of EUR 8,944,103.57 to the shareholder. The Board of Management has performed an equity and liquidity test and based on the outcome of these tests the distribution has been approved.

The Supervisory Board recommends that the General Meeting of Shareholders adopts the financial statements for the year 2018. The Supervisory Board takes this opportunity to express its appreciation for the performance of the management during the past year.

Maastricht, March 6, 2019

S. Wiemann

(Chairman)

Financial statements

Statement of comprehensive income

thousands of €	Note	2018	2017
Finance income	2		
Interest income		1,148,107	1,137,412
Interest expense		(1,162,967)	(1,150,325)
Impairment reversals on financial assets	3	180	-
Other financial income (expense)	3	20,877	(38,558)
Profit (Loss) from financial activities		**6,197**	**(51,471)**
General and administrative expenses	4	(334)	(335)
Other operating income		38	33
Loss from operations		**(296)**	**(302)**
Profit (Loss) before income taxes		**5,901**	**(51,773)**
Income taxes	5	12,917	12,953
Profit (Loss) after income taxes		**18,818**	**(38,820)**
Other comprehensive income		**-**	**-**
Profit (Loss) attributable to owners:		18,818	(38,820)
Total comprehensive profit (loss) attributable to the owners:		18,818	(38,820)

Statement of financial position

thousands of €	Note	31.12.2018	31.12.2017
Assets			
Current assets		**2,740,295**	**1,728,341**
Cash and cash equivalents		14,849	13,016
Financial assets	6	2,725,438	1,715,321
Other assets		8	4
Non-current assets		**33,774,010**	**30,475,863**
Property, plant and equipment		-	1
Financial assets	6	33,774,010	30,475,862
Total Assets		**36,514,305**	**32,204,204**
Liabilities and shareholder's equity			
Current liabilities		**2,716,415**	**1,712,289**
Financial liabilities	7	2,714,848	1,711,262
Income tax liability	5	1,425	955
Other liabilities		142	72
Non-current liabilities		**33,524,350**	**30,229,157**
Financial liabilities	7	33,458,676	30,147,424
Deferred tax liability	5	65,674	81,733
Liabilities		**36,240,765**	**31,941,446**
Shareholder's equity	8	**273,540**	**262,758**
Issued Capital		500	500
Retained earnings		254,222	301,078
Net profit (loss)		18,818	(38,820)
Total Liabilities and shareholder's equity		**36,514,305**	**32,204,204**

Statement of changes in equity

thousands of €	Note	Issued share capital	Retained earnings	Result for the year	Total
	8				
Balance as at January 1, 2017		**500**	**308,426**	**(2,428)**	**306,498**
Movements					
Net loss				(38,820)	(38,820)
Appropriation of result			(2,428)	2,428	-
Dividends paid			(4,920)		(4,920)
Balance as at December 31, 2017		**500**	**301,078**	**(38,820)**	**262,758**

thousands of €	Note	Issued share capital	Retained earnings	Result for the year	Total
	8				
Adjustment opening balance due to new provisions according to IFRS 9*			(523)		(523)
Balance as at January 1, 2018		**500**	**300,555**	**(38,820)**	**262,235**
Movements					
Net profit				18,818	18,818
Appropriation of result			(38,820)	38,820	-
Dividends paid			(7,513)		(7,513)
Balance as at December 31, 2018		**500**	**254,222**	**18,818**	**273,540**

* IFRS 9 requires the measurement and recognition of impairment provisions based on expected credit loses already effective on the first date of the reporting year. Instead of restating 2017 figures, the difference of the carrying amounts under IAS 39 and the new IFRS 9 is reflected in the opening balance of Retained earnings.

Please refer to the notes to the financial statements.

Statement of cash flows

thousands of €	Note	2018	2017
	9		
Proceeds from repayments of loans		1,294,373	3,044,287
Cash outflows for investments in loans		(5,178,841)	(8,369,983)
Interest received		1,173,684	1,143,474
Interest paid		(1,151,885)	(1,131,037)
Net interest received from derivatives		20,371	19,636
Guarantee fees paid		(29,631)	(23,078)
Net income tax paid		(2,498)	(1,542)
Others		(695)	(638)
Net cash used from operating activities		**(3,875,122)**	**(5,318,881)**
Repayment of financial liabilities		(1,294,373)	(3,044,287)
Proceeds from issue of financial liabilities		5,178,841	8,369,983
Dividend payments		(7,513)	(4,920)
Net cash generated from financing activities		**3,876,955**	**5,320,776**
Net increase in cash and cash equivalents		**1,833**	**1,895**
Cash and cash equivalents, at the beginning of the year		**13,016**	**11,121**
Cash and cash equivalents, at the end of the year		**14,849**	**13,016**

Notes to the financial statements

General information

Deutsche Telekom International Finance B.V. (hereafter “the Company”) is the financing company of Deutsche Telekom AG, Bonn, Germany (hereafter “DTAG”). Its principal activities consist of the issuance of debt instruments and funding of the Deutsche Telekom Group. The Company has its registered office at Stationsplein 8-K, Maastricht, the Netherlands, registered under number 33274743 with the Dutch trade register “Kamer van Koophandel” and is a 100% subsidiary of DTAG, which is also the ultimate parent of the Company. The Company’s financial statements are included in the consolidated financial statements of DTAG. The financial statements of the Company for the 2018 financial year were authorised for issue by the Board of Management on March 6, 2019.

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities. The financial statements have been prepared in accordance with International Financial Reporting Standards (hereafter “IFRS”) as adopted by the EU and with Book 2, Title 9 of the Dutch Civil Code. All IFRSs issued by the International Accounting Standards Board (hereafter “IASB”) adopted by the European Commission for use in the EU and effective at the time of preparing these financial statements have been applied by the Company. The financial year corresponds to the calendar year. Both the functional and presentation currency of the Company is Euro (EUR). All values are rounded to the nearest thousand except when indicated otherwise.

Initial application of standards, interpretations and amendments to standards and interpretations in the financial year

In the 2018 financial year, the Company applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

Pronouncement	Title	Applied by the Company from	Changes	Impact on the presentation of the Company’s results of operations and financial position
IFRS 9	Financial Instruments	January 1, 2018	IFRS 9 introduces new classification and measurement requirements for financial instruments and replaces, in particular, IAS 39. The new regulations cover the classification of financial assets on the basis of the underlying business models and the cash flow characteristics of the instruments. Under the new provisions on the accounting of impairment losses, expected losses have to be recognized on initial recognition. In addition, the requirements apply not only to debt instruments, but also to contract assets pursuant to IFRS 15. Among other things, the new rules for reporting hedge relationships provide the option of recognizing hedging costs separately in other comprehensive income.	The effects of IFRS 9 are detailed in the explanations following this table.
Annual improvements project	Annual improvements to IFRSs 2014-2016 Cycle	January 1, 2018 (IAS 1)	Clarification of many published standards.	No material impact.

In July 2014, the IASB issued IFRS 9 "Financial Instruments". Application of the standard is mandatory for reporting periods beginning on or after January 1, 2018. The standard introduces new classification and measurement requirements for financial instruments and replaces IAS 39.

The new provisions and the related change in the accounting principles applied by the Company mainly comprise the following items of relevance to the Company:

- Based on the Company’s underlying business model, the Company manages its loan portfolio with the objective to collect contractual cash flows and therefore the loans and receivables are classified at Amortized Cost (AC) under IFRS 9, the so-called Business Model Test. The cashflows only consist of principal and interest payments according to the SPPI test. The new provision on the classification of financial assets has no further effect on measurement and presentation.

- The new impairment model requires the measuring and recognition of impairment provisions based on expected credit losses (ECL) earlier than under IAS 39 in some cases. The Company has applied the general impairment approach for its financial assets based on the assessment that none of the loans are credit impaired at initial recognition and do not belong to the so-called "IFRS 15 contract assets".
- The credit risk that the Company bears is due to the loans granted to DTAG group companies and predominately the parent company DTAG. As of the day of this report, DTAG has a very steady and stable credit rating and therefore, the Company does not expect any significant changes in this credit and counterparty default risk. The Company has made assessments of the credit risks of its counterparties on January 1, 2018 and December 31, 2018. The Company has calculated the ECL based on the one-year probability of default (PD) of Deutsche Telekom in Bloomberg and a Loss giving default (LGD) of 60%. As per January 1, 2018 this assessment with a PD of 0,0039% resulted in an impairment provision for financial assets of approximately TEUR 697 with the corresponding increase in the deferred tax asset of approximately TEUR 174. This has resulted in a net decrease of TEUR 523 in Retained Earnings as per January 1, 2018. As per December 31, 2018 the assessment with a PD of 0,0026% resulted in an impairment provision for financial assets of approximately TEUR 517.
- The Company has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relation to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a consequence, any adjustments to carrying amounts of financial assets are recognised at the beginning of the current period, with the difference recognised in opening retained earnings. Financial assets are not reclassified in the balance sheet for the comparative period and provisions for impairment have not been restated in the comparative period.
- As the Company does not apply hedge accounting, it is not affected from new IFRS 9 hedge accounting rules.

For further information on the first-time application of IFRS 9, please refer to Note 6 "Financial assets".

Standards, interpretations and amendments issued, but not yet to be applied

Pronouncement	Title	To be applied by the Company from	Changes	Expected impact on the presentation of the Company's results of operations and financial position
IFRSS endorsed by the EU				
Amendments to IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019	The amendment sets out that, if certain conditions are met, financial assets can be measured at amortized cost or fair value through other comprehensive income if, in the case of an early termination, compensation is required to be paid to the party that triggers the early termination of the contract.	No material impact.
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	IFRIC 23 brings clarity to IAS 12 "Income Taxes" in relation to the recognition and measurement of current income taxes, deferred tax assets, and deferred tax liabilities if there is uncertainty regarding the treatment of income taxes.	No material impact.
IFRSS not yet endorsed by the EU [a]				
Annual Improvements Project	Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019	Clarification of many published standards.	No material impact.
Amendments to References to the Conceptual Framework	References to the Conceptual Framework	January 1, 2020	Updating of the cross references to the revised conceptual framework in the corresponding standards and interpretations.	No material impact.
Amendments to IAS 1 and IAS 8	Definition of Material	January 1, 2020	Clarification of the definition of materiality.	No material impact.

[a] For standards not yet endorsed by the EU, the date of first-time adoption scheduled by the IASB is assumed for the time being as the likely date of first-time adoption.

With the exception of the standards, interpretations, and amendments of standards and interpretations that are effective for the first time in the financial year, the Company did not make any major changes in its accounting policies.

Accounting policies

Key assets and liabilities shown in the consolidated statement of financial position are measured as follows:

Items in the statement of financial position	Measurement principle
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	Amortized cost
Other financial assets	
Loans to group companies	Amortized cost
Derivative financial instruments	At fair value through profit and loss
Interest receivables	Amortized cost
ASSETS	
NON-CURRENT ASSETS	
Property, plant and equipment	At cost less straight-line accumulated depreciation and impairment losses
Other financial assets	
Loans to group companies	Amortized cost
Derivative financial instruments	At fair value through profit and loss
Deferred tax assets	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled
SHAREHOLDERS' EQUITY AND LIABILITIES	
CURRENT LIABILITIES	
Financial liabilities	
Bonds and other securitized liabilities	Amortized cost
Derivative financial instruments	At fair value through profit and loss
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other liabilities	Present value of the settlement amount
SHAREHOLDERS' EQUITY AND LIABILITIES	
NON-CURRENT LIABILITIES	
Financial liabilities	
Bonds and other securitized liabilities	Amortized cost
Derivative financial instruments	At fair value through profit and loss
Deferred tax liabilities	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

The material principles on recognition and measurement outlined below were applied uniformly to all accounting periods presented in these financial statements.

Property, plant and equipment is carried at cost less straight-line accumulated depreciation and impairment losses. The depreciation period is based on the expected useful life. Items of property, plant and equipment are depreciated pro rata in the year of acquisition. For equipment a useful life of 13 years has been estimated. The residual values, useful lives and the depreciation method of the assets are reviewed at least at each financial year-end and if expectations differ from previous estimates the changes are accounted for as changes in accounting estimates in accordance with IAS 8 and adjusted if appropriate at the end of each financial year end. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. In the reporting periods the value of property, plant and equipment have decreased to nihil.

Cash and cash equivalents, which include the balance from bank accounts included in the cash pooling and the inter-company current account with DTAG, are generally measured at cost.

FINANCIAL INSTRUMENTS

Financial instruments are recognized as soon as the Company becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale, the settlement date is relevant for the initial recognition and derecognition. This is the day on which the asset is delivered to or by the Company. In general, financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the entity currently has a right to offset the recognized amounts and intends to settle on a net basis. Transferred financial assets are derecognized in full if substantially all the risks and rewards of ownership are transferred or if some of the risks and rewards of ownership are transferred (risk sharing) and the acquirer has both the legal and the practical ability to sell the assets to a third party. If, in cases where risk is shared, the acquirer is unable to sell the assets to a third party, the assets will continue to be recognized to the extent the maximum risk retained. Financial liabilities are derecognized when the obligation specified in the contract expires or if there is a substantial modification of the terms of the contract.

Financial assets include loans to group companies, interest receivables and derivative financial assets. They are measured at fair value upon initial recognition. For all financial assets not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are recognized plus, in the case of loans to group companies, a loss account for expected credit losses. The fair values recognized in the statement of financial position are generally based on market prices of the financial assets. If these are not available, the fair value is determined using standard valuation models based on current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve taking into account maturity adjusted spreads are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.
For the classification and measurement of Loans to group companies, the respective business model for managing the loans and whether the instruments have the characteristics of a standard loan, i.e., whether the cash flows are solely payments of principal and interest, is relevant. Assuming the assets have these characteristics and if the business model is to hold to collect the asset's contractual cash flows, they are measured at amortized cost. This is computed using the effective interest method. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. On each statement of financial position date, the Company determines the recoverable amount of the assets by the calculation of the expected credit losses contributable to each of the items.

At initial recognition, Loans to group companies are measured including a loss allowance account for expected credit losses. The loss allowance is determined at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Otherwise, the loss allowance is calculated at an amount equal to twelve-month expected credit losses. In this case, losses incurred later than twelve months after the reporting date would therefore not be considered.

When a loss allowance for expected credit losses is being determined, the historical probability of default supplemented by the relevant future parameters for the credit risk is used as the basis for the calculation. For all Loans to group companies, publicly available market data related to the Deutsche Telekom Group debt portfolio is used to determine the loss allowance for expected credit losses.

Derivative financial assets are measured at fair value through profit or loss.

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are also a component of the carrying amount. Subsequent to initial recognition all non-derivative financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

Derivative financial liabilities are measured at fair value through profit or loss.

The Company has not yet made use of the option to designate financial instruments upon initial recognition as at fair value through profit or loss.

The Company uses **derivative financial instruments** to mitigate the interest rate risk resulting from its activities. The Company does not hold derivatives for speculative nor trading purposes. The Company does not apply hedge accounting as defined under IFRS 9. Derivatives that are not part of an effective hedging relationship as set out in IFRS 9 must be classified as and reported at fair value through profit or loss. If the fair values are negative, the derivatives are recognized as financial liabilities. Derivatives are recognized initially at fair value. Subsequent to initial recognition derivatives are measured at fair value and changes in the fair value of derivatives are recognized immediately in other financial income (expense) in profit or loss. In the case that no market value is available, the fair value must be calculated using standard financial valuation models. The fair value of derivatives is the value that the Company would receive or have to pay if the financial instrument was discontinued at the reporting date. This is calculated on the basis of the contracting parties' relevant exchange rates, interest rates and credit ratings at the reporting date. Calculations are made using mid rates. Currency basis and inter-tenor spreads are taken into account. In the case of interest-bearing derivatives, a distinction is made between the "clean price" and the "dirty price". In contrast to the clean price the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

INCOME TAXES

Income taxes include current income taxes as well as deferred taxes. Current and deferred tax assets and liabilities must be recognized where they are probable. They are measured in accordance with the tax laws applicable or already announced as of the reporting date, provided said announcement has the effect of actual enactment. Where current and deferred tax is recognized, it must be reported as income or expense except to the extent that the tax arises from a transaction which is recognized outside profit and loss, either in other comprehensive income or directly in equity, or in connection with a business combination. Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset in the statement of financial position if the Company has a legally enforceable right to set off current tax assets against current tax liabilities, has an intention to settle net, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted by the statement of financial position date.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Other liabilities comprise provisions and other current obligations and are generally measured at cost.
Provisions are recognized when the company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividend distribution to the Company's shareholder is recognized as a liability in the financial statement in the period in which the dividends are approved by the Company's shareholders.

Interest income (expense) is recognized as it accrues, using the effective interest method.

Other financial income (expense) includes gains (losses) from derivative financial instruments and from foreign exchange. Foreign-currency transactions are translated into the functional currency at the exchange rate at the date of transaction. At statement of financial position dates, monetary items are translated at the closing rate, and non-monetary items are translated at the exchange rate at the date of transaction. Exchange rate differences are recognized in other financial income (expense) in profit or loss.

The exchange rates of significant currencies changed as follows:

in €	Average rate		Rate at balance sheet date	
	2018	2017	31.12.2018	31.12.2017
1 Pound sterling (GBP)	1.13049	1.14063	1.11769	1.12664
1 Hong Kong dollar (HKD)	0.10801	0.11283	0.11150	0.10668
1 U.S. dollar (USD)	0.82946	0.88549	0.87321	0.83340

General administrative expenses include operational leases (computer equipment and office rent) and contribution to the state pensions plan and are recognized at cost.

Judgements and estimates

The Company exercises judgement in measuring and recognizing provisions. Judgement is necessary in assessing the likelihood that a liability will arise and to quantify the possible range of the final settlement. These estimates are subject to change as new information becomes available.

Regarding assumptions made for the calculation of fair values we refer to the section under accounting policies (derivative financial instruments).

Notes to the statement of comprehensive income

1. Risk management, financial derivatives and other disclosures on capital management

Principles of risk management

The Company's principal financial liabilities, other than derivatives, mainly comprise issued bonds and the company's financial assets, other than derivatives, mainly comprise loans to group companies. These financial liabilities and assets are the result of the Company's main purpose, i.e. to raise funds for DTAG or group companies of DTAG.

The main risks arising from the Company's financial instruments are currency risk, interest rate risk and liquidity risk. Additionally, there is a limited credit and counterparty default risk. Management of these risks is performed in accordance with DTAG Group financial risk management policy. The Board of Management regards effective management of the interest rate risk and foreign currency risk as one of its main tasks.

Historically, the Company has entered into various derivative transactions, primarily interest rate swaps and cross currency interest rate swaps, to mitigate the interest rate risk and currency translation risk arising from the group's operations and its sources of funding. It is the Company's policy that derivatives are exclusively used as hedging instruments, i.e. neither for trading nor other speculative purposes. In 2018 and 2017, the Company has not concluded any new derivative contracts.

For the presentation of market risks IFRS 7 requires sensitivity analysis that show the effects of hypothetical changes of the relevant risk variables on profit or loss and shareholder's equity. In addition to currency risks the Company is exposed to interest rate risks according to the definition of IFRS 7. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

Currency risk

Currency risk as defined by IFRS 7 arises on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature. The Company's currency risk relates to positions in GBP, USD and HKD. The currency risk is mitigated by means of raising the funds in the same currency as the financing provided to the borrowers.

The currency sensitivity analysis is based on the following assumptions:

- Major non-derivative monetary financial instruments (loans and other financial assets and interest-bearing and non-interest bearing liabilities) are directly denominated in the functional currency.

- Whereas derivatives are valued at fair value, non-derivative financial instruments are carried at amortized cost. The currency valuation result of both derivatives and non-derivative financial instruments are included in other financial expenses. Therefore, a change in exchange rates has an impact on the result of the Company.

- Interest income and interest expense from financial instruments are recorded directly in the functional currency. The Company does not hedge the future net margins. This has an impact on the net profit margin of the Company.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2018, other financial income would have been EUR 29.7 million lower (higher) (December 31, 2017: EUR 30.2 million lower (higher)). This hypothetical effect on profit or loss before income taxes of EUR 29.7 million mainly results from the currency sensitivity EUR/USD: EUR 29.6million (2017: EUR 30.1 million).

Interest rate risk

The Company is exposed to interest rate risk on the interest-bearing receivables and interest-bearing liabilities. However, the interest rates on the Company's funding do in principle match with the interest rates on the corresponding loans provided by the Company. Any interest rate exposure that arose nevertheless historically at the level of the Company has been mitigated by means of derivative contracts with DTAG so there will effectively be no interest rate risk with respect to cash flows at the level of the Company. However, as these derivatives are valued at fair value, a change in interest rates has an impact on the result of the company of the respective year.

The following table provides a breakdown of the Interest Rate Swaps.

maturity		notional	pay	receive
June 15, 2030	USD	1,685,000,000	6.285%	6MUSLibor +1.120%
June 15, 2030	USD	1,685,000,000	6MUSLibor +1.045%	8.250%

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components and, if appropriate, shareholder's equity. The interest rate sensitivity analyses are based on the following assumptions:

- Changes in the market interest rates of non-derivative financial fixed instruments do not affect income because they are not measured at fair value but at amortized cost.

- Changes in the market interest rates of non-derivative financial variable instruments do not affect income because these instruments are back to back transactions.

- Changes in the market interest rate of derivatives do affect other financial income or expense since they are measured at fair value and are not part of a hedging relationship as set out in IFRS 9. They are therefore taken into consideration in the income-related sensitivity calculations.

If the market interest rates had been 100 basis points higher (lower) at December 31, 2018, the profit or loss before income taxes would have been EUR 13.2 million lower (higher) (December 31, 2017: EUR 6.6 million lower (higher)).

Some issued bonds and loan contracts of the Company include a step-clause. If the rating of DTAG changes and triggers the step-clause of the specific contracts, the interest rate of those contracts is adjusted. If the rating of DTAG had been upgraded to A3/A- as of December 31, 2018, the profit or loss before income taxes would have been EUR 5.5 million lower (December 31, 2017: EUR 5.8 million lower). If the rating of DTAG had been downgraded as of December 31, 2018, the profit or loss before income taxes would not have materially changed.

Credit and counterparty default risk

Loans are granted to DTAG and DTAG group companies only. The maximum exposure to credit and counterparty default risk is generally represented by the carrying amounts of the financial assets that are carried in the statement of financial position, including derivatives with positive market values. However, the Company has concluded a guarantee agreement with DTAG in favour of the owners of financial liabilities issued by the Company. Basically it covers all interest payments and repayments of loans granted to affiliated companies for which the Company pays a fix guarantee fee plus a onetime premium on occasion of default, calculated as a ratio of the loan amount in default divided by the total amount of loans outstanding multiplied by EUR 10 million. This guarantee agreement also covers all derivatives closed with DTAG. These derivatives have been closed only for the reason of covering all interest exposures related to the loans to affiliates companies and therefore no IFRS 13, measurement of CVA/DVA, is required. The loans are unsecured and management does not expect any losses from non-performance by the counterparties of these loans. Under IFRS 9 it is required to recognize and measure potential impairments in loans and receivables which are measured at Amortized Cost by the expected credit loss model. The general approach is applied. Please refer to Note 6.

Liquidity risk

Please refer to Note 7.

Capital management

The overriding aim of the Company's capital management is to match the assets and liabilities in order to ensure its capability to repay the debt. The company's objectives when managing capital are to safeguard the company’s ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders.

2. Finance income

The following table provides a breakdown of finance income:

thousands of €	2018	2017
Interest income	1,148,107	1,137,412
Interest expense	(1,162,967)	(1,150,325)
	(14,860)	**(12,913)**

Interest income of thousands of euro (hereafter “TEUR”) 1,148,107 has been earned from contracts with Deutsche Telekom group companies in 2018 (2017: TEUR 1,137,412). All interest expense in 2018 and 2017 respectively has been derived from group external debt. The negative interest result is mainly due to the fact that hedge accounting as defined in IFRS 9 is not applied. We refer to Note 1, 3 and 6.

3. Other financial income (expense)

The impairment reversals on financial assets is the nett release of provisions related to the expected credit losses on loans to group companies.

The item Other financial income (expense) breaks down as follows:

thousands of €	2018	2017
Gain (Loss) from financial instruments	20,241	(34,382)
Gain (Loss) from foreign exchange differences	636	(4,176)
	20,877	**(38,558)**

The position “Gain (Loss) from financial instruments” in 2018 (and 2017) comprise the fair value change of two derivatives which were concluded with DTAG. The Company does not apply hedge accounting under IFRS. Therefore, all movements in fair value of financial instruments and related income and expenses, are included in 'Other financial income (expense)’. The position “Gain (Loss) from foreign exchange differences” includes a loss of TEUR 16 (2017: a gain of TEUR 9) resulted from spot trades (the sale and exchange of interest margin in foreign currencies into euro) and is not disclosed in the net gain/loss by measurement category in Note 7.

4. General and administrative expenses

The following table provides a breakdown of total general and administrative expenses:

thousands of €	2018	2017
Personnel costs		
Remuneration Management Board	93	92
Other salaries	6	6
Other social security costs	11	10
Total personnel costs	**110**	**108**
Other general and administrative expenses		
Office rent	15	15
Service fees	141	141
Audit and tax consultancy fees	54	60
Telephone	1	1
Computer lease	6	5
Depreciation	1	1
Other	6	4
Total other general and administrative expenses	**224**	**227**
Total general and administrative expenses	**334**	**335**

The remuneration of the Board of Management consists of short-term employee benefits and complies with the "bezoldiging bestuurders" in accordance with Dutch law article "2:383 BW". The remuneration of the Supervisory Board in 2018 was nil (2017: nil).

Total expenses recognized for defined contribution plans (state pension plan) in 2018 were TEUR 6 (2017: TEUR 6).
As at December 31, 2018 the Company employed 1 person (2017: 1).

Service fees of TEUR 141 have been paid in 2018 for services provided by the shared service centre of DTAG (2017: TEUR 141).
Furthermore, computer leasing fees of TEUR 6 have been paid in 2018 to DTAG (2017: TEUR 5).

For the audit of the financial statements, audit fees of TEUR 17 (2017: TEUR 16) have been paid to PricewaterhouseCoopers Accountants N.V., Amsterdam and audit fees of TEUR 5 (2017: TEUR 5) have been paid to PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main.
In 2018 fees amounting to TEUR 20 (2017: TEUR 19) for other audit procedures were paid to PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.
In 2018 fees of TEUR 24 (2017: TEUR 24) for other audit related services, not included in the table of General and administrative expenses, were paid to PricewaterhouseCoopers Accountants N.V., Amsterdam.

5. Income taxes

Income taxes in the statement of comprehensive income:

thousands of €	2018	2017
Current income tax expenses	(2,969)	(2,491)
Deferred tax income	15,885	15,444
	12,917	**12,953**

The Company has concluded an Advance Pricing Agreement (APA) with the Dutch Tax Authority in which a fix spread has been agreed upon based on an at arm's length transfer pricing assessment. The amount in "Current income tax expenses" reflects the calculated amount of income tax due over the year without having received a final assessment.

The following table shows the reconciliation of the effective tax rate:

thousands of €	2018	2017
Profit (Loss) before income taxes	**5,901**	**(51,773)**
Expected income tax (expense) / benefit*	(1,465)	12,953
Effect from the change in income tax as of 1.1.2019 on deferred taxes in the current year**	14,208	-
Income tax benefit according to income statement	**12,917**	**12,953**
Effective income tax rate (%)	21.9%	25.0%

* Applicable income tax rates in the Netherlands ranged from 20% to 25.0% in 2018 (2017: 20% to 25.0%).
For the Company the average income tax rate was 24.8% in 2018 (2017: 25.0%).
** Corporate income tax rate change in the Netherlands substantively enacted. Corporate income tax rates will change from 20% resp. 25% to 19% and 25% as from 1.1.2019, 16% and 22,55% as from 1.1.2020 and 15% and 20,5% as from 1.1.2021

Income taxes in the statement of financial position:

Current income taxes in the statement of financial position refer to payable income taxes amounting to TEUR 1,425 as of December 31, 2018 (December 31, 2017: payable income taxes of TEUR 955). All income taxes are payable in the Netherlands.

Deferred taxes relate to the following key statement of financial position items:

thousands of €	31.12.2018		31.12.2017	
Deferred taxes related to following key statement of financial position item:	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Current assets	**2,338**	**-**	**8,034**	**-**
Financial assets	2,338	-	8,034	-
Non-current assets	**64,871**	**(126,622)**	**75,546**	**(170,766)**
Financial assets	29,699	(126,622)	33,959	(170,766)
Prepaid expenses*	35,172	-	41,587	-
Current liabilities	**-**	**(59,411)**	**-**	**(74,956)**
Financial liabilities	-	(3,611)	-	(8,044)
Other deferred income*	-	(55,800)	-	(66,912)
Non-current liabilities	**66,192**	**(13,042)**	**94,676**	**(14,267)**
Financial liabilities	66,192	(13,042)	94,676	(14,267)
Total	**133,401**	**(199,075)**	**178,256**	**(259,989)**
Of which: non-current	131,063	(139,664)	170,222	(185,033)
Netting:	(133,401)	133,401	(178,256)	178,256
Recognition:	-	(65,674)	-	(81,733)

* refers to tax balance sheet item

All deferred taxes relate to temporary differences and are volatile from year to year, mainly due to fair value movements of financial assets and liabilities as no hedge accounting is being applied. Changes in deferred taxes are recognized in Income taxes in the statement of comprehensive income. There are no deferred taxes that relate to loss carry-forwards.

Notes to the statement of financial position

6. Financial assets

The following table provides a breakdown of the financial assets:

thousands of €	31.12.2018		31.12.2017	
	Total	**Of which: current**	**Total**	**Of which: current**
Loans to group companies	35,469,062	2,312,722	31,057,135	1,264,338
Derivative financial instruments	617,670	-	689,677	6,612
Interest receivables	412,716	412,716	444,371	444,371
	36,499,448	**2,725,438**	**32,191,183**	**1,715,321**

The following table provides a breakdown of loans to DTAG group companies:

thousands of €	31.12.2018		31.12.2017	
	Total	**Of which: current**	**Total**	**Of which: current**
Germany*	35,080,071	2,182,815	30,618,656	1,214,370
Hungary	259,084	-	308,682	49,968
Austria	129,907	129,907	129,797	-
	35,469,062	**2,312,722**	**31,057,135**	**1,264,338**

* of which loans to shareholder: TEUR 35,080,071 (2017: TEUR 30,618,656)

The following table shows the movement of the provision on financial assets under IFRS 9:

Movement of provision in accordance with IFRS 9	thousands of €
Provision as of 31.12.2017	**-**
Adjustment under IFRS 9	(697)
Provision as of 01.01.2018	**(697)**
Addition of provisions under IFRS 9	-
Release of provision in 2018 through comprehensive profit (loss)	180
Provision as of 31.12.2018	**(517)**

The Board of Management has concluded that no impairment is required on any of the Company's loans and receivables, other than those required under IFRS 9, due to the following reasons:

- With regard to all loans and receivables, none of those are impaired or past due.
- There are no indications as of the reporting date that the debtors will not meet their payment obligations.

The major part of Financial Assets relate to loans to the shareholder DTAG. The rating of DTAG is currently BBB+ (according to Standard & Poor's and Fitch) and Baa1 (according to Moody's). All Financial Assets which are not directly related to DTAG are related to DTAG Group companies, thus a similar credit quality is assumed.

DTAG has also entered into a guarantee agreement with the Company on November 30, 2004, which has been renewed on January 20, 2010, October 11, 2012 and February 16, 2015. Under this agreement DTAG guarantees for all repayments of loans to affiliated companies, except for the own risk of EUR 10 million the Company is exposed to at a maximum.

The loans have stated coupon interest rates as per December 31, 2018 of 0.16% to 9.33% (2017: 0.15% to 9.33%) and mature up to 23 years (2017: up to 24 years). The average interest rate of the loans was 3.24% as of December 31, 2018 (2017: 3.51%).

The Company does not hold derivatives for speculative nor for trading purposes. All derivatives have been contracted with the parent company DTAG. The Company does not make use of hedge accounting as defined under IFRS 9. Since derivatives are carried at fair value and the non-derivative instruments at amortized costs, the financial result under IFRS of the Company is volatile. As shown by the liquidity analysis under note 7 the Company always has net positive cash flows in every year until the last contract expires.

All interest receivables as of December 31, 2018 (and December 31, 2017 respectively) refer to accrued interest from companies of DTAG Group, of which TEUR 406,716 relate to DTAG (2017: TEUR 437,817).

7. Financial liabilities

The following table provides a breakdown of financial liabilities and its maturities:

thousands of €		**31.12.2018**		
	Total	**due within 1 year**	**due > 1 year < 5 years**	**due > 5 years**
Bonds and other securitized liablities	35,272,824	2,304,591	13,911,541	19,056,692
Guarantee fees payable	182,832	15,276	36,268	131,288
Interest liabilities	394,981	394,981	-	-
Derivative financial instruments	322,887	-	-	322,887
	36,173,524	**2,714,848**	**13,947,809**	**19,510,867**

thousands of €	31.12.2017			
	Total	due within 1 year	due > 1 year < 5 years	due > 5 years
Bonds and other securitized liablities	30,876,592	1,257,674	11,996,824	17,622,094
Guarantee fees payable	163,882	14,080	31,735	118,067
Interest liabilities	423,448	423,448	-	-
Derivative financial instruments	394,764	16,060	-	378,704
	31,858,686	**1,711,262**	**12,028,559**	**18,118,865**

The average interest rate for bonds is 3.23% as of December 31, 2018 (2017: 3.47%).

Guarantee fee liabilities to be paid to DTAG are paid over the terms of the external financial instruments. DTAG provides a full and irrevocable guarantee for all liabilities issued by the Company. Payment dates of guarantee fees are generally matched with interest payment dates of the external financial liabilities.

In 2018 (and 2017 respectively) all interest liabilities refer to group external debt.

Liquidity analysis

The following table shows the contractually agreed undiscounted interest and guarantee payments and repayments of the non-derivative financial instruments and the derivatives with positive and negative values as of December 31, 2018 and as of December 31, 2017 respectively. All instruments held at December 31, 2018 (December 31, 2017 respectively) and for which payments were already contractually agreed are included. Planning data for future new liabilities were not included. Each amount in foreign currency was translated at the closing rate prevailing on reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2018 (December 31, 2017 respectively). Based on this liquidity analysis the Company expects net positive cash flows in all years presented herein.

The following tables show the undiscounted liquidity analysis as of December 31, 2018:

thousands of €	2019	2020-2023	2023 <	Total cash flows	Carrying amount
Non derivative borrowings (cash payables)	**(3,452,624)**	**(17,773,892)**	**(24,345,296)**	**(45,571,812)**	(35,272,824)
Bonds fix	(3,216,352)	(15,445,778)	(24,345,296)	(43,007,426)	
Bonds floating	(236,272)	(2,328,114)	-	(2,564,386)	
Guarantees payable	**(32,098)**	**(98,410)**	**(90,199)**	**(220,707)**	(182,832)
Derivatives	**30,028**	**120,063**	**195,102**	**345,193**	294,783
IR Derivatives outflow	(150,994)	(600,660)	(976,073)	(1,727,727)	
IR Derivatives inflow	181,022	720,723	1,171,175	2,072,920	
Loans granted (cash receivables)	**3,468,167**	**17,795,109**	**24,281,647**	**45,544,923**	35,469,062
Loans to aff. comp. fix	3,228,414	15,464,075	24,281,647	42,974,136	
Loans to aff. comp. floating	239,753	2,331,034	-	2,570,787	
Total Cash Flow	**13,473**	**42,870**	**41,254**	**97,597**	

The following tables show the liquidity analysis as of December 31, 2017:

thousands of €	2018	2019-2022	2022 <	Total cash flows	Carrying amount
Non derivative borrowings (cash payables)	**(2,338,790)**	**(15,622,916)**	**(22,651,888)**	**(40,613,594)**	(30,876,592)
Bonds fix	(2,326,621)	(13,692,769)	(22,651,888)	(38,671,278)	
Bonds floating	(12,169)	(1,930,147)	-	(1,942,316)	
Guarantees payable	**(27,132)**	**(89,230)**	**(79,986)**	**(196,348)**	(163,882)
Derivatives	**19,141**	**114,589**	**214,855**	**348,585**	294,913
IR Derivatives outflow	(236,115)	(514,941)	(965,514)	(1,716,570)	
IR Derivatives inflow	255,256	629,530	1,180,369	2,065,155	
Loans granted (cash receivables)	**2,358,014**	**15,633,936**	**22,551,925**	**40,543,875**	31,057,135
Loans to aff. comp. fix	2,343,248	13,700,460	22,551,925	38,595,633	
Loans to aff. comp. floating	14,766	1,933,476	-	1,948,242	
Total Cash Flow	**11,233**	**36,379**	**34,906**	**82,518**	

Additional disclosures on financial instruments

The following table provides carrying amounts, amounts recognized and fair values by measurement categories:

thousands of €

	Category in accordance to IFRS 9	Carrying amount 31.12.2018	Amounts recognized in statement of financial position according to IFRS 9		Fair Value 31.12.2018
			Amortized cost	Fair value recognized in profit or loss	
Assets					
Loans to aff. comp.	AC	35,469,062	35,469,062	-	38,661,950
Other financial assets [1]	AC	412,716	412,716	-	-
Derivative financial assets	FVTPL	617,670	-	617,670	617,670
Liabilities					
Bonds and other securitized liablities	AC	35,272,824	35,272,824	-	37,960,734
Other financial liabilities	AC	577,813	577,813	-	587,893
Derivative financial liabilities	FVTPL	322,887	-	322,887	322,887
Thereof aggregated according to IFRS 9 categories					
Assets					
Financial assets carried at amortized cost	AC	35,881,778	35,881,778	-	38,661,950
Financial assets at fair value through profit and loss	FVTPL	617,670	-	617,670	617,670
Liabilities					
Financial liabilities carried at amortized cost	AC	35,850,637	35,850,637	-	38,548,627
Financial liabilities at fair value through profit and loss	FVTPL	322,887	-	322,887	322,887

[1] We refer to the exception of IFRS 7.29(a) for the disclosure of the fair value.

AC = Amortized Cost

FVTPL = Fair Value and changes in Profit and Loss

thousands of €	Category in accordance to IAS 39	Carrying amount 31.12.2017	Amounts recognized in statement of financial position according to IAS 39		Fair Value 31.12.2017
			Amortized cost	Fair value recognized in profit or loss	
Assets					
Loans to aff. comp.	LaR	31,057,135	31,057,135	-	35,565,645
Other financial assets [1]	LaR	444,371	444,371	-	-
Derivative financial assets	FAHfT	689,677	-	689,677	689,677
Liabilities					
Bonds and other securitized liablities	FLAC	30,876,592	30,876,592	-	34,944,243
Other financial liabilities	FLAC	587,330	587,330	-	597,772
Derivative financial liabilities	FLHfT	394,764	-	394,764	394,764
Thereof aggregated according to IAS 39 categories					
Loans and Receivables	LaR	31,501,506	31,501,506	-	35,565,645
Financial Assets Held for Trading	FAHfT	689,677	-	689,677	689,677
Financial Liabilities at Amortized Cost	FLAC	31,463,922	31,463,922	-	35,542,015
Financial Liabilities Held for Trading	FLHfT	394,764	-	394,764	394,764

[1] We refer to the exception of IFRS 7.29(a) for the disclosure of the fair value.

LaR = Loans and Receivables

FAHfT = Financial Assets Held for Trading

FLAC = Financial Liability at Amortized Costs

The portfolio of financial assets by measurement category in accordance with IAS 39 is reconciled to the IFRS 9 measurement categories as follows:

thousands of €	Carrying amount 31.12.2017 (IAS 39)	Carrying amount 01.01.2018 (IFRS 9)	Effect to be recognized in retained earnings 01.01.2018
AT FAIR VALUE THROUGH PROFIT OR LOSS			
Ending balance in accordance with IAS 39	689,677	689,677	
Additions to IFRS 9 - At fair value through profit or loss from IAS 39 - Financial assets held for trading			-
	689,677	**689,677**	**-**
AT AMORTIZED COST			
Ending balance in accordance with IAS 39	31,501,506	31,501,506	
Provisions from IAS 39 - loans an receivables to IFRS 9 - At amortized cost			(523)
	31,501,506	**31,500,983**	**(523)**
	32,191,183	**32,190,660**	**(523)**

The main reclassification from the old IAS 39 measurement categories to the new IFRS 9 measurement categories relate to loans to group companies which were previously assigned to the category "Loans and receivables" and measured at amortized cost. The effect to be recognized in retained earnings relate to these loans to group companies. The reclassification did not result in any further changes. The names of the measurement categories were updated to reflect the wording of the new standard.

The following table shows the classes of financial assets and liabilities under IFRS 9 along with their previous and current measurement categories and carrying amounts:

Classes of financial instruments in accordance with IFRS 9 — thousands of €

	Measurement categories		Carrying amounts 31.12.2017 / 01.01.2018		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
ASSETS					
Loans to aff. comp.	Loans and receivables (LaR)	Amortized cost (AC)	31,057,135	31,057,832	697
Other financial assets	Loans and receivables (LaR)	Amortized cost (AC)	444,371	444,371	-
Derivative financial assets	Financial assets held for trading (FAHfT)	Fair value through profit or loss (FVTPL)	689,677	689,677	-
LIABILITIES					
Bonds and other securitized liablities	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	30,876,592	30,876,592	-
Other financial liabilities	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	587,330	587,330	-
Derivative financial liabilities	Financial liabilities held for trading (FLHfT)	Fair value through profit or loss (FVTPL)	394,764	394,764	-

Only derivative financial instruments are measured at fair value in the statement of financial position of the Company. IFRS 7 requires that the classification of financial instruments at fair value is determined by reference to the source of input used to derive the fair value. The classification uses the following three-level hierarchy: Level 1 uses quoted prices in active markets for identical assets or liabilities as input for the determination of the fair value, level 2 uses inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) and level 3 uses inputs for the asset or liability that are not based on observable market data (unobservable inputs). The derivatives of the Company are exclusively categorised under level 2 in the fair value hierarchy of IFRS 7.

The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets. If these are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve taking into account maturity adjusted spreads are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

Since no quoted prices are available for the derivative financial instruments of the Company, the fair value is determined with the use of standard valuation models on the basis of observable market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve taking into account maturity adjusted spreads are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used. A distinction between the Clean and the Dirty price is made. The Dirty Price also comprises accrued interest. The recognized Fair Values correspond to the Full Fair Value or the Dirty Price.

The classification in level 1 or level 2 of quoted bonds has been determined by the trading volume of the instrument. USD and EUR denominated bonds traded in an active market have been classified in level 1, all other, traded in less liquid markets, in level 2. In 2018 two bonds have been transferred from level 1 to level 2.

In 2018 and in 2017 the guarantee fees have been classified in level 2 and a fair value for the Other financial liabilities is disclosed accordingly. The fair values of the financial instruments classified in level 1 equal the nominal amounts multiplied by the price quotations at the reporting date. All other fair values of the financial instruments classified in level 2 are calculated as present values of the payments associated with the debts, based on the applicable yield curve and DTAG's credit spread curve for specific currencies.

The following table shows the classification of financial instruments that are not recognized at fair value but whose fair values are disclosed:

thousands of €	31.12.2018		
	Level 1	Level 2	Total
Assets			
Loans to aff. comp.		38,661,950	38,661,950
Liabilities			
Financial liabilities at amortized cost	30,292,228	8,256,399	38,548,627
- of which marketable securities	30,292,228		30,292,228
- of which non-marketable securities		7,668,506	7,668,506
- of which other financial liabilities		587,893	587,893

thousands of €	31.12.2017		
	Level 1	Level 2	Total
Assets			
Loans to aff. comp.		35,565,645	35,565,645
Liabilities			
Financial liabilities at amortized cost	29,075,369	6,466,646	35,542,015
- of which marketable securities	29,075,369		29,075,369
- of which non-marketable securities		5,868,874	5,868,874
- of which other financial liabilities		597,772	597,772

The following table provides net gains and losses from interests by measurement categories:

thousands of €	From interest	From subsequent measurement		From derecognition	Net gain (loss)
		At fair value	Currency translation		2018
Financial Assets at Amortized Cost (AC)	1,148,107	-	521,900	180	1,670,187
Financial Instruments measure at Fair Value and changes in Profit and Loss		20,241		-	20,241
Financial liabilities measured at amortized cost (AC)	(1,162,967)	-	(521,248)	-	(1,684,215)

thousands of €	From interest	From subsequent measurement		From derecognition	Net gain (loss)
		At fair value	Currency translation		2017
Loans and receivables (LaR)	1,137,412	-	(1,587,663)	-	(450,251)
Financial Instruments held for trading (FAHfT and FLHfT)		(34,382)		-	(34,382)
Financial liabilities measured at amortized cost (FLAC)	(1,150,325)	-	1,583,478	-	433,153

The following financial instruments are subject to enforceable master netting arrangements and similar agreements. The counterparty for all those derivative financial instruments is DTAG. Even though a netting option exists, netting is currently not applied. However, both parties will have the potential right to settle all derivative financial instruments on a net basis in the event of default of the other party.

Offsetting 31.12.2018:

thousands of €	Derivative financial assets	Derivative financial liabilities
Net amount presented in the balance sheet	617,669	322,887
Related amounts not set off in the balance sheet	322,887	322,887
thereof: financial instruments	322,887	322,887
thereof :collaterals	-	-
Net amount	294,782	-

Offsetting 31.12.2017:

thousands of €	Derivative financial assets	Derivative financial liabilities
Net amount presented in the balance sheet	689,678	394,764
Related amounts not set off in the balance sheet	394,764	394,764
thereof: financial instruments	394,764	394,764
thereof :collaterals	-	-
Net amount	294,914	-

Interest from financial instruments is recognized in finance income (costs) and other financial income (please refer to notes 2 and 3).

Currency translation from financial instruments is recognized in other financial income (expense). We refer to note 3.

The net result from the subsequent measurement for financial instruments held for trading also includes interest and currency translation effects.

Finance expense from financial liabilities measured at amortized cost primarily consists of interest expense on bonds and other financial liabilities.

Finance income from loans and receivables primarily consists of interest income on loans to group companies.

8. Equity

The issued share capital amounts to EUR 500,000 and consists of 1,000 shares of common stock at a par value of EUR 500. There were no movements in the number of shares in 2018 or 2017. All shares are held by DTAG.

The opening balance as at January 1, 2018 of Retained earnings has been adjusted for the allowance of TEUR 697 less related deferred taxes of TEUR 174, calculated on the financial assets according to IFRS 9. As per December 31, 2018 the allowance and related tax assets have decreased to TEUR 517 and TEUR 107 respectively and these amounts have been recognized in the statement of comprehensive income.

In 2018 the Company paid EUR 7,519.99 dividend per share (2017: EUR 4,920.69). In 2017 as well as in 2018 the management assessed that the Company expects net positive cash flows for the year ending December 31, 2019 as well as in each of the following years. For the result of these assessments we refer to the liquidity analyses in note 7 of these notes.

9. Notes to the statement of cash flows

The statement of cash flows has been prepared using the direct method.

The position of “Cash and cash equivalents” refers to the balance from bank accounts included in the cash pooling and the inter-company current account with DTAG. The net amount is measured at cost.

Net cash from operating activities is mainly a result of the net margin earned by the Company and cash inflows for loans that have been repaid to the Company.

Net cash from financing activities mainly includes cash inflows from bonds issued by the Company and cash outflows for the repayment of bonds and a dividend payment to the Companies’ shareholder.

As far as applicable for the years 2017 and 2018 the cash in- and outflows for loan and derivative repayments and for new loans granted to companies of DTAG Group matched the cash in- and outflows from issues and/or repayments of bonds.

The Company has access to credit facilities with two banks, one amounting to actually € 425 million and one of € 600 million. The bilateral credit agreements have an original maturity of 36 months and can, after each period of 12 months, be extended by a further 12 months to renew the maturity of 36 months. The Company did not draw on the credit lines in 2018 and 2017. All liabilities from earlier credit line drawings have been repaid.

10. Segment reporting

The primary activity of the Company is to finance its parent company and DTAG group companies. Therefore, segment information other than geographic information and information per major customer is not reported separately. There is only one reportable segment.

Geographic information

Interest income mainly from group companies according to their country of operations:

thousands of €	31.12.2018	31.12.2017
Germany	1,132,836	1,120,502
Austria	2,873	3,810
Hungary	12,398	13,100
	1,148,107	**1,137,412**

In 2018, more than 10% of the total interest income has been earned from loans with DTAG (TEUR 1,132,836 or 98.7%).

In 2017, more than 10% of the total interest income has been earned from loans with DTAG (TEUR 1,120,502 or 98.5%).

For non-current loan receivables, we refer to note 6.

11. Proposed appropriation of result

Article 21.2 of the articles of association states that “The General Meeting has the authority to make distributions. If the Company is required by law to maintain reserves, this authority only applies to the extent that the equity exceeds these reserves. No resolution of the General Meeting to distribute shall have effect without the consent of the Management Board. The Management Board may withhold such consent only if it knows or reasonably should expect that after the distribution, the Company will be unable to continue the payment of its due debts.”
Based on its assessment , the liquidity analysis referred to in note 7 and the proposed profit appropriation of the Board of Management, the dividend of EUR 8,944,103.57will be distributed to the shareholder, awaiting approval of the General Meeting of Shareholders and the Supervisory Board. The related amount per share is EUR 8,944.10.

12. Events after the statement of financial position date

-

13. Post statement of financial position events

No other events have occurred since December 31, 20187 which would make the present financial position substantially different from that shown in the statement of financial position as of that date or which would require adjustment to or disclosure in the financial statement.

14. Related parties

The Company is a finance company and hence all material transactions are with related parties as disclosed in notes 2, 3, 4, 6, 7, 8 and 10.

Maastricht, March 6, 2019

The Board of Management:	The Supervisory Board:
F. Roose	S. Wiemann
M. Schäfer	Dr. Ch. Dorenkamp
	Dr. A. Lützner

Deutsche Telekom International Finance B.V.
Stationsplein 8-K
6221 BT Maastricht
The Netherlands

Other information

The company is required by law to have its annual account audited. We refer to the independent auditor’s report as set out on the next pages.

Independent auditor's report

To: the general meeting and supervisory board of Deutsche Telekom International Finance B.V.

Report on the financial statements 2018

Our opinion

In our opinion, Deutsche Telekom International Finance B.V.'s financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2018 of Deutsche Telekom International Finance B.V., Maastricht ('the Company').

The financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the following statements for 2018: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising the significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Deutsche Telekom International Finance B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

The Company's main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by Deutsche Telekom AG as disclosed in note 6 and 7 to the financial statements. The Company has derivative financial instruments in place to mitigate interest rate risk and currency risk. We paid specific attention to the areas of focus driven by the operations of the Company, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams included the appropriate skills and competences, which are needed for the audit of a finance company. We therefore included specialist in the area of financial instruments in our team.

Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Based on our professional judgement, we determined the materiality for the financial statements as a whole at €365,143,000 (2017: €332,042,000). As a basis for our judgement, we used 1% of total assets. We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders are the most important ones. Inherent to the nature of the company's business, the amounts in the financial statements are large in proportion to the income statement line items such as operating expenses. Based on qualitative considerations we performed audit procedures on those income statement line items, applying a benchmark of 10% of the total of those expenses.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €18,257,000 (2017: €16,102,100) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Due to the nature of the Company, key audit matters do not change significantly year over year. As compared to last year there have been no changes in key audit matters.

Key audit matter	***How our audit addressed the matter***
Valuation and existence of the loans issued *Note 6* We consider the valuation and existence of the loans issued, as disclosed in note 6 to the financial statements for a total amount of €35,469,062, to be a key audit matter. Significant auditor's attention is necessary because of the size of the loan portfolio and the importance of existence for users of the financial statements. Furthermore management's assessment of objective evidence of impairment is very importand and judgemental. As a result, any impairment may have a material effect on the financial statements. Management did not identify any objective evidence that a loan is impaired.	We performed the following procedures to support the existence of the loans issued to Deutsche Telekom AG group companies and to test the managing directors' assessment of possible loss events to address the valuation: • We confirmed the existence of all loans with the counterparties. • We evaluated the financial position of Deutsche Telekom AF by verifying observable data from rating agencies, developments in credit spread and other publicly available data. • We performed a substantive analytical procedure on the relationship between the interest expenses versus interest income, taken into consideration the applicable spread. • We compared interest receipts with bank statements • We recalculated the amortized cost value based on the effective interest method. • We performed confirmation procedures with the counterparties of the loans. Based on the procedures as set out above, we found no material differences.
Derivative valuation *Note 6 and 7*	We performed the following procedures to support the valuation of derivatives:

Key audit matter	How our audit addressed the matter
We consider the fair value of the derivatives portfolio of €617,670 positive and €322,887 negative as disclosed in note 6 and 7 to the financial statements and used in the Company's hedge effectiveness testing to be a key audit matter. This is due to the nature of the portfolio that includes longer-dated interest rate swaps and cross-currency interest rate swaps. The market for these swaps is not fully liquid, and therefore valuation is a complex area.	• We tested the valuation of derivatives by testing the input of contracts in the Company's valuation system on a sample basis. • We reconciled the interest rate curves and other market data with independent sources. • We assessed whether the settings used in the valuation system and the models are in line with market practice. • We also tested the mathematical accuracy of the models used and reconciled the outcome of the valuation system with the general ledger. We found management's assumptions used in the valuation of derivatives to be reasonable compared to market data and the chosen models to be in line with market practice. Based on the procedures as set out above we found no material differences.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- management report of the directors;
- management report of the supervisory board;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Deutsche Telekom International Finance B.V. on 12 May 2011 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 12 May 2011. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 8 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 4 to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; 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.

As part of the preparation of the financial statements, management is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going-concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 11 March 2019

PricewaterhouseCoopers Accountants N.V.

Original signed by M.P.A. Corver RA

Appendix to our auditor's report on the financial statements 2018 of Deutsche Telekom International Finance B.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. 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. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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 intentional override of internal control.
- Obtaining 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.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/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 and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board 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. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.