DEUTSCHE TELEKOM INTERNATIONAL FINANCE B.V.

MAASTRICHT

MANAGEMENT REPORT

for the year ended December 31, 2017

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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, 2017.

Business activities

In 2017 the Company issued a number of bonds comprised as follows:.

Name	Start	Maturity	CCY	Amount
EUR 4¾Y-fix	30.01.2017	30.10.2021	EUR	1,000,000,000
EUR 7Y-fix	30.01.2017	30.01.2024	EUR	1,250,000,000
EUR 7Y-fix	13.12.2017	13.12.2024	EUR	750,000,000
EUR 9Y-fix	22.05.2017	22.05.2026	EUR	750,000,000
EUR 10Y-fix	30.01.2017	30.01.2027	EUR	1,250,000,000
GBP 12Y-fix	13.04.2017	13.04.2029	GBP	250,000,000
HKD 10Y-fix	19.04.2017	19.04.2027	HKD	1,300,000,000
USD 3Y-float	19.01.2017	17.01.2020	USD	400,000,000
USD 3Y-fix	19.01.2017	17.01.2020	USD	850,000,000
USD 5Y-fix	19.01.2017	19.01.2022	USD	1,000,000,000
USD 10Y-fix	19.01.2017	19.01.2027	USD	1,250,000,000

In 2017 the Company repaid two EUR bonds with nominal amounts of EUR 2,000 million and EUR 100 million respectively. Furthermore the Company repaid a USD 1,000 million bond.

The Company made a net loss of EUR 8 38,820 thousand in 2017 versus a net loss of EUR 2,428 thousand in 2016.

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 have to be 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 DTAG Group Treasury and the Supervisory Board of the Company. Therefore normally the risks related to the Company's strategy will be limited.

The operational activities of the Company are performed by a small team of experienced staff. Nevertheless it is essential to have 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) and the tests during 2017 and in the beginning of 2018 have proved that this ICS is effective. The accounting-related ICS comprises both preventive and detective controls which include general IT management checks, 4 eyes principle, segregation of functions and the process of monitoring 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 main financial risks arising from the Company's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. Management of these risks is performed in accordance with DTAG's 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 hedged by means of raising the funds in the same currency as the financing provided to the borrowers. However, currency results arise because the Company concluded some USD interest hedging instruments in the past which are classified and valuated differently as the loans under IFRS. The interest rates on the Company's funding do in principle match with the interest rates on the corresponding loans provided by the Company or otherwise have been hedged by interest rate swaps. The credit risk is mainly covered by the guarantee agreement with DTAG. In this guarantee agreement the own risk for the Company has been limited to EUR 10 million.

The Company has obligations to disclose annual and 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 the Deutsche Telekom Group 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 does not anticipate any major changes of its 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, 2018 as well as in each of the following years.

Other Events

On March 8, 2017 the implementation of new Rules of Procedure for the Management Board were resolved and adopted. On September 29, 2017 the MB approved and implemented the new Deutsche Telekom Group Code of Conduct. On the same date also the implementation of the new Group Treasury Policy and the Group Lease Directive were resolved.
As per October 1, 2017 the limited power of attorney of Mr. Igor Soczynski was revoked. On December 14, 2017 a limited power of attorney was granted to Mr. David Hoeren.

Events after the statement of financial position date

On January 29, 2018 the Company issued a floating rate EUR bond with a nominal amount of EUR 200 million and maturity in 2020. The proceeds were lent on to DTAG for same amount and same maturity.

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, 2017 and the business activities during 2017; and
- the annual report describes the material risks that the Company is facing.

Maastricht, March 5, 2018

The Managing Directors,

Markus Schäfer

Frans Roose

Management report of the Supervisory Board

As per December 31, 2017 the Supervisory Board comprised the following members:

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

The Supervisory Board met once on March 8, 2017. During this meeting the Board of Management presented the business results for the year 2016 which were discussed and approved by the Supervisory Board. Also the planned activities of the company were discussed and the budget for 2017 was approved. The Supervisory Board was informed about the intended amendment of the Company's Management Board Rules of Procedure which thereafter was executed on the same date.

In the reporting year bonds and assignable loans to group companies matured in aggregate volumes per currency of EUR 2.1 billion and USD 1 billion, respectively. In 2017 the Company issued several bonds in total aggregate volumes per currency of EUR 5 billion, GBP 250 million, HKD 1.3 billion and USD 3.5 billion. The proceeds were lent on to DTAG with the same nominal amounts and maturity dates as the external bonds.

The financial statements 2017 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 2017 discloses a Net Loss of € 38.8 million. The Supervisory Board approves the proposal made by the Board of Management to distribute an amount of EUR 7,512,989.20 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 2017. The Supervisory Board takes this opportunity to express its appreciation for the performance of the management during the past year.

Maastricht, March 5, 2018

S. Wiemann | Dr. Ch. Dorenkamp | Dr. A. Lützner

Financial statements

Statement of comprehensive income

thousands of €	Note	2017	2016
Finance income	2		
Interest income		1,137,412	1,147,338
Interest expense		(1,150,325)	(1,164,558)
Other financial (expense) income	3	(38,558)	14,317
Loss from financial activities		**(51,471)**	**(2,903)**
General and administrative expenses	4	(335)	(382)
Other operating income		33	43
Loss from operations		**(302)**	**(339)**
Loss before income taxes		**(51,773)**	**(3,242)**
Income taxes	5	12,953	814
Loss after income taxes		**(38,820)**	**(2,428)**
Other comprehensive income		**-**	**-**
Loss attributable to owners:		(38,820)	(2,428)
Total comprehensive loss attributable to the owners:		(38,820)	(2,428)

Statement of financial position

thousands of €	Note	31.12.2017	31.12.2016
Assets			
Current assets		**1,728,341**	**3,567,512**
Cash and cash equivalents		13,016	11,121
Financial assets	6	1,715,321	3,556,388
Other assets		4	3
Non-current assets		**30,475,863**	**24,760,590**
Property, plant and equipment		1	2
Financial assets	6	30,475,862	24,760,588
Total Assets		**32,204,204**	**28,328,102**
Liabilities and shareholder's equity			
Current liabilities		**1,712,289**	**3,544,089**
Financial liabilities	7	1,711,262	3,543,965
Income tax liability	5	955	6
Other liabilities		72	118
Non-current liabilities		**30,229,157**	**24,477,515**
Financial liabilities	7	30,147,424	24,380,338
Deferred tax liability	5	81,733	97,177
Liabilities		**31,941,446**	**28,021,604**
Shareholder's equity	8	**262,758**	**306,498**
Issued Capital		500	500
Retained earnings		301,078	308,426
Net loss		(38,820)	(2,428)
Total Liabilities and shareholder's equity		**32,204,204**	**28,328,102**

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					
Capital increase					-
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				
Balance as at January 1, 2016		454	302,258	10,746	313,458
Movements					
Capital increase		46			46
Net loss				(2,428)	(2,428)
Appropriation of result			10,746	(10,746)	-
Dividends paid			(4,578)		(4,578)
Balance as at December 31, 2016		500	308,426	(2,428)	306,498

Statement of cash flows

thousands of €	Note	2017	2016
	9		
Proceeds from repayments of loans		3,044,287	2,628,224
Cash outflows for investments in loans		(8,369,983)	(7,876,376)
Net cash outflow from repayments of derivatives		-	-
Interest received		1,143,474	1,117,504
Interest paid		(1,131,037)	(1,117,696)
Net interest received from derivatives		19,636	21,593
Guarantee fees paid		(23,078)	(15,160)
Net income tax paid		(1,542)	(1,148)
Others		(638)	(413)
Net cash used from operating activities		**(5,318,881)**	**(5,243,472)**
Repayment of financial liabilities		(3,044,287)	(2,628,224)
Proceeds from issue of financial liabilities		8,369,983	7,876,376
Dividend payments		(4,920)	(4,578)
Capital increase		-	46
Net cash generated from financing activities		**5,320,776**	**5,243,620**
Net increase in cash and cash equivalents		**1,895**	**148**
Cash and cash equivalents, at the beginning of the year		**11,121**	**10,973**
Cash and cash equivalents, at the end of the year		**13,016**	**11,121**

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 with its registered office at Stationsplein 8-K, Maastricht, the Netherlands, and registered under registration number 33274743 with the Dutch trade register, Kamer van Koophandel, 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 2017 financial year were authorised for issue by the Board of Management on March 5, 2018.

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. All values are rounded to the nearest thousand except when otherwise indicated.

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

In the 2017 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	Expected amendments	Impact on the presentation of the Company’s results of operations and financial position
Amendments to IAS 7	Disclosure Initiative	January 1, 2017	This pronouncement requires that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	No material impact.
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017	Clarification of the accounting for deferred tax assets for unrealized losses on debt instruments that are classified as available-for-sale financial assets.	No material impact.
Annual Improvements Project	Annual Improvements to IFRSs 2014–2016 Cycle	January 1, 2017 (IFRS 12) January 1, 2018 (IFRS 1 and IAS 28)	Clarification of many published standards.	No material impact.

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

Pronouncement	Title	To be applied by the Company from	Expected amendments	Expected impact on the presentation of the Company's results of operations and financial position
IFRSS endorsed by the EU				
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018	Relevant for entities falling within the scope of IFRS 4 and whose predominant activity is issuing insurance contracts.	No relevance for the Company.
IFRS 9	Financial Instruments	January 1, 2018	IFRS 9 introduces new classification and measurement requirements for financial instruments and replaces IAS 39.	The effects of IFRS 9 are detailed in the explanations following this table.
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers.	No relevance for the Company.
Amendments to IFRS 15	Effective date of IFRS 15	January 1, 2018	Mandatory adoption of IFRS 15 for reporting periods beginning on or after January 1, 2018	No relevance for the Company.
Amendments to IFRS 15	Clarifications to IFRS 15	January 1, 2018	The clarifications address several topics relating to IFRS 15 like identification of performance obligations, differentiation of principal-agent relationships and licensing of the intellectual property.	No relevance for the Company.
IFRS 16	Leases	January 1, 2019	IFRS 16 principally requires lessees to recognize assets and liabilities for all leases and the rights and obligations associated with these leases in the statement of financial position. IFRS 16 also includes new provisions on the definition of a lease and its presentation, on disclosures in the notes, and on sale and leaseback transactions.	No relevance for the Company.
IFRSS not yet endorsed by the EU [a]				
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely	The amendments affect transactions between an investor and its associate or joint venture and provide for full gain or loss recognition on the loss of control of a business and partial recognition of the gain or loss resulting from the sale or contribution of assets that do not constitute a business, regardless of whether that business is housed in a subsidiary or not.	As the effective date is postponed indefinitely, the amendments to IFRS 10 and AIS 28 are not relevant at present.
IFRS 14	Regulatory Deferral Accounts	n.a.	This standard is applicable to first-time adopters of IFRSs only.	No relevance for the Company. In addition, the European Commission has decided not to endorse IFRS 14.
Amendments to IAS 40	Transfers of Investment Property	January 1, 2018	Clarification of transfers into or out of investment property.	No relevance for the Company.
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018	Clarification of classification and measurement of share-based payment transactions	No relevance for the Company.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	IFRIC 22 clarifies what exchange rate is to be applied on initial recognition of a foreign-currency transaction in an entity's functional currency in cases where the entity receives or pays consideration before the related asset, expense or income is recognized. The exchange rate for the underlying asset, expense or income is taken as that prevailing on the date of initial recognition of the non-monetory prepayment asset or deferred income liability.	No material impact.
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019	The amendments clarify that an entity applies IFRS 9 including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but are not accounted for using the equity method.	No material impact.
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.
Annual Improvements Project	Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019	Clarification of many published standards.	No material impact.
IFRS 17	Insurance Contracts	January 1, 2021	IFRS 17 governs the accounting for insurance contracts and replaces IFRS 4.	No relevance for the Company.

[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.

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 effects were analysed as part of a Group-wide project for implementing the new standard. On the basis of management's current estimate, the first-time and ongoing application of the standard does not have any material impact on the Company's financial statements.

The new provisions mainly comprise the following items of relevance to the Company:

- Based on the Company's underlying business model, the new provision on the classification of financial assets will not have any effect on measurement and presentation.
- The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The Company will apply the general impairment approach for its financial assets.
- The Company has made an assessment of the credit risks of its counterparties. 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 risk. The Company's estimated impact as of January 1, 2018 is an increase in the impairment provision for financial assets of approximately TEUR 578 with the corresponding increase in the deferred tax asset of approximately TEUR 144. This will result in a net decrease of TEUR 434 in Retained Earnings.
- As DTIF does not apply hedge accounting it is not affected from new IFRS 9 hedge accounting rules.

Accounting policies

The accounting policies set out below have been applied consistently in all periods presented in these financial statements.

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, loans, receivables and derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular this includes bonds and other securitized liabilities, liabilities to banks, trade payables and derivative financial liabilities. Financial instruments are generally 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 (purchase or sale of a financial asset under a contract whose terms require delivery of the assets within the timeframe established generally by regulation or convention in the market place concerned), 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 set off the recognized amounts and intends to settle on a net basis. To the extent that contracts to buy or sell non-financial assets fall within the scope of IAS 39, they are accounted for in accordance with this standard.

Financial assets are measured at fair value on initial recognition. For all financial assets not subsequently remeasured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are included. The fair values recognized in the statement of financial position generally correspond to the market prices of the financial assets. If these are not 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.

The Company assesses whether the embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.
The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates the designation at each financial year end.

The Company has not made use of the option of designating financial assets upon initial recognition as financial assets at fair value through profit or loss.
The carrying amounts of the financial assets that are not measured at fair value through profit and loss are tested at each reporting date to determine whether there is objective material evidence of impairment. Any impairment losses caused by the future cash flows discounted by the original effective interest rate being lower than the carrying amount are recognized in profit or loss.
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a pass through arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Loans and receivables are measured subsequently at amortized cost. This is computed using the effective interest method less any allowance for impairment. 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 tests whether there are any indications of loans being subject to impairment. If any such indications (e.g. a debtor defaults in payments) are present, the recoverable amount of the asset is determined.

Cash and cash equivalents, which include cash accounts and short-term cash deposits at banks, have maturities of up to three months when initially recognized and are measured at amortized cost.

The Company uses **derivative financial instruments** to hedge 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 IAS 39. Derivatives that are not part of an effective hedging relationship as set out in IAS 39 must be classified as held for trading 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.

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. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized. Impairment of property, plant and equipment is identified by comparing the carrying amount with the recoverable amounts. At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amounts of the asset must be determined. Impairment losses are reversed if the reasons of recognizing the original impairment loss no longer apply.

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 recognized.

Trade payables and **other non-derivative financial liabilities** are generally measured at amortized cost using the effective interest method. The Company has not yet made use of the option to designate financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

Other liabilities are generally measured at amortized cost using the effective interest method.

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.

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.

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	
	2017	2016	31.12.2017	31.12.2016
1 Pound sterling (GBP)	1.14063	1.22003	1.12664	1.16939
1 Hong Kong dollar (HKD)	0.11283	0.11678	0.10668	0.12232
1 U.S. dollar (USD)	0.88549	0.90365	0.83340	0.94872

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.

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 bank loans and bonds. These financial liabilities are the result of the Company's main purpose, i.e. to raise funds for group companies of DTAG. The company's financial assets, other than derivatives, mainly comprise loans to group companies. Before 2009 the Company has entered into derivative transactions, primarily interest rate swaps and cross currency interest rate swaps, to manage the interest rate risk and currency 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 2017 and 2016, the Company has not closed any new derivative contracts because it was not necessary in order to manage an interest rate or currency risk.

The main risks arising from the Company's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. Management of these risks is performed in accordance with DTAG's financial risk management policy. The Board of Directors regards effective management of the interest rate risk and foreign currency risk as one of its main tasks.
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 either hedged by means of raising the funds in the same currency as the financing provided to the borrowers or by derivatives.

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 of non-derivative financial instruments are included in the currency result whereas the derivatives valuation is included in the derivative result. Therefore a change in exchange rates has an impact on the currency 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, 2017, other financial income would have been EUR 30.2 million lower (higher) (December 31, 2016: EUR 35.6 million lower (higher)). This hypothetical effect on profit or loss before income taxes of EUR 30.2 million mainly results from the currency sensitivity EUR/USD: EUR 30.1million (2016: EUR 35.6 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 before 2009 at the level of the Company is hedged by means of swaps entered into before 2009 so there will effectively be no interest rate risk with respect to cash flows at the level of the Company. However, as the 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
August 20, 2018	USD	850,000,000	8.170%	6MUSLibor +4.101%
August 20, 2018	USD	850,000,000	6MUSLibor +4.101%	6.825%
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 they are not measured at fair value but at amortized costs.

- 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 IAS 39. 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, 2017, the profit or loss before income taxes would have been EUR 6.6 million lower (higher) (December 31, 2016: EUR 19.6 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, 2017, the profit or loss before income taxes would have been EUR 5.8 million lower (December 31, 2016: EUR 7.4 million lower). If the rating of DTAG had been downgraded as of December 31, 2017, the profit or loss before income taxes would not have materially changed.

Credit risk

Loans are granted to group companies only. The maximum exposure to credit 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 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.

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 (expense)

The following table provides a breakdown of finance income (expense):

thousands of €	2017	2016
Interest income	1,137,412	1,147,338
Interest expense	(1,150,325)	(1,164,558)
	(12,913)	**(17,220)**

Interest income of thousands of euro (hereafter "TEUR") 1,137,412 has been earned from contracts with Deutsche Telekom group companies in 2017 (2016: TEUR 1,147,338). All interest expense in 2017 and 2016 respectively has been derived from group external debt. The negative interest result is mainly due to the fact that hedge accounting as defined under IAS 39 is not applied. We refer to Note 1 and Note 6.

3. Other financial income (expense)

The item breaks down as follows:

thousands of €	2017	2016
(Loss) gain from financial instruments	(34,382)	13,814
(Loss) gain from foreign exchange differences	(4,176)	503
	(38,558)	**14,317**

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)'.

All gains and losses from financial instruments in 2017 (and 2016) resulted from derivative contracts with DTAG.

(Loss) gain from foreign exchange differences includes a gain of TEUR 9 (2016: a loss of TEUR 18) resulted from spot trades (the sale and exchange into euro of interest margin in foreign currencies) and 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 €	2017	2016
Personnel costs		
Remuneration Management Board	92	83
Other salaries	6	7
Other social security costs	10	9
Total personnel costs	**108**	**99**
Other general and administrative expenses		
Office rent	15	15
Service fees	141	141
Audit and tax consultancy fees	60	116
Telephone	1	1
Computer lease	5	4
Depreciation	1	1
Other	4	5
Total other general and administrative expenses	**227**	**283**
Total general and administrative expenses	**335**	**382**

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 2017 was nil (2016: nil).
Total expenses recognized for defined contribution plans (state pension plan) in 2017 were TEUR 6 (2016: TEUR 6).
As at December 31, 2017 the Company employed 1 person (2016: 1).

Service fees of TEUR 141 have been paid in 2017 for services provided by DTAG (2016: TEUR 141).
Furthermore, computer leasing fees of TEUR 5 have been paid in 2017 to DTAG (2016: TEUR 4).

For the audit of the financial statements, audit fees of TEUR 16 (2016: TEUR 16) have been paid to PricewaterhouseCoopers Accountants N.V., Amsterdam and audit fees of TEUR 5 (2016: TEUR 5) have been paid to PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main.
In 2017 fees amounting to TEUR 19 (2016: TEUR 19) for other audit procedures were paid to PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.
In 2017 fees of TEUR 24 (2016: 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:

The following table provides a breakdown of income taxes in the statement of comprehensive income:

thousands of €	2017	2016
Current income tax expenses	(2,491)	(1,635)
Deferred tax income	15,444	2,449
	12,953	**814**

The Company has always a minimum income tax charge based upon the Advance Pricing Agreement (APA) with the Dutch Tax Authority. 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 €	2017	2016
(Loss) before income taxes	**(51,773)**	**(3,242)**
Expected income tax benefit*	12,953	815
Income tax benefit according to income statement	**12,953**	**814**
Effective income tax rate (%)	25.0%	25.1%

* Applicable income tax rates in the Netherlands ranged from 20% to 25.0% in 2017 (2016: 20% to 25.0%).
For the Company the average income tax rate was 25.0% in 2017 (2016: 25.0%).

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 955 as of December 31, 2017 (December 31, 2016: payable income taxes of TEUR 6). All income taxes are payable in the Netherlands.

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

thousands of €	31.12.2017		31.12.2016	
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	**8,034**	**-**	**11,218**	**(438)**
Financial assets	8,034	-	11,218	(438)
Non-current assets	**75,546**	**(170,766)**	**62,508**	**(209,485)**
Financial assets	33,959	(170,766)	27,329	(209,485)
Prepaid expenses*	41,587	-	35,179	-
Current liabilities	**-**	**(74,956)**	**-**	**(79,096)**
Financial liabilities	-	(8,044)	-	(13,365)
Other deferred income*	-	(66,912)	-	(65,731)
Non-current liabilities	**94,676**	**(14,267)**	**125,130**	**(7,014)**
Financial liabilities	94,676	(14,267)	125,130	(7,014)
Total	**178,256**	**(259,989)**	**198,856**	**(296,033)**
Of which: non-current	170,222	(185,033)	187,638	(216,499)
Netting:	(178,256)	178,256	(198,856)	198,856
Recognition:	-	(81,733)	-	(97,177)

* refers to tax balance sheet item

All deferred taxes relate to temporary differences and 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 €	31.12.2017		31.12.2016	
	Total	Of which: current	Total	Of which: current
Loans to group companies	31,057,135	1,264,338	26,977,566	3,054,917
Derivative financial instruments	689,677	6,612	837,939	-
Interest receivables	444,371	444,371	501,471	501,471
	32,191,183	**1,715,321**	**28,316,976**	**3,556,388**

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

thousands of €	31.12.2017		31.12.2016	
	Total	Of which: current	Total	Of which: current
Germany*	30,618,656	1,214,370	26,436,612	2,951,939
Hungary	308,682	49,968	331,279	22,993
Austria	129,797	-	209,675	79,985
	31,057,135	**1,264,338**	**26,977,566**	**3,054,917**

* of which loans to shareholder: TEUR 30,618,656 (2016: TEUR 26,436,612)

The Board of Management has concluded that no impairment is required on any of the Company's loans and receivables 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 Deutsche Telekom AG. The rating of Deutsche Telekom AG 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 Deutsche Telekom AG are related to Deutsche Telekom 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 the Company bears with a maximum of EUR 10 million.

The loans have stated coupon interest rates as per December 31, 2017 of 0.15% to 9.33% (2016: 0.18% to 9.33%) and mature up to 24 years (2016: up to 25 years). The average interest rate of the loans was 3.51% as of December 31, 2017 (2016: 4.27%).

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 IAS 39.

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, 2017 (and December 31, 2016 respectively) refer to accrued interest from companies of Deutsche Telekom Group, of which TEUR 437,817 relate to DTAG (2016: TEUR 491,562).

7. Financial liabilities

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

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**

thousands of €	31.12.2016			
	Total	due within 1 year	due > 1 year < 5 years	due > 5 years
Bonds and other securitized liablities	26,819,259	3,048,048	8,680,924	15,090,287
Guarantee fees payable	131,179	11,059	23,762	96,358
Interest liabilities	484,858	484,858	-	-
Derivative financial instruments	489,007	-	38,485	450,522
	27,924,303	**3,543,965**	**8,743,171**	**15,637,167**

The average interest rate for bonds is 3.47% as of December 31, 2017 (2016: 4.29%).

Guarantee fee liabilities to be paid to DTAG are paid over the term 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 2017 (and 2016 respectively) all interest liabilities refer to external debt.

Liquidity analysis

The following tables show 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, 2017 and as of December 31, 2016 respectively. All instruments held at December 31, 2017 (December 31, 2016 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, 2017 (December 31, 2016 respectively). Based on this liquidity analysis the Company expects net positive cash flows in all years presented herein.

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

thousands of €	2018			2019		
	Interest (including guarantee fees)		Repayments	Interest (including guarantee fees)		Repayments
	Fix	Floating		Fix	Floating	
Liabilities (cash payments)						
Bonds	(1,067,328)	(12,169)	(1,258,392)	(985,319)	(11,371)	(2,240,113)
Guarantee Fees	(27,132)	-	-	(26,450)	-	-
Interest rate swaps	(146,138)	(81,622)	-	(88,263)	(41,035)	-
Assets (cash receivables)						
Loans to aff. comp.	1,077,416	14,766	1,264,553	984,758	13,900	2,246,634
Interest rate swaps	164,203	82,693	-	115,853	42,106	-
Total	**1,021**	**3,668**	**6,161**	**579**	**3,600**	**6,521**
Total cash flow for the year			**10,850**			**10,700**

thousands of €	2020-2022			2023-2027		
	Interest (including guarantee fees)		Repayments	Interest (including guarantee fees)		Repayments
	Fix	Floating		Fix	Floating	
Liabilities (cash payments)						
Bonds	(2,645,849)	(2,230)	(9,822,203)	(3,149,792)	(2,230)	(9,323,481)
Guarantee Fees	(62,782)	-	-	(55,711)	-	-
Interest rate swaps	(264,788)	(123,216)	-	(441,314)	(205,285)	-
Assets (cash receivables)						
Loans to aff. comp.	2,629,944	4,175	9,844,143	3,048,758	-	9,369,477
Interest rate swaps	347,560	126,433	-	579,267	210,645	-
Total	**4,085**	**5,162**	**21,940**	**(18,792)**	**3,130**	**45,996**
Total cash flow for the years			**31,187**			**30,334**

thousands of €	2028-2042		
	Interest (including guarantee fees)		Repayments
	Fix	Floating	
Liabilities (cash payments)			
Bonds	(1,917,561)	-	(8,439,991)
Guarantee Fees	(24,275)	-	-
Interest rate swaps	(220,657)	(102,643)	-
Assets (cash receivables)			
Loans to aff. comp.	1,852,062	-	8,468,379
Interest rate swaps	289,634	105,323	-
Total	**(20,797)**	**2,680**	**28,388**
Total cash flow for the years			**10,271**

The following tables show the liquidity analysis as of December 31, 2016:

thousands of €	2017			2018		
	Interest (including guarantee fees)		Repayments	Interest (including guarantee fees)		Repayments
	Fix	Floating		Fix	Floating	
Liabilities (cash payments)						
Bonds	(1,151,652)	(3,974)	(3,048,722)	(1,004,852)	(3,914)	(1,356,413)
Guarantee Fees	(21,189)	-	-	(19,597)	-	-
Interest rate swaps	(166,360)	(81,878)	-	(166,360)	(82,477)	-
Assets (cash receivables)						
Loans to aff. comp.	1,150,934	6,099	3,055,347	1,000,909	6,039	1,363,426
Interest rate swaps	186,924	83,098	-	186,924	83,696	-
Total	**(1,343)**	**3,345**	**6,625**	**(2,976)**	**3,344**	**7,013**
Total cash flow for the year			**8,627**			**7,381**

thousands of €	2019-2021			2022-2026		
	Interest (including guarantee fees)		Repayments	Interest (including guarantee fees)		Repayments
	Fix	Floating		Fix	Floating	
Liabilities (cash payments)						
Bonds	(2,554,216)	(3,479)	(7,376,331)	(3,080,940)	(433)	(6,330,927)
Guarantee Fees	(49,606)	-	-	(43,173)	-	-
Interest rate swaps	(301,427)	(114,987)	-	(502,379)	(191,576)	-
Assets (cash receivables)						
Loans to aff. comp.	2,498,267	7,344	7,399,927	2,929,834	-	6,380,396
Interest rate swaps	395,652	118,650	-	659,421	197,677	-
Total	**(11,330)**	**7,528**	**23,596**	**(37,237)**	**5,668**	**49,469**
Total cash flow for the years			**19,794**			**17,900**

thousands of €	2027-2042		
	Interest (including guarantee fees)		Repayments
	Fix	Floating	
Liabilities (cash payments)			
Bonds	(2,654,804)	-	(8,844,206)
Guarantee Fees	(32,686)	-	-
Interest rate swaps	(351,665)	(134,082)	-
Assets (cash receivables)			
Loans to aff. comp.	2,543,007	-	8,888,217
Interest rate swaps	461,595	138,352	-
Total	**(34,553)**	**4,270**	**44,011**
Total cash flow for the years			**13,728**

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 IAS 39	Carrying amount 31.12.2017	Amounts recognized in statement of financial position according to IAS 39		Fair Value 31.12.2017
			Amortized costs	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	457,387	457,387	-	-
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	31,514,522	31,514,522	-	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

thousands of €	Category in accordance to IAS 39	Carrying amount 31.12.2016	Amounts recognized in statement of financial position according to IAS 39		Fair Value 31.12.2016
			Amortized costs	Fair value recognized in profit or loss	
Assets					
Loans to aff. comp.	LaR	26,977,566	26,977,566	-	32,423,383
Other financial assets [1]	LaR	512,592	512,592	-	-
Derivative financial assets	FAHfT	837,939	-	837,939	837,939
Liabilities					
Bonds and other securitized liablities	FLAC	26,819,259	26,819,259	-	31,345,450
Other financial liabilities	FLAC	616,037	616,037	-	631,908
Derivative financial liabilities	FLHfT	489,007	-	489,007	489,007
Thereof aggregated according to IAS 39 categories					
Loans and Receivables	LaR	27,490,158	27,490,158	-	32,423,383
Financial Assets Held for Trading	FAHfT	837,939	-	837,939	837,939
Financial Liabilities at Amortized Cost	FLAC	27,435,296	27,435,296	-	31,977,358
Financial Liabilities Held for Trading	FLHfT	489,007	-	489,007	489,007

[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

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. There have not been any transfers between level 1 and level 2 for these instruments in 2017 or 2016.

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 2017 and in 2016 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 €	31.12.2017		
	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

thousands of €	31.12.2016		
	Level 1	Level 2	Total
Assets			
Loans to aff. comp.		32,423,383	32,423,383
Liabilities			
Financial Liabilities at Amortized Cost	27,566,315	4,411,043	31,977,358
- of which marketable securities	27,566,315		27,566,315
- of which non-marketable securities		3,779,135	3,779,135
- of which other financial liabilities		631,908	631,908

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		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

thousands of €	From interest	From subsequent measurement		From derecognition	Net gain (loss)
		At fair value	Currency translation		2016
Loans and receivables (LaR)	1,147,338	-	30,890	-	1,178,228
Financial Instruments held for trading (FAHfT and FLHfT)	-	13,814	-	-	13,814
Financial liabilities measured at amortized cost (FLAC)	(1,164,558)	-	(30,369)	-	(1,194,927)

The following financial instruments are subject to enforceable master netting arrangements and similar agreements. The counterparty for all those derivative financial instruments is Deutsche Telekom AG. 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 31.12.2016:

thousands of €	Derivative financial assets	Derivative financial liabilities
Net amount presented in the balance sheet	837,939	489,007
Related amounts not set off in the balance sheet	489,007	489,007
thereof: financial instruments	489,007	489,007
thereof :collaterals	-	-
Net amount	348,932	-

Offsetting 31.12.2017:

thousands of €	Derivative financial assets	Derivative financial liabilities
Net amount presented in the balance sheet	689,677	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	294,913	-

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 2017 or 2016. All shares are held by DTAG.

In 2017 the Company paid EUR 4,920 dividend per share (2016: EUR 4,578). In 2016 as well as in 2017 the management assessed that the Company expects net positive cash flows for the year ending December 31, 2018 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 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.

Net cash from financing activities mainly includes cash inflows from the issuance of bonds and cash outflows for the repayment of bonds and a dividend payment to the shareholder.

As far as applicable for the years 2016 and 2017 the cash in- and outflows for loan and derivative repayments and for new loans granted to companies of Deutsche Telekom Group match 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 € 431 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 2017 and 2016. 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 Deutsche Telekom group companies. Therefore segment information other than geographic information and information per major customer is not separately reported. There is only one reportable segment.

Geographic information

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

thousands of €	31.12.2017	31.12.2016
Germany	1,120,502	1,120,941
Austria	3,810	9,685
Hungary	13,100	16,712
	1,137,412	**1,147,338**

In 2017, more than 10 % of the total interest income has been earned from loans with DTAG (TEUR 1,120,502 or 98,5%).
In 2016, more than 10 % of the total interest income has been earned from loans with DTAG (TEUR 1,120,941 or 97,7%).

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."
Following the liquidity analysis and the proposed profit appropriation of the Board of Management, the dividend of EUR 7,512,989.20 will be distributed to the shareholder, awaiting approval of the General Meeting of Shareholders and the Supervisory Board. The related amount per share is EUR 7,512.99.

12. Events after the statement of financial position date

On January 29, 2018 the Company issued a floating rate EUR bond with a nominal amount of EUR 200 million and maturity in 2020. The proceeds were lent on to DTAG for same amount and same maturity.

13. Post statement of financial position events

No other events have occurred since December 31, 2017 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

No other related party transactions have occurred other than those already disclosed in notes 2, 3, 4, 6, 7, 8 and 10.

Maastricht, March 5 , 2018

The Board of Management:

F. Roose

M. Schäfer

The Supervisory Board:

S. Wiemann

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.

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Independent auditor's report

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

Report on the financial statements 2017

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 2017, 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 2017 of Deutsche Telekom International Finance B.V., Maastricht ('the Company').

The financial statements comprise:

- the statement of comprehensive income for 2017;
- the statement of financial position as at 31 December 2017;
- the following statements for 2017: the statement of changes in equity and cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been 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. Our responsibilities under those standards are further described 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.

PricewaterhouseCoopers Accountants N.V., Fascinatio Boulevard 350, 3065 WB Rotterdam, P.O. Box 8800, 3009 AV Rotterdam, the Netherlands
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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 7 to the financial statements. The Company has financial instruments in place to mitigate interest rate risk and currency risk. We paid specific attention to the areas of focus following from 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 team included the appropriate skills and competences which are needed for the audit of a financing company. Therefore, we included specialists 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 the materiality for the financial statements as a whole at €322,042,000 (2016: €283,000,000). We used our professional judgement to determine overall materiality. 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 to be the most important stakeholders.

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 €16,102,100 (2016: €14,150,000) 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 that were 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.

The key audit matters were addressed 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 make on the results of our procedures should be read in this context.

Due to the nature of the Company's business, 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 €31,057,135,000, to be a key audit matter. This is due to the size of the loan portfolio in combination with the fact that management's assessment of objective evidence of impairment is very important 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 test 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 evaluated the financial situation of the group companies to which loans have been provided by analysing their respective current financial data (such as result and equity) and their ability to repay the notional and interest payments to the Company. • We evaluated the financial position of Deutsche Telekom AG by verifying observable data from rating agencies, developments in credit spreads and other publicly available data. • We performed a margin analysis. • We recalculated the amortised cost value based on the effective interest method. • We have reconciled data input such as projected cash flow, interest rates and maturities with underlying contracts. • We compared interest receipts with bank statements. • We performed confirmation procedures with the counterparties of the loans. We found the managing directors' assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.

Key audit matter	*How our audit addressed the matter*
Derivative valuation *Note 6 and 7* We consider the fair value of the derivatives portfolio of €689,677,000 positive and €394,764,000 negative, as disclosed in notes 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 performed the following procedures to address the valuation of derivatives: • 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. Based on these procedures 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:

- the management report of the directors;
- the management report of the supervisory board; and
- 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; and
- 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.

The managing directors are responsible for the preparation of the other information, including the management report of the directors, the management report of the supervisory board and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

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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 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of seven 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 the managing directors and the supervisory board for the financial statements

The managing directors are 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 the managing directors determine 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, the managing directors are responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the managing directors should prepare the financial statements using the going-concern basis of accounting unless the managing directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so. The managing directors 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, 6 March 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by M.P.A. Corver RA

Appendix to our auditor's report on the financial statements 2017 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 the managing directors.
- Concluding on the appropriateness of the managing directors' 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.