DEUTSCHE TELEKOM
THE 2017 FINANCIAL YEAR

LIFE IS FOR SHARING.

SELECTED FINANCIAL DATA OF THE GROUP

billions of €

		Change compared to prior year (%)	2017	2016	2015	2014	2013	2012	2011	2010
REVENUE AND EARNINGS										
Net revenue		2.5	74.9	73.1	69.2	62.7	60.1	58.2	58.7	62.4
Of which: domestic	%	(0.9)	32.8	33.7	36.2	39.9	42.2	44.3	44.9	43.7
Of which: international	%	0.9	67.2	66.3	63.8	60.1	57.8	55.7	55.1	56.3
Profit (loss) from operations (EBIT)		2.4	9.4	9.2	7.0	7.2	4.9	(4.0)	5.6	5.5
Net profit (loss)		29.4	3.5	2.7	3.3	2.9	0.9	(5.4)	0.5	1.7
Net profit (loss) (adjusted for special factors)		46.8	6.0	4.1	4.1	2.4	2.8	2.5	2.9	3.4
EBITDA		6.3	24.0	22.5	18.4	17.8	15.8	18.0	20.0	17.3
EBITDA (adjusted for special factors)		3.8	22.2	21.4	19.9	17.6	17.4	18.0	18.7	19.5
EBITDA margin (adjusted for special factors)	%	0.4	29.7	29.3	28.8	28.0	28.9	30.9	31.8	31.2
PROFITABILITY										
ROCE	%	0.1	5.8	5.7	4.8	5.5	3.8	(2.4)	3.8	3.5
STATEMENT OF FINANCIAL POSITION										
Total assets		(4.8)	141.3	148.5	143.9	129.4	118.1	107.9	122.5	127.8
Shareholders' equity		9.3	42.5	38.8	38.2	34.1	32.1	30.5	40.0	43.0
Equity ratio	%	3.8	30.0	26.2	26.5	26.3	27.1	28.3	32.7	33.7
Net debt		1.7	50.8	50.0	47.6	42.5	39.1	36.9	40.1	42.3
Relative debt (Net debt/EBITDA (adjusted for special factors))		n. a.	2.3	2.3	2.4	2.4	2.2	2.1	2.1	2.2
CASH FLOWS										
Net cash from operating activities		10.7	17.2	15.5	15.0	13.4	13.0	13.6	16.2	14.7
Cash capex		(42.9)	(19.5)	(13.6)	(14.6)	(11.8)	(11.1)	(8.4)	(8.4)	(9.9)
Free cash flow (before dividend payments, spectrum investment)[a]		11.3	5.5	4.9	4.5	4.1	4.6	6.2	6.4	6.5
Net cash used in investing activities		(23.6)	(16.8)	(13.6)	(15.0)	(10.8)	(9.9)	(6.7)	(9.3)	(10.7)
Net cash (used in) from financing activities		n.a.	(4.6)	(1.3)	(0.9)	(3.4)	1.0	(6.6)	(6.0)	(6.4)
EMPLOYEES										
Average number of employees (full-time equivalents, without trainees)	thousands	(1.9)	216	221	226	228	230	232	240	252
Revenue per employee	thousands of €	4.5	346.2	331.4	305.9	274.5	261.8	250.4	244.0	247.2
T-SHARE – KEY FIGURES										
Earnings per share (basic and diluted)	€	27.6	0.74	0.58	0.71	0.65	0.21	(1.24)	0.13	0.39
Dividend per share[b]	€	8.3	0.65	0.60	0.55	0.50	0.50	0.70	0.70	0.70
Total dividend[c]	billions of €	10.3	3.1	2.8	2.5	2.3	2.2	3.0	3.0	3.0
Total number of ordinary shares at the reporting date[d]	millions	1.8	4,761	4,677	4,607	4,536	4,451	4,321	4,321	4,321

Calculated on the basis of millions for greater precision. Changes to percentages expressed as percentage points.

[a] And before PTC and AT&T transactions and compensation payments for MetroPCS employees.
[b] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.
[c] Subject to approval by the 2018 shareholders' meeting concerning the dividend payments for the 2017 financial year. For more detailed explanations, please refer to Note 29 "Dividend per share" in the notes to the consolidated financial statements, page 217.
[d] Including treasury shares held by Deutsche Telekom AG.

millions

	Change compared to prior year (%)	2017	2016	2015	2014	2013	2012	2011	2010
NUMBER OF FIXED-NETWORK AND MOBILE CUSTOMERS									
Mobile customers	2.1	168.4	165.0	156.4	150.5	142.5	127.8	125.1	124.6
Fixed-network lines	(2.1)	27.9	28.5	29.0	29.8	30.8	32.1	34.7	36.0
Broadband lines[a]	2.7	19.0	18.5	17.8	17.4	17.1	16.9	16.9	16.4

[a] Excluding wholesale.

The key parameters used by Deutsche Telekom are defined in the section "Management of the Group," page 38 et seq.

The figures shown in this report were rounded in accordance with standard business rounding principles. As a result, the total indicated may not be equal to the precise sum of the individual figures.

CONTENTS

LETTER FROM THE CHAIRMAN OF THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS,

If I had to sum up the 2017 financial year in just one statement, it would be: “We’re building out!” While others often just talk, we let our actions speak, and invest in the best networks and products. In Germany and in many other parts of Europe. In big cities as in smaller communities. For consumers as for business customers.

To this end, we are investing more than EUR 12 billion in our future as Europe’s leading telecommunications company. This is another billion euros more than a year earlier. On top of this comes another USD 8 billion for new mobile spectrum in the United States.

In Germany, we spent around EUR 5.4 billion in 2017, primarily on best networks. Among other projects, we laid 40,000 kilometers of new optical fiber. The original plan had “only” been for 30,000. At 455,000 kilometers, this means we now have the biggest fiber-optic network in the country. But we still have quite a way to go. We are upping the ante again. We plan to lay 60,000 kilometers in 2018 alone. Overall, we activated around 2.8 million fiber-optic lines in 2017.

Business parks are also a priority for us, as I announced at last year’s shareholders’ meeting. And we have put this into action: Our first step took in 100 business parks. The majority of them will already have fiber to the building (FTTB) by the end of this year. In the next five years, we want to develop 3,000 business parks.

Things are also moving with consumers: We are making our fast network even faster. Step by step we are bringing optical fiber closer to our customers – even right to the home. In this way, we are also increasing transmission rates – in urban centers and rural areas alike.

There is another major step planned for this year: super-vectoring, which will enable bandwidths of up to 250 Mbit/s. Of course, we are also working continuously in our European national companies to fit out our networks with optical fiber.

Commitment pays, and our customers reward us for it. The fiber-optic boom plus strong demand for our MagentaEINS product packages and rising revenues from mobile communications have pushed up earnings in Germany. Our European national companies have also improved substantially overall – thanks in particular to a significant increase in customer numbers in mobile communications and for product packages. And for the fourth year in a row, T-Mobile US won more than five million new customers and achieved the strongest growth in service revenues among the major U.S. mobile companies.

As you can see, Deutsche Telekom is growing, in all areas: revenue (up 2.5 percent to EUR 74.9 billion), adjusted EBITDA (up 3.8 percent to EUR 22.2 billion) and free cash flow (up 11.3 percent to EUR 5.5 billion). This means we are in line with our guidance, which assumed constant exchange rates, among other things.

And once again our financial results exceeded the ambition level we set out at the Capital Markets Day in 2015. Deutsche Telekom is a reliable partner.

At the same time, we are also driving innovation: In March 2017, we launched the large-scale roll-out of LTE 900 in Germany. This will get our network ready for 5G, the communications standard of the future. The 900 MHz spectrum range is especially suited to carrying the mobile signal deeper into buildings and homes.

Moreover, we are planning to cover around 95 percent of the population in Germany with the superfast LTE mobile network by the end of 2018. In our European national companies, we are aiming for between 89 and 99 percent coverage. Thanks to the spectrum auction which was successfully completed in April, T-Mobile US will also further improve its national LTE coverage.

We are also leading the way in the Internet of Things: We are using narrowband wireless technology (NarrowBand IoT) to equip the network for sensors that will show, for example, free parking spaces or how full the local trash cans are. We began this work in Germany and the Netherlands at the start of 2017. In Greece, Poland, Hungary, Austria, Slovakia, and the Czech Republic this work was and is ongoing.

Our goal is to be leading in 5G. 5G technology is expected to launch worldwide in 2020. But we are already working on realizing NarrowBand IoT for 5G. Four radio cells in our network in Berlin are demonstrating this future of communication right now. This too was an important step we accomplished in the last financial year.

In addition to our networks, we also have our products and rate plans firmly in sight. We launched a number of corresponding initiatives in 2017. T-Mobile US looked to inspire its customers with a number of rate plan add-ons. And in Germany, we focused our product packages even more on families and young customers.

The figures bear out the fact that our innovative rate plans are well received: 3.6 million customers in Germany alone have opted for MagentaEins; that is 0.6 million more than in the prior year. And that's not all: So far, our European subsidiaries have won 2.2 million customers over to MagentaOne and comparable offers.

We are also making great strides with StreamOn, the rate plan that allows our customers to listen to music and watch videos on their smartphones while out and about – without using up the high-speed data volumes included in their rate plans. The option has proved very popular, with around 800,000 users in Germany alone. We also offer similar options in Croatia, Poland, Romania, Greece, and at T-Mobile US.

But it is not just our customers who rate us highly. Independent testers also confirm that we are the number one in many areas – including our networks and our customer service.

I am aware that this is thanks above all to the hard work of the Group's employees. Without their enthusiasm and dedication, Deutsche Telekom would not be where it is today. So I would like to also take this opportunity to thank my colleagues sincerely for such commitment.

They work day in, day out to ensure that we can implement our strategy in a targeted way. And that is what makes us what we are: one of Europe's most valuable telecommunications companies.

Dear Shareholders,

The facts and figures for 2017 once again bear out the fact that our strategy is working. But we cannot afford to simply sit back and rest now. That is why we have further developed our strategy, re-emphasizing and refining certain aspects. We are focusing primarily on the aspects of customer experience, technology, and business customer productivity.

But an important part of our strategy remains unchanged: You, our shareholders, will continue to participate in the success of the Group. We promised that dividends would increase in tandem with free cash flow growth. That is why, subject to approval by the relevant bodies and the fulfill-ment of other legal requirements, this time we will be proposing to the shareholders' meeting a dividend of EUR 0.65 per dividend-bearing share.

Yours sincerely,

Tim Höttges

SUPERVISORY BOARD'S REPORT TO THE 2018 SHAREHOLDERS' MEETING

The 2017 financial year was again characterized by the development and implementation of the Group strategy and the Group's transformation in an age of digitalization and technological change. Strong development on the domestic German market, excellent business development in the United States, the ongoing difficult macroeconomic situation in southern and eastern Europe and continued high competitive and regulatory pressure were major features. Despite these ongoing challenges, the Group generated good results in the 2017 financial year and fulfilled the expectations. The Supervisory Board exercised its statutory functions as an advisory and supervisory body and gave the Board of Management its full support.

SUPERVISORY BOARD ACTIVITIES IN THE 2017 FINANCIAL YEAR

We continually monitored the Board of Management's activities in managing the business and the Group as a whole. Specifically, this supervisory role consisted of ensuring that these activities were lawful, compliant, appropriate, and efficient.

The primary prerequisites for fulfilling this role were the Board of Management's written and oral reports. The Board of Management kept us regularly informed in good time on corporate strategy, planning, business development of the Group and its different segments, the risk situation, risk management, compliance, innovation focuses, and any deviations in the business development from original plans, as well as significant business transactions involving the Company and its significant subsidiaries and associates.

The Board of Management fulfilled its duties to inform quickly and in full. The Board of Management's reports met all statutory requirements, the standards of good corporate governance, and the criteria imposed on them by us with regard to both content and scope. In addition to the reports, we requested and received supplementary information. We reviewed, critically analyzed and verified the plausibility of these reports and other information.

The Rules of Procedure of the Board of Management and Supervisory Board include a list of transactions and measures for which the Board of Management has to obtain approval from the Supervisory Board. We met with the Board of Management to discuss and thoroughly review the business transactions and measures presented to us in the 2017 financial year for approval in line with the aforementioned document. We approved the transactions and measures submitted for resolution.

The frequency of plenary and committee meetings mean that we are in close contact with the Board of Management. The Board of Management also reports on individual issues in writing or in discussions between the meetings. In addition, the Chairman of the Supervisory Board is in contact with the Chairman of the Board of Management at regular appointments at which current business transactions, strategy issues, planning, business development, the risk situation, risk management, and compliance, as well as other significant events, are discussed.

In the 2017 financial year, nine Supervisory Board meetings, a one-day off-site conference, and 25 meetings of the Supervisory Board committees took place. The overall average participation rate was 93 percent. Written votes were used where resolutions were required between the meetings.

In the Supervisory Board meeting on January 17, 2017, we dealt with spectrum acquisition in the United States.

In the meeting on March 1, 2017, in the presence of the external auditor, we dealt with the Company's 2016 annual financial statements and consolidated financial statements, as well as the Group management report, which is combined with the management report of Deutsche Telekom AG (combined management report). Our approval of the 2016 annual financial statements was based on the recommendation of the Audit Committee, which had previously checked the documents in detail. We agreed to the Board of Management's proposal on the appropriation of net income. We resolved to recommend to the shareholders' meeting the reelection of Dagmar Kollmann to the Supervisory Board as shareholders' representative. We also approved the agenda for the 2017 shareholders' meeting and dealt with the TV strategy in Germany. The Board of Management reported comprehensively on the current situation and the most important financial and operational KPIs for the Company and its segments.

In our meeting on March 29, 2017, we adopted a resolution on participation in the tender for the acquisition of television broadcasting rights.

Resolutions on the acquisition of Straight Path Communications Inc. and Dialpad Inc. by T-Mobile US were on the agenda of the meeting on April 7, 2017.

In the meeting before the shareholders' meeting on May 30, 2017, the Board of Management reported in detail on the current situation and the financial and operational KPIs of the Company and its segments in the first quarter of 2017. We discussed the main business developments and focused in particular on the Europe segment. We also approved the decision of the Board of Management on the utilization of authorized capital in connection with the offer of a share dividend.

In the meeting on July 18, 2017, we dealt with matters concerning the Board of Management and approved the resignation from the Board of Management by Niek Jan van Damme effective midnight December 31, 2017. We also appointed Dirk Wössner the new Board member responsible for Germany, effective January 1, 2018.

In the meeting on September 13, 2017, the Board of Management reported on the current situation and the financial and operational KPIs of the Company and its segments in the second quarter of 2017. We also dealt with the 2017 employee survey at the meeting. We discussed the implementation of the CSR Directive Implementation Act to strengthen non-financial reporting and resolved the integration of the non-financial statement into the Group management report and the audit of this statement by the external auditor. We also discussed future broadband build-out in Germany. In addition, we appointed Adel Al-Saleh as the new Board of Management member responsible for T-Systems effective January 1, 2018.

During the one-day off-site conference of the Supervisory Board and the Board of Management that was held the following day, we dealt with the Company's strategy. We debated the status of the strategy, discussed individual aspects, and agreed on focal topics for the coming year.

In the Supervisory Board meeting on November 30, 2017, we adopted resolutions on a T-Mobile US share buy-back and the acquisition of further shares in T-Mobile US by the Company.

In our meeting on December 20, 2017, we adopted resolutions on a variety of Board of Management remuneration topics, such as target achievement for variable compensation. The Board of Management reported on the current situation and the financial and operational KPIs in the Company and its segments in the third quarter of 2017. A further focus of the meeting was the resolution on the budget and on the annual financing plan for the 2018 financial year. We also acknowledged the medium-term planning for 2018 to 2021 and dealt with the Group risk report.

In our plenary meetings and in the Audit Committee in particular, we also regularly supervised the management of the Company by the Board of Management. As part of this, we made sure that that the Board of Management ensured compliance with legal provisions and internal standards and policies through the Group-wide compliance organization. We also regularly met with the Board of Management to discuss the Group-wide risk management system and the internal auditing system that had been introduced. Based on our own reviews and on the audit reports from the external auditors, we came to the conclusion that the internal control and risk management system, the compliance system, and the internal auditing system are effective.

ORGANIZATION OF THE SUPERVISORY BOARD'S ACTIVITIES

To increase the efficiency of our work, and in consideration of the specific requirements we have to fulfill, we have set up the committees listed below, all of which have an equal number of shareholders' and employees' representatives, with the exception of the Nomination Committee. In regard to committee membership, our aim is to achieve regular rotation among the Supervisory Board members. Our objective is also to ensure that the chairperson roles on the committees are occupied by different members. The committees' chairpersons regularly reported to us at our plenary meetings on the content and results of committee meetings.

SUPERVISORY BOARD COMMITTEES

General Committee
Prof. Dr. Ulrich Lehner (Chairman)
Josef Bednarski
Johannes Geismann
Lothar Schröder

Finance Committee
Dr. Ulrich Schröder (Chairman)
Dr. Wulf H. Bernotat (until August 27, 2017)
Monika Brandl
Klaus-Dieter Hanas
Sylvia Hauke (until June 30, 2017)
Dagmar P. Kollmann (since October 11, 2017)
Michael Sommer (since September 13, 2017)
Karl-Heinz Streibich

Audit Committee
Dagmar P. Kollmann (Chairwoman)
Josef Bednarski
Johannes Geismann
Hans-Jürgen Kallmeier
Prof. Dr. Michael Kaschke
Petra Steffi Kreusel

Staff Committee
Lothar Schröder (Chairman)
Josef Bednarski
Dagmar P. Kollmann (until October 11, 2017)
Prof. Dr. Ulrich Lehner
Margret Suckale (since October 11, 2017)

Nomination Committee
Prof. Dr. Ulrich Lehner (Chairman)
Johannes Geismann
Dagmar P. Kollmann

Mediation Committee
Prof. Dr. Ulrich Lehner (Chairman)
Josef Bednarski
Johannes Geismann
Lothar Schröder

Technology and Innovation Committee
Lothar Schröder (Chairman)
Sari Baldauf
Lars Hinrichs
Hans-Jürgen Kallmeier
Michael Sommer
Karl-Heinz Streibich

Special Committee for U.S. Business
Prof. Dr. Ulrich Lehner (Chairman)
Dr. Wulf H. Bernotat (until August 27, 2017)
Johannes Geismann (since October 11, 2017)
Sylvia Hauke (until June 30, 2017)
Lothar Schröder
Dr. Ulrich Schröder
Michael Sommer (since September 13, 2017)
Sibylle Spoo

The **General Committee** met eight times in 2017, one meeting of which was held jointly with the Finance Committee. The committee focused mainly on preparing the recommendations for decision for the plenary meetings in regard to all of the decisions on Board of Management and Supervisory Board matters. Among other things, the committee reviewed the remuneration system and the appropriateness of Board of Management remuneration as scheduled. Succession planning for the Board of Management was also discussed in the meeting. In the joint meeting with the Finance Committee, the General Committee dealt in particular with the 2018 budget and the medium-term planning for 2018 to 2021.

The **Finance Committee** met three times, of which one meeting was together with the General Committee. Investment planning and focuses were the subject of one meeting. The committee also dealt with general topics such as interest and foreign currency management, and a spectrum review. In the joint meeting with the General Committee, the Finance Committee discussed the 2017 annual financing plan and the topic of pension obligations in particular.

The Audit Committee met five times in 2017. The external auditor was present at all of these meetings. The Audit Committee's area of responsibility is defined by German legislation and the German Corporate Governance Code. It includes, in particular, the monitoring of accounting, the effectiveness of the internal control system, risk management and the internal auditing system, compliance, and data privacy. The Audit Committee also handled matters relating to the audit of the Company's financial statements, in particular selecting and ensuring the independence of the external auditor, and monitored the additional services provided by the external auditor, the commissioning of the external auditor, the stipulation of the main focuses of the audit, and the agreement on fees. After thorough discussion, the Audit Committee issued a recommendation to us about our suggestion of the external auditor to be nominated by the 2017 shareholders' meeting. The Audit Committee also regularly discussed the quarterly report on business development. In the 2017 financial year, the Audit Committee again held one meeting on fundamental issues affecting the Group. At this meeting, the committee dealt in particular with the effectiveness of the reporting system and the development of the report structure, the effectiveness of the internal control system and the compliance management system, and new legal requirements affecting the Audit Committee as well as current legal developments at German and European level. In addition, the Audit Committee dealt with the results of the efficiency audit of the committee and with the topic of data privacy and security. In its meeting in June, the committee discussed information on new requirements and developments in German and EU law, accounting standards, and fraud prevention measures. In its November meeting, the committee discussed among other things the implementation of the CSR Implementation Act to strengthen non-financial reporting.

Dagmar P. Kollmann, Chairwoman of the Audit Committee, has expert knowledge of accounting and auditing. She is also particularly knowledgeable and experienced in the application of accounting standards and internal control procedures. She is independent, and is not a former member of the Board of Management of Deutsche Telekom AG. Like the members of the full Supervisory Board, the members of the Audit Committee overall are very familiar with the sector in which Deutsche Telekom AG is active.

The Staff Committee held two meetings in 2017 and mainly discussed matters relating to headcount and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on the 2018 budget. In addition, the committee dealt with topics including skill and succession management, the women's quota, the company pension scheme, global job architecture, and received information on the results of the 2017 employee survey.

The Nomination Committee met three times in 2017, and dealt in its meetings with succession planning for the Supervisory Board.

The Mediation Committee to be formed in accordance with § 27 (3) of the Codetermination Act did not meet in 2017.

The Technology and Innovation Committee held four meetings in 2017 and dealt with a very broad range of topics from a variety of areas. For example, the committee discussed innovation benchmarking, the innovation process and the innovation strategy, in addition to the topic of cyber security and the development of IT. The committee supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas.

The Special committee for U.S. Business held one meeting in 2017 and discussed strategic issues affecting T-Mobile US.

CONFLICTS OF INTEREST

Johannes Geismann is a member of the Supervisory Board of Deutsche Telekom AG and, at the same time, State Secretary at the Federal Ministry of Finance. Dr. Ulrich Schröder is a member of the Supervisory Board of Deutsche Telekom AG and is also CEO of the Executive Board at Kreditanstalt für Wiederaufbau (KfW). We are aware that Deutsche Telekom AG is involved in legal disputes in which the Federal Republic of Germany is the opposing party. There were no conflicts of interest requiring action with any of the aforementioned members of the Supervisory Board. Should a conflict of interest arise, the Supervisory Board members will discuss how to proceed with the Chairman of the Supervisory Board.

Michael Sommer was appointed member of the supervisory board of ZDF Enterprises GmbH effective October 1, 2017. The company in question is responsible for program sales, co-productions, and the marketing of online rights, among other things. Mr. Sommer has therefore reported a potential conflict of interest to the Supervisory Board. He will not take part in deliberations and votes in the Supervisory Board related to the topics of TV and online rights. There have been no conflicts of interest requiring action as yet.

CORPORATE GOVERNANCE

The Supervisory Board and Board of Management are aware that good corporate governance is essential for corporate success. The provisions of the German Corporate Governance Code are hence reflected in the Company's statutes. The Board of Management and the Supervisory Board last issued their Declaration of Conformity with the Corporate Governance Code on December 30, 2017.

The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report, **page 15 et seq.**

CHANGES IN THE COMPOSITION OF THE BOARD OF MANAGEMENT

At its meeting on June 30, 2016, the Supervisory Board of Deutsche Telekom AG resolved to extend the Group Board of Management by setting up a new Board department for Technology and Innovation. The new department is headed by Claudia Nemat effective January 1, 2017, who was previously responsible for the Europe and Technology department. At its meeting on June 30, 2016, the Supervisory Board of Deutsche Telekom AG also appointed Srini Gopalan as the new Board member responsible for Europe effective January 1, 2017.

Dr. Thomas Kremer was reappointed as member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance effective June 1, 2017, as per a resolution of August 30, 2016. Reinhard Clemens was reappointed as member of the Board of Management responsible for T-Systems effective December 1, 2017, as per a resolution of December 14, 2016. Dr. Christian Illek was reappointed as member of the Board of Management responsible for Human Resources effective April 1, 2018, as per a resolution of May 30, 2017.

In a resolution reached on July 18, 2017, the Supervisory Board of Deutsche Telekom AG complied with the request of Niek Jan van Damme, the Board of Management member responsible for Germany at Deutsche Telekom AG, to terminate his appointment as a Board member effective midnight, December 31, 2017. At its meeting on July 18, 2017, the Supervisory Board of Deutsche Telekom AG also appointed Dr. Dirk Wössner as the new Board member responsible for Germany effective January 1, 2018.

The Supervisory Board of Deutsche Telekom AG resolved in its meeting on September 13, 2017, in agreement with Reinhard Clemens, the Board of Management member responsible for T-Systems at Deutsche Telekom AG, to terminate his appointment as a Board member effective midnight, December 31, 2017. At its meeting on September 13, 2017, the Supervisory Board of Deutsche Telekom AG also appointed Adel Al-Saleh as the new Board of Management member responsible for T-Systems effective January 1, 2018.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Shareholders' representatives: The shareholders' meeting on May 31, 2017, elected Dagmar P. Kollmann to the Supervisory Board for another term of office as shareholders' representative. Dr. Wulf H. Bernotat died on August 27, 2017. He had been a member of the Supervisory Board of Deutsche Telekom AG since January 1, 2010. Margret Suckale was court-appointed to the Supervisory Board of Deutsche Telekom AG effective September 28, 2017. Dr. Schröder was able to take part in less than half of the meetings in the 2017 financial year due to illness.

Employees' representatives: Sylvia Hauke resigned from her position as a member of the Supervisory Board of Deutsche Telekom AG effective midnight, June 30, 2017. Karin Topel was court-appointed to the Supervisory Board of Deutsche Telekom AG effective July 1, 2017. Hans-Jürgen Kallmeier resigned from his position as a member of the Supervisory Board of Deutsche Telekom AG effective midnight, December 31, 2017. Odysseus Chatzidis was court-appointed to the Supervisory Board of Deutsche Telekom AG effective January 3, 2018.

The Supervisory Board would like to thank all of the former members for their valuable support.

For detailed information of the Supervisory Board members, please refer to Deutsche Telekom AGs website: **www.telekom.com/en/investor-relations/management-and-corporate-governance/supervisory-board**

REVIEW OF ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2017 FINANCIAL YEAR

The Board of Management submitted the annual financial statements, the consolidated financial statements, and the combined management report, together with its proposal for the appropriation of net income, to us in good time.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, which was appointed as auditor of the single-entity financial statements and auditor of the consolidated financial statements (external auditor) for the 2017 financial year by the shareholders' meeting on the recommendation of the Audit Committee and proposed for appointment by the entire Supervisory Board, audited the annual financial statements as of December 31, 2017, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), and the combined management report, as well as the consolidated financial statements as of December 31, 2017, which were prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB, and the combined management report, and issued an unqualified audit opinion for each document.

Before the Audit Committee passed a resolution on its recommendation to the Supervisory Board for the proposal for appointment to be submitted to the shareholders' meeting, the external auditor confirmed that there are no business, financial, personal or other relationships between itself, its executive bodies and audit managers on the one hand and the Company and its executive body members on the other that may cast doubt on its independence. The auditor also stated to what extent non-audit services were rendered for the Company in the previous financial year and to what extent such services have been contracted for the following year. On this basis, the Audit Committee verified and confirmed the external auditor's requisite independence. It informed us of the outcome of this review before we prepared our resolution to propose to the shareholders' meeting the appointment of said independent auditor.

The external auditor also confirmed to the Audit Committee and the Supervisory Board in their financial statement review meetings on February 20 and February 21, 2018, respectively, that there are no circumstances that may give rise to doubts about the external auditor's impartiality. In this context, the auditor also reported on any services rendered in addition to auditing services. At its meeting on February 20, 2018, the Audit Committee informed us about its monitoring of the auditor's independence while taking account of the non-audit services provided, and of its conclusion that the auditor continues to be independent as necessary.

The external auditor submitted its reports on the nature and extent as well as the result of its audits (audit report) to us. The aforementioned documentation on the financial statements, the external auditor's audit report, and the Board of Management's proposal for the appropriation of net income were made available to the members of the Supervisory Board in good time.

We conducted our own review of the documents submitted by the Board of Management and the external auditor's audit reports.

In preparation, the Audit Committee had conducted a thorough review of the aforementioned documents. The annual financial statements, the consolidated financial statements, and the combined management report, as well as the Board of Management's proposal for the appropriation of net income were explained in detail by the Board of Management to the members of the Audit Committee at its meeting on February 20, 2018. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor also attended this meeting and reported on its audit, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main findings of its audit, and its audit report. The external auditor did not identify any material weaknesses in the internal control system at Group level, in the risk management system, or in the accounting process. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, its members had assured themselves that the audit report and the audit conducted by the external auditor met the legal requirements. The Audit Committee agrees with the external auditor that there are no material weaknesses, in particular with regard to the accounting process, in the internal control or risk management systems at Group level. The Audit Committee recommended that we approve the results of the audit conducted by the external auditor and, since it had no objections to the documents submitted by the Board of Management, that we approve the annual financial statements and the consolidated financial statements, as well as the combined management report, and support the Board of Management's proposal for the appropriation of net income.

We performed the final review of the annual financial statements, the consolidated financial statements, and the combined management report, as well as the Board of Management's proposal for the appropriation of net income, at the Supervisory Board meeting on February 21, 2018, taking into account the report and recommendations of the Audit Committee and the external auditor's audit report. The Board of Management attended this meeting, explained the documents they had submitted, and answered our questions. The external auditor also attended this meeting and reported on its audit and the main findings of its audit, explained its audit report, and answered our questions, in particular relating to the nature and extent of the audit and the audit findings. Based on this and the report presented by the Audit Committee, we were satisfied that the audit and the audit report were compliant. We followed the Audit Committee's recommendation and approved the result of the external auditor's audit.

Based on the final outcome of our review of the annual financial statements, the consolidated financial statements, and the combined management report, as well as the Board of Management's proposal for the appropriation of net income, no objections need be raised. The same applies to the Corporate Governance Statement even insofar as it is not to be audited by the external auditor. We followed the Audit Committee's recommendation and approved the annual financial statements and the consolidated financial statements.

The approval of the Supervisory Board constitutes formal approval of the annual financial statements.

The Supervisory Board's assessment of the position of the Company and the Group is the same as that which the Board of Management presented in its combined management report. It followed the Audit Committee's recommendation and approved these documents.

When dealing with the budget and medium-term planning on December 20, 2017, we conducted an in-depth examination of financial and investment plans, discussing in particular the development of earnings, free cash flow, and balance sheet ratios. The Board of Management's proposal concerning the appropriation of net income was examined by the Audit Committee on February 20, 2018, and by the Supervisory Board on February 21, 2018. The external auditor was present at both meetings. We followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 3,082 million and to carry forward EUR 2,845 million to unappropriated net income.

REVIEW OF THE DEPENDENT COMPANY REPORT

The Board of Management presented its dependent company report for the 2017 financial year to us in good time.

The external auditor audited the dependent company report and issued the following audit opinion:

"Based on the results of our statutory audit and our judgment we confirm that

1. The actual information included in the report is correct;
2. The Company's compensation with respect to the legal transactions listed in the report was not inappropriately high."

The external auditor submitted the audit report to us. The dependent company report and the associated audit report were made available to all members of the Supervisory Board in good time.

We reviewed the dependent company report of the Board of Management and the audit report of the external auditor.

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. At its meeting on February 20, 2018, the Audit Committee asked the Board of Management to explain the details of the dependent company report. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor, who also attended the meeting, reported on its audit, in particular its key audit areas and the significant findings of its audit, and explained its audit report. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, its members had assured themselves that the audit report and the audit conducted by the independent auditor met the legal requirements. The Audit Committee recommended that we approve the results presented by the external auditor and, as the committee saw no grounds for objections to the Board of Management's statement on the dependent company report, that we pass a corresponding resolution.

We performed the final review at our meeting on February 21, 2018, taking into account the resolution and the Audit Committee's recommendation as well as the external auditor's report. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered our questions. The external auditor also attended this meeting and reported on its audit of the dependent company report and the main findings of its audit, explained its audit report, and answered our questions, in particular relating to the nature and extent of the audit of the dependent company report and the audit findings. Based on this and the report presented by the Audit Committee, we were satisfied that the audit of the dependent company report and the audit report were compliant. In particular, we were satisfied that the audit report and the audit conducted by the external auditor met the legal requirements. We did not find any indications of discrepancies, incompleteness, or any other objections as part of our review. We were also satisfied that the group of dependent companies had been defined with due care and that the necessary systems had been put in place for recording legal transactions and measures subject to disclosure. We followed the Audit Committee's recommendation and approved the findings of the external auditor's audit of the dependent company report. Based on the final result of our review of the dependent company report, we have no objections to the Board of Management's statement on the dependent company report.

We would like to thank the members of the Board of Management, all of Deutsche Telekom's employees and the works committees for their commitment and dedication in the 2017 financial year.

Bonn, February 21, 2018

The Supervisory Board

Prof. Dr. Ulrich Lehner

Chairman

CORPORATE GOVERNANCE REPORT 2017

In the following text, the Board of Management and the Supervisory Board report on corporate governance at Deutsche Telekom AG in accordance with Section 3.10 of the German Corporate Governance Code. This Corporate Governance Report is published together with the Corporate Governance Statement in accordance with § 289f HGB, which is published on Deutsche Telekom's website.

Sound, systematic corporate governance is particularly important for an international group such as Deutsche Telekom with its many subsidiaries and associates. The Company complies with legal requirements, national provisions, such as the recommendations of the Government Commission on the German Corporate Governance Code, as well as with international standards. The Supervisory Board and the Board of Management are convinced that sound corporate governance, taking company and industry-specific issues into account, is an important building block for the future success of Deutsche Telekom AG. Accordingly, responsibility for compliance with the principles of sound corporate governance is vested in senior management.

In the 2017 financial year, the Board of Management and Supervisory Board once again carefully examined the corporate governance of Deutsche Telekom AG and the Deutsche Telekom Group as well as the contents of the German Corporate Governance Code. During the reporting period just ended, as in prior years, Deutsche Telekom AG again fulfilled all of the Code's recommendations. The Supervisory Board and Board of Management of Deutsche Telekom AG therefore issued an unqualified Declaration of Conformity with the German Corporate Governance Code on December 30, 2017:

Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG)

I. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare that, in the period since the issuance of the most recent declaration of conformity pursuant to § 161 of the Stock Corporation Act on December 30, 2016, Deutsche Telekom AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code announced by the Federal Ministry of Justice and Consumer Protection on June 12, 2015 in the official section of the Federal Gazette (Bundesanzeiger), without exception.

II. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare further that Deutsche Telekom AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger) on April 24, 2017, without exception.

The Declaration of Conformity can be found on the website of Deutsche Telekom AG. This website also provides access to the declarations of conformity from previous years.

Cooperation between the Supervisory Board and the Board of Management. The Supervisory Board and the Board of Management work closely together for the good of the Company and maintain regular contact. The Board of Management agrees the Company's strategic alignment with the Supervisory Board and discusses the status of strategy implementation with the Supervisory Board at regular intervals. The Supervisory Board of Deutsche Telekom AG holds a minimum of four meetings a year. In 2017 there were nine Supervisory Board meetings and a one-day off-site conference on the strategic alignment of the Company. In addition, 25 Supervisory Board committee meetings were held. The Board of Management keeps the Supervisory Board fully and regularly informed in good time on corporate strategy, planning, business developments, the risk situation, risk management, compliance, innovation focuses, and any deviations in the business developments from original plans, as well as significant business transactions involving the Company and major Group companies. The Board of Management regularly submits written and oral reports. Between meetings, the Board of Management also informs the Supervisory Board of the current business development of the Group and its segments on a monthly basis. The Board of Management reports to the Supervisory Board on individual issues in writing or in discussions. The reporting obligations of the Board of Management specified by the Supervisory Board go beyond statutory requirements. The activities of the Board of Management and the Supervisory Board, as well as the Audit Committee of the Supervisory Board, are specified in separate Rules of Procedure. Those that govern the Board of Management provide guidance on its schedule of responsibilities and the majorities required for resolutions, among other matters. The Chairmen of the two Boards also exchange information regularly in person.

www.telekom.com/en/investor-relations/investor-relations/declaration-of-conformity-pursuant-to--161-479770

www.telekom.com/en/investor-relations/management-and-corporate-governance

For details on cooperation between the Board of Management and the Supervisory Board, please refer to the "Supervisory Board's report to the 2018 shareholders' meeting," **page 7 et seq.** of the Annual Report.

Composition of the Board of Management. As of January 1, 2017, the Board of Management's schedule of responsibilities states that there are eight Board departments instead of seven: the department of the Chairman of the Board of Management; Finance; Human Resources; Data Privacy, Legal Affairs and Compliance; T-Systems; Germany; Technology and Innovation; and Europe. The Board of Management was extended to include the Technology and Innovation Board department. Europe and Technology continues to exist as the Europe Board department. Each Board of Management member is authorized to manage the sphere of responsibility allocated to him or her. Certain matters are subject to approval by the full Board of Management. Furthermore, every Board member can submit matters to the full Board of Management for decision. Until December 20, 2017, as a rule, members of the Board of Management were not to be older than 62 years of age (standard age limit). On December 20, 2017, a Supervisory Board resolution was passed raising the standard age limit for the Board of Management to 65. In September 2015, the Supervisory Board set out target figures for the number of women on the Board of Management. The Supervisory Board set a short initial deadline for implementation at the end of 2015 within which the current proportion of women on the Board of Management (1 of 7) was to remain stable. The Supervisory Board also resolved that the proportion of women should increase to 2 of 7 within the second implementation period by the end of 2020.

For further information on the women's quota, please refer to the Corporate Governance Statement: www.telekom.com/en/investor-relations/management-and-corporate-governance

Composition of the Supervisory Board. The Supervisory Board of Deutsche Telekom AG consists of twenty members, ten representing the shareholders and ten representing the employees. The Supervisory Board members representing the shareholders are elected by the shareholders' meeting by simple majority. As in previous years, an election to the Supervisory Board was held at the last shareholders' meeting on May 30, 2017. The five-year terms of office of the individual Supervisory Board members representing the shareholders end on different dates. This ensures continuity regarding the Supervisory Board's composition. The Supervisory Board members representing employees were most recently elected at the delegates' assembly on November 26, 2013, according to the provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).

For details on changes to the composition of the Supervisory Board during the reporting period, please refer to the "Supervisory Board's report to the 2018 shareholders' meeting," page 7 et seq. of the Annual Report.

As for its composition, the Supervisory Board has set itself the following objectives:

- Taking into account the Company's specific situation, the Supervisory Board resolves to consider the aspect of diversity in addition to the requisite expertise of a candidate when issuing recommendations for future appointments to the Supervisory Board to the competent election bodies.
- The Supervisory Board has to be composed in such a way that its members as a group possess the knowledge, ability, and expert experience required to properly perform its tasks.
- The Supervisory Board supports an appropriate degree of female representation on the Supervisory Board. A minimum of 30 percent of members of the Supervisory Board shall be women.
- In view of the Company's international focus, candidates with an international background are to be given appropriate consideration in future appointments to the Supervisory Board.
- Conflicts of interest are to be avoided in appointments to the Supervisory Board.
- The term of office for members of the Supervisory Board shall end no later than the close of the shareholders' meeting after the Supervisory Board member reaches the age of 75 unless there are special reasons for this not to be the case (standard age limit).
- A regular limit of three terms of office shall apply for membership on the Supervisory Board. Appointments by court order that are limited until the next shareholders' meeting shall not, however, be considered a term of office.
- The Supervisory Board shall include at least sixteen members who are independent within the meaning of Section 5.4.2 of the German Corporate Governance Code. It is assumed that those Supervisory Board members elected in accordance with the Codetermination Act are independent in principle as defined. On the shareholders' representative side, at least six members of the Supervisory Board must therefore be independent.

Additional information on the independence of members on the shareholders' representative side: The Supervisory Board is convinced that Sari Baldauf, Lars Hinrichs, Dr. Helga Jung, Prof. Dr. Michael Kaschke, Dagmar P. Kollmann, Prof. Dr. Ulrich Lehner, Karl-Heinz Streibich and Margret Suckale are independent within the meaning of the German Corporate Governance Code.

Furthermore, the Supervisory Board will continue to ensure that potential candidates to be proposed for election at the shareholders' meeting can dedicate the required amount of time to their Supervisory Board tasks at Deutsche Telekom AG.

Regarding the achievement level of the Supervisory Board membership target:

The proportion of women on the Supervisory Board in the 2017 financial year was at least 40 percent. The appointment by court order of Margret Suckale to the Supervisory Board in September 2017 brought this figure to 45 percent. This means that the target of reaching the quota of 30 percent, which is now set out by law, was fulfilled.

The Supervisory Board is composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly perform its tasks. The members of the Supervisory Board represent various different professions and many of them have a multinational background. The avoidance of conflicts of interest and compliance with the standard age limit and the regular limit on terms of office were taken into consideration in the appointments to the Supervisory Board.

The reappointment of Dagmar P. Kollmann, businesswoman, by the shareholders' meeting in 2017 meant that the Supervisory Board of Deutsche Telekom AG retained an esteemed financial expert with many years of experience in key management positions and recognized expertise at both international and national level, together with particular expertise in the application of accounting principles and internal control procedures.

The Supervisory Board is convinced that – in accordance with the recommendation of the German Corporate Governance Code – it has a sufficient number of independent members to provide impartial advice to and monitor the Board of Management.

The Supervisory Board considers the following skills, expertise and knowledge to be essential for it to exercise its role (profile of skills and expertise):

1. Strategic skills and expertise
- TC/IT industry, related industries
- Market (competition and customers), sales, and customer business
- Products
- Market participants
- Regulated industries
- M&A processes

2. Financial skills and expertise
- Accounting, risk management, audit of financial statements
- Financial KPIs and systems
- Capital and financial markets

3. Control skills and expertise
- Management/CEO
- Supervisory board
- International management experience
- Codetermination
- Legal affairs/compliance
- Regulatory and competition law

4. Innovation skills and expertise
- New technologies
- Digitalization
- IT/NT/telecommunications

5. Sustainability expertise, social skills
- Human resources
- Change management
- Organizational and cultural change
- Diversity
- Sustainability

The Supervisory Board is convinced that the Supervisory Board as a whole meets the stipulations of the profile of skills and expertise in full.

Tasks assigned to the Supervisory Board. The Supervisory Board appoints the members of the Board of Management and regularly supervises its management of the Company. The Supervisory Board is directly involved in all decisions of strategic importance to the Company. This involvement is guaranteed through the specification of approval provisos for the Supervisory Board and through the agreement of the strategic alignment of the Company. The work of the Supervisory Board is specified in Rules of Procedure. To clarify the reporting obligations on the part of the Board of Management, the Supervisory Board has drawn up a list of transactions subject to approval. This list forms an integral part of the Rules of Procedure for the Supervisory Board and the

Board of Management, respectively. The Supervisory Board and Audit Committee each assess the efficiency of their work every two years, which also provides new impetus for their work on a regular basis. The self-assessment carried out to this end is based on a comprehensive questionnaire followed by intense discussion and consultation on the results by the Supervisory Board and Audit Committee. The Audit Committee's last assessment was carried out in the 2016 financial year. The Supervisory Board carried out its last efficiency audit in the 2017 financial year. As well as the work of the Supervisory Board as a whole, this also considered the work of all of the Board's committees. The members of the Supervisory Board take on the necessary training and development measures required for their tasks on their own and are supported by Deutsche Telekom AG in doing so. The Company offers new Supervisory Board members a customized program to introduce them to the industry and the situation of the Company. Furthermore, an annual meeting extraordinary to regular reporting is held to inform the members of the Audit Committee about the latest changes in the law, new accounting and auditing standards, and any changes in corporate governance issues. The members of the Supervisory Board are also kept up to date about any new requirements for work on the Supervisory Board at the regular committee and Supervisory Board meetings.

For further details on the members of the Supervisory Board and any seats they hold on the supervisory boards of other companies, please refer to **page 255 et seq.** of the Annual Report.

In order to perform its tasks more effectively, the Supervisory Board has eight standing committees. The General Committee deals with personnel matters relating to the Board of Management and prepares the meetings of the Supervisory Board. The Staff Committee deals with general personnel matters not relating to the Board of Management. The Finance Committee mainly deals with complex financial and business management topics within the Company. The Audit Committee performs the tasks required by law and recommended by the German Corporate Governance Code. These tasks include, in particular, monitoring the accounting process, the effectiveness of the internal control system, the risk management and internal auditing system, the audit of financial statements, compliance, and data privacy. The Technology and Innovation Committee supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas. Furthermore, the Supervisory Board has formed a Nomination Committee, which consists exclusively of shareholders' representatives. The Nomination Committee is responsible in particular for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. Finally, there is a Mediation Committee, which was formed in accordance with § 27 (3) of the Codetermination Act. In addition, a Special Committee for U.S. Business was established in May 2014.

For details on conflicts of interest that have arisen, please refer to the "Supervisory Board's report to the 2018 shareholders' meeting," **page 7 et seq.** of the Annual Report.

For more information, please refer to the section "Risk and opportunity management," **page 111 et seq.** of the Annual Report.

www.cr-report.telekom.com/site17

For further details about the composition and working methods of the committees, please refer to the "Supervisory Board's report to the 2018 shareholders' meeting," **page 7 et seq.** of the Annual Report.

The committees' chairpersons report to the Supervisory Board on a regular basis on the work of the committees. The Chairwoman of the Audit Committee, Dagmar P. Kollmann, has expert knowledge of accounting and auditing. She is also particularly knowledgeable and experienced in the application of accounting standards and internal control procedures. She is independent, and is not a former member of the Board of Management of Deutsche Telekom AG. Like the members of the full Supervisory Board, the members of the Audit Committee overall are very familiar with the sector in which Deutsche Telekom AG is active.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and presides over its meetings. In addition to the organizational tasks relating to the Supervisory Board, he maintains regular contact with the Chairman of the Board of Management and the members of the Board of Management to discuss issues relating to the Company's strategy, its plans, the development of its business, the situation in terms of risks and risk management as well as compliance, and is informed of the general business situation and significant events. In this context, the Chairman of the Board of Management in particular informs the Chairman of the Supervisory Board of all events that are significant to the situation, development, and governance of the Company.

Avoiding conflicts of interest. Board of Management members and Supervisory Board members are obliged to disclose immediately any conflicts of interest to the Supervisory Board. Any functions assumed by members of the Board of Management that are not covered by their Board of Management mandate are subject to approval by the General Committee of the Supervisory Board.

Risk and opportunity management. The Board of Management and the Supervisory Board consider the approach to the management of opportunities and risks arising in connection with the Company's business activities to be of fundamental importance for professional corporate governance. The Board of Management receives regular reports from the Group's Risk Management unit concerning current risks and their development. In turn, it reports to the Supervisory Board on the risk position and the risk management system. The risk management system in place at Deutsche Telekom AG is evaluated by the external auditor, and it is constantly being expanded and improved. In addition to the responsibilities assigned by law and those recommended by the German Corporate Governance Code, the Audit Committee also deals with risk management, including the monitoring of the effectiveness of the internal risk management system. The system is designed to manage a variety of risks, including financial risks and risks to the Company's reputation.

Compliance. Compliance involves the observance of legal requirements and internal Group rules. Deutsche Telekom AG has a Group-wide compliance organization that is continuously being improved (also published in the 2016 Corporate Responsibility report). There is also a Compliance Committee that supports the Board of Management in further developing the framework for an effective compliance management system. The members of the Compliance Committee are experienced managers in the areas of compliance, legal affairs, security, internal auditing, and human resources. The Chief Compliance Officer, appointed by the Board of Management, chairs the Compliance Committee. A compliance officer has been appointed for each of the operating segments. Individual business units have additional compliance officers/

contacts depending on their respective size and risk situation. Clear reporting structures have been implemented throughout the Group. The particular significance attached to compliance is underlined by the decision to pool all compliance activities in the Board of Management department for Data Privacy, Legal Affairs and Compliance.

Deutsche Telekom AG has implemented a comprehensive compliance management system. According to this system, a compliance program is set up based on a structured risk assessment process performed once a year throughout the Group. The compliance management system also includes the Code of Conduct, the Code of Ethics, and various policies. The Code of Conduct defines how employees and management should practice value-based and legally compliant conduct in their daily business activities. The Code of Ethics addresses the members of the Board of Management of Deutsche Telekom AG and persons within the Group who carry special responsibility for financial reporting. It obliges these individuals to comply with the principles of honesty, integrity, transparency, and ethical conduct. The compliance management system in place at Deutsche Telekom AG and other selected national and international companies was certified as being appropriate and effectively implemented by an external auditor in stages from 2016 through 2017 in accordance with IDW audit standard 980 with the focus on anti-corruption.

Internal controls over financial reporting. Deutsche Telekom AG has implemented a process to systematically assess the effectiveness of its internal controls over financial reporting. This process again provided evidence of the controls' effectiveness throughout the Group for the 2017 financial year. The Audit Committee assumes the task of monitoring the accounting and financial reporting processes on behalf of the Supervisory Board. The system of internal controls over financial reporting is updated on an ongoing basis and monitored separately by Internal Audit and external auditors.

The Audit Committee also monitors the effectiveness of the internal control system, which goes beyond financial reporting.

Accounting and audit of financial statements. An agreement has been reached with the external auditor of Deutsche Telekom AG that the Chairman of the Supervisory Board/the Audit Committee shall be advised immediately of any issues uncovered during the audit that might give rise to statements of exclusion or reservation in the external auditor's report, unless these issues can be resolved forthwith. Moreover, it has been agreed that the external auditor shall immediately report any findings and issues that emerge during the audit and that have a direct bearing upon the tasks of the Supervisory Board. According to this agreement, the external auditor undertakes to inform the Supervisory Board or make a note in the audit report of any facts discovered during the audit that might indicate a discrepancy in the Declaration of Conformity with the German Corporate Governance Code submitted by the Board of Management and the Supervisory Board. The Audit Committee supervises the independence of the external auditor.

Transparent shareholder communication. We are committed to providing institutional investors, retail shareholders, financial analysts, and the general public with regular, comprehensive, transparent and up-to-date information about the Company's position at the same time and on an equal basis to ensure a high level of transparency and equality of information. Significant information, such as press releases, ad hoc notifications, presentations from analyst conferences, all financial reports, and the financial calendar, is made available on the Company's websites.

Share ownership by members of the Board of Management and the Supervisory Board. Total direct or indirect holdings of shares in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

Bonn, February 21, 2018
The Supervisory Board and the Board of Management

For detailed information about the compliance management system, please refer to Deutsche Telekom AG's website **www.telekom.com/en/company/compliance**

The Code of Conduct and the Code of Ethics are published on Deutsche Telekom AG's website **www.telekom.com/en/company/compliance/code-of-conduct** and **www.telekom.com/en/investor-relations/management-and-corporate-governance**

For a description of the main features of the accounting-related internal control system, please refer to the section "Accounting-related internal control system" in the Group management report, **page 127** of the Annual Report.

THE T-SHARE

T-Share information

		2017	2016
XETRA CLOSING PRICES			
Share price on the last trading day	€	14.80	16.36
Year high	€	18.05	16.43
Year low	€	14.76	13.98
TRADING VOLUME			
German exchanges	billions of shares	2.4	2.5
Market capitalization on the last trading day	billions of €	70.4	76.5
WEIGHTING OF THE SHARE IN MAJOR STOCK INDEXES ON THE LAST TRADING DAY			
DAX 30	%	4.6	5.5
Dow Jones EURO STOXX 50®	%	2.0	2.4
T-SHARE – KEY FIGURES			
Earnings per share (basic and diluted)	€	0.74	0.58
Proposed dividend	€	0.65	0.60
Number of shares issued	millions, at year-end	4,761	4,677

DEVELOPMENT OF INTERNATIONAL INDEXES

Up 12.5 percent, the DAX sustained its growth trajectory unabated. The DAX posted its sixth consecutive year of strong growth amid a robust economy and persistently low interest rates in Germany.

Though not quite as strong as the DAX, the Dow Jones Euro STOXX 50® closed out 2017 on a high note, too, posting gains of 9.2 percent on a total return basis, i.e., including reinvested dividends. Like the DAX, it profited from Europe's economic recovery and low interest rates.

The Nikkei was well up, finishing 2017 19.1 percent higher, while the United States' stock market barometer, the Dow Jones, easily outstripped the other indexes for the second year in succession, gaining 25.1 percent.

T-SHARE PERFORMANCE

By comparison, performance in the European telecommunications sector was lackluster in 2017. The industry's barometer, the Dow Jones STOXX® Europe 600 Telecommunications, hardly budged, finishing the year with a gain of 0.2 percent. Factors weighing on the sector and preventing better performance included fears of a deteriorating regulatory environment in Europe and rising investment needs for fiber-optic roll-out.

In this environment, the T-Share closed the year at EUR 14.80, down 9.5 percent. The lowest price recorded during the year was EUR 14.76 on November 11, 2017 (amid termination of the talks with Sprint Corp. concerning a possible business combination with T-Mobile US), while the highest price of EUR 18.05 was recorded on May 22, 2017, shortly before our shareholders' meeting.

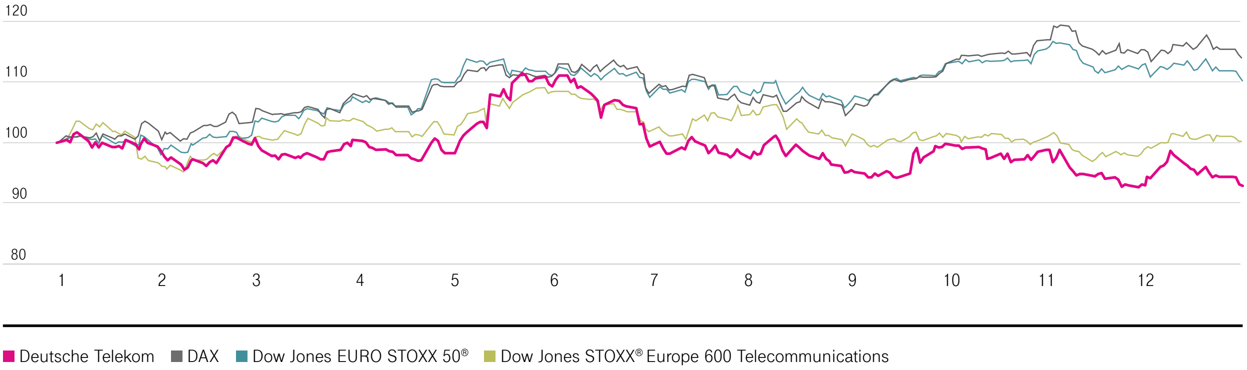
On a total return basis – and thus comparable with the DAX – our share ended the year down 6.4 percent.

DIVIDEND

The Board of Management and Supervisory Board of Deutsche Telekom AG propose to this year's shareholders' meeting, to be held on May 17, 2018, the distribution of a dividend of EUR 0.65 per dividend-bearing share.

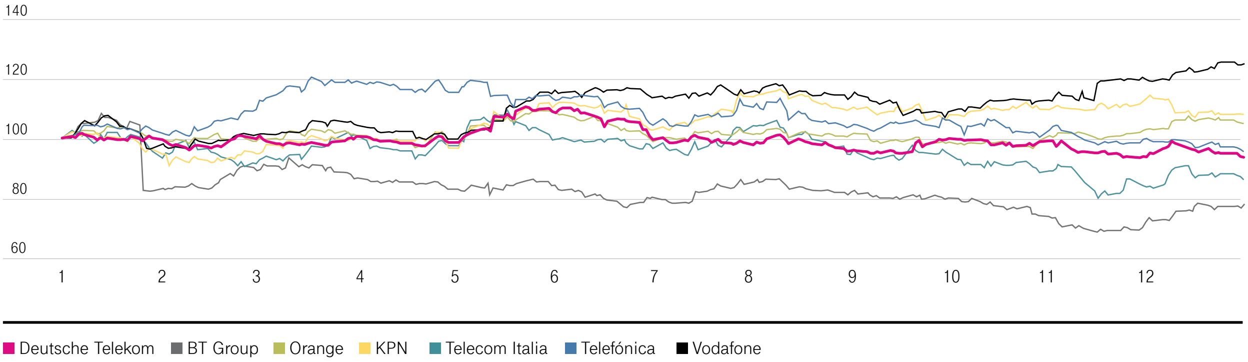
T-Share as compared to DAX, Dow Jones EURO STOXX 50®, and Dow Jones STOXX® Europe 600 Telecommunications

January 1 to December 31, 2017 (based on total shareholder return [a])



T-Share as compared to other European telecommunications companies

January 1 to December 31, 2017 (based on total shareholder return [a])



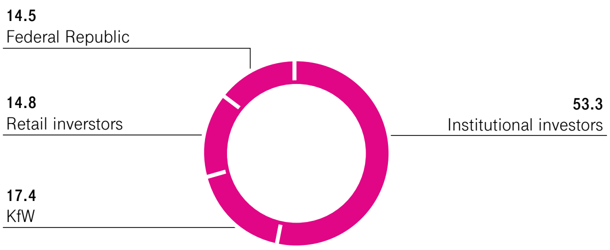
[a] Total shareholder return measures the value performance of a shareholding over a specific period. It takes into account dividends paid during the investment period along with any changes in share price.

SHAREHOLDER STRUCTURE

The Federal Republic's shareholding, including that of Kreditanstalt für Wiederaufbau (KfW), stands at approximately 32 percent. The proportion of institutional investors decreased slightly, to 53.3 percent, while the share of retail investors increased to 14.8 percent. As a result, the percentage of shares in free float remains at around 68 percent of the share capital.

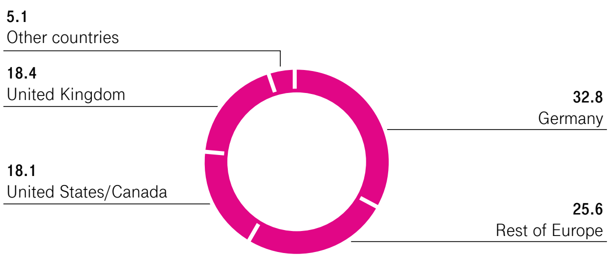
Shareholder structure

% (as of December 31, 2017)



Geographical distribution of free float

% (as of December 31, 2017)



SUSTAINABLE DEVELOPMENT GOALS

In order to successfully tackle global challenges, the member states of the United Nations (UN) adopted the 2030 Agenda for Sustainable Development at their General Assembly in September 2015. The aim is to enable economic development and prosperity – in line with social justice and taking account of the ecological limits of global growth. The Agenda applies equally to all nations of the world: All emerging and developing economies as well as industrial nations must play their part.

The core of the 2030 Agenda comprises 17 sustainable development goals (SDGs), which officially came into force in January 2016. They cover all three dimensions of sustainable development – the social, environmental and economic dimension – for the first time. In particular, it seeks to reduce poverty and hunger, promote healthcare and education, enable equality, protect the environment and climate, and make consumption increasingly sustainable. Each goal comprises specific targets. Implementing the ambitious SDGs will require everyone to work together: policy makers, civil society, and business. As such, companies are also called upon to make concrete contributions with respect to their business activities.

We are answering this call. Many of our products, services, and activities already allow us to make such a contribution. As a responsible employer (SDG 8), we set great store by employee participation and a working environment that is fair and respectful; we encourage diversity and support our employees on their journey toward the digital working world. By building out our broadband network, we are making an active contribution to creating and expanding high-quality infrastructure, and promoting innovation (SDG 9). With our smart home solutions, for example, our customers can better monitor, manage, and reduce their energy consumption (SDG 13); our broadband roll-out enables many people to get access to digital education media (SDG 4), and our services in the area of e-health improve medical care (SDG 3). Products and solutions such as the cloud can help consumers and business customers save energy and other resources (SDG 12, 13). Our solutions for smart cities are another area in which we are having a positive impact on society (SDG 11). In this Annual Report, we meet our responsibility to transparently communicate our contributions to the SDGs.

To clearly highlight the contribution our products, services and activities make towards the individual sustainability development goals, we have marked the relevant passages of the following pages with the respective SDG symbol.

COMBINED MANAGEMENT REPORT

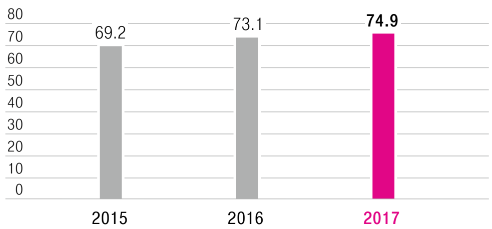
This report combines the Group management report of the Deutsche Telekom Group, comprising Deutsche Telekom AG and its consolidated subsidiaries, and the management report of Deutsche Telekom AG.

DEUTSCHE TELEKOM AT A GLANCE

NET REVENUE

- We continued our growth trend as planned: Net revenue grew by 2.5 percent to EUR 74.9 billion.
- Our United States operating segment contributed revenue growth of 5.9 percent to this trend. In our Europe and Germany operating segments revenue also increased slightly by 1.2 percent and 0.7 percent respectively.
- In our Systems Solutions and Group Development operating segments we recorded declines in revenue of 1.1 percent and 3.6 percent respectively.
- On a comparable basis, i.e., excluding exchange rate effects and effects from changes in the composition of the Group, net revenue increased by as much as 3.6 percent.

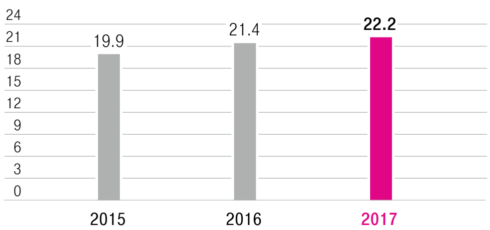
Net revenue
billions of €



ADJUSTED EBITDA

- Adjusted EBITDA grew by 3.8 percent to EUR 22.2 billion. Adjusted for exchange rate effects and changes in the composition of the Group, we ended the year exactly within the target corridor of EUR 22.4 billion to EUR 22.5 billion, communicated most recently.
- Due to the ongoing success of T-Mobile US, we generated an increase in adjusted EBITDA of 8.8 percent in the United States operating segment. Adjusted EBITDA in our Germany operating segment also grew, whereas our Europe, Systems Solutions, and Group Development operating segments recorded declines.
- At 29.7 percent, the Group's adjusted EBITDA margin increased slightly against the prior-year level of 29.3 percent. The EBITDA margin was 38.6 percent in Germany, 32.3 percent in Europe, and 26.1 percent in the United States.

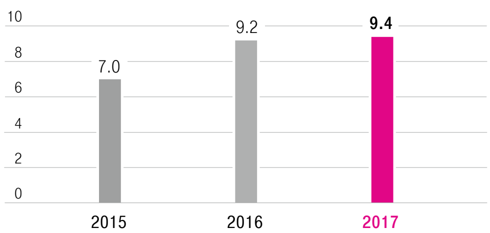
Adjusted EBITDA
billions of €



EBIT

- EBIT increased by 2.4 percent to EUR 9.4 billion.
- EBITDA included positive net special factors of EUR 1.7 billion, mainly attributable to the reversal of impairment losses previously recognized for spectrum licenses at T-Mobile US (EUR 1.7 billion), to the sale of Strato (EUR 0.5 billion) and of further shares in Scout24 AG (EUR 0.2 billion), and to a settlement agreement concluded with BT (EUR 0.2 billion). The prior year had profited from generally higher net positive special factors of EUR 1.1 billion, primarily from the sale of our stake in the EE joint venture (EUR 2.5 billion) and from transactions for the exchange of spectrum licenses in the United States (EUR 0.5 billion). Special factors in connection with staff-related measures (EUR 0.6 billion) were down EUR 1.1 billion compared with the prior year.
- At EUR 14.6 billion, depreciation, amortization and impairment losses were up EUR 1.2 billion year-on-year, primarily due to the impairment of goodwill and property, plant and equipment in the Systems Solutions and Europe operating segments of EUR 2.2 billion in total (prior year: EUR 0.7 billion).

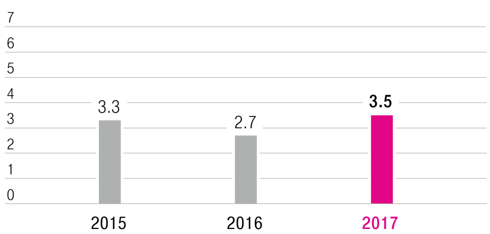
EBIT
billions of €



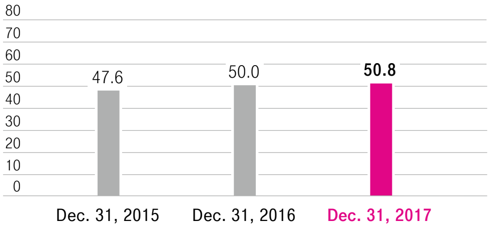
NET PROFIT

- Net profit increased by EUR 0.8 billion to EUR 3.5 billion.
- Loss from financial activities decreased by EUR 0.2 billion, mainly in connection with the EUR 1.5 billion (prior year: EUR 2.2 billion) impairments of our financial stake in BT recognized in profit and loss; negative remeasurement effects from the exercise and measurement of embedded derivatives at T-Mobile US had an increasing effect on loss from financial activities.
- The tax benefit which was mainly attributable to the remeasurement of deferred taxes at T-Mobile US as a result of the U.S. tax reform amounted to EUR 0.6 billion, while in the prior year there had been a tax expense of EUR 1.4 billion.
- Profit attributable to non-controlling interests increased by EUR 1.7 billion, primarily due to the reversal of impairment losses previously recognized for spectrum licenses and the remeasurement of deferred taxes at T-Mobile US.

Net profit
billions of €



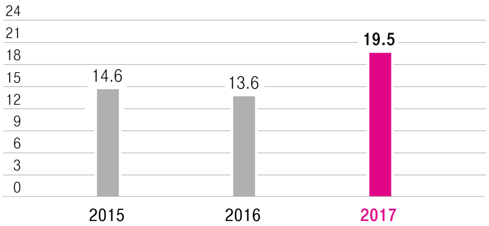
Net debt
billions of €



NET DEBT

- Net debt increased by EUR 0.8 billion to EUR 50.8 billion compared with the end of 2016.
- The increase was attributable to spectrum acquisition (EUR 7.4 billion), dividend payments – including to non-controlling interests – (EUR 1.6 billion), and the increase in liabilities from finance leases (EUR 1.0 billion). This increase was only partially offset by the positive effects from free cash flow (EUR 5.5 billion) and the sale of Strato (EUR 0.6 billion) and further shares in Scout24 AG (EUR 0.3 billion). Exchange rate effects of EUR 2.9 billion also had a positive effect.

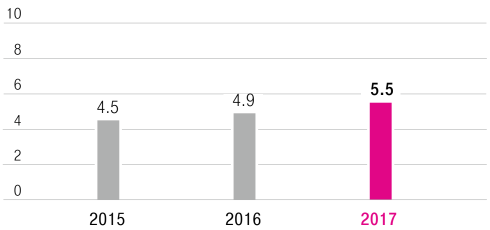
Cash capex
billions of €



CASH CAPEX

- Cash capex (including spectrum investment) increased from EUR 13.6 billion to EUR 19.5 billion.
- In the reporting period, mobile spectrum licenses were acquired for a total of EUR 7.4 billion, mainly in the United States and in Europe. EUR 7.2 billion of this total was attributable to the spectrum auction concluded in the United States in April 2017. In the prior-year period, mobile spectrum licenses were acquired for a total of EUR 2.7 billion, primarily in the United States and Europe operating segments.
- Excluding the effects of spectrum acquisitions, cash capex increased by EUR 1.1 billion, primarily in the United States, Germany, and Europe operating segments. In each case, this was due to investments we have made in the build-out and modernization of our networks.

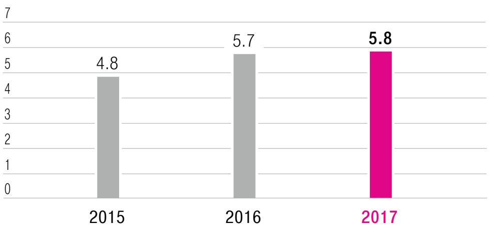
Free cash flow
(before dividend payments and spectrum investment)
billions of €



FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)

- Free cash flow increased by EUR 0.6 billion to EUR 5.5 billion and was thus exactly on target despite a consistently high level of capital expenditure.
- The year-on-year increase of EUR 1.7 billion in net cash from operating activities, which profited mainly from the positive business development of the United States operating segment, had an increasing effect.
- The year-on-year increase of EUR 1.1 billion in cash capex (before spectrum investment) reduced free cash flow.

ROCE
%



ROCE

- Our key performance indicator ROCE (return on capital employed) improved by 0.1 percentage points in the reporting period to reach 5.8 percent.
- This was attributable to an increase in net operating profit after taxes (NOPAT) while the average amount of net operating assets (NOA) remained virtually stable over the year.
- NOPAT increased in 2017 on the back of significantly better adjusted EBITDA and the positive special factors. Impairment losses recognized in the reporting year on goodwill and property, plant and equipment had a negative effect on NOPAT.
- Despite the acquisition of spectrum in the United States and a consistently high level of investment in connection with our integrated network strategy, average NOA remained virtually unchanged in 2017, due to lower cash and cash equivalents on average and lower goodwill, among other effects.

For a more detailed explanation, please refer to the section "Development of business in the Group," **page 49 et seq.**

HIGHLIGHTS IN THE 2017 FINANCIAL YEAR

BOARD OF MANAGEMENT

As of January 1, 2017, the Deutsche Telekom AG Group Board of Management was extended to include an additional Board department. The new Technology and Innovation department is headed by Claudia Nemat. Srinivasan (Srini) Gopalan also joined the Board of Management as of January 1, 2017 to head up the Europe Board department. The number of Board of Management members has thus been increased from seven to eight. Dr. Dirk Wössner was appointed as the new Board member responsible for Germany effective January 1, 2018. He succeeds Niek Jan van Damme, whose position as a Board member ended on December 31, 2017. In addition, Adel Al-Saleh was appointed as the new Board member responsible for T-Systems and as CEO of T-Systems International GmbH, both effective January 1, 2018. Adel Al-Saleh succeeds Reinhard Clemens, whose position on the Board of Management also ended effective December 31, 2017.

CORPORATE TRANSACTIONS

Following approval by the Bundeskartellamt, we completed the sale of our hosting service provider Strato to United Internet for a purchase price of EUR 0.6 billion effective midnight March 31, 2017.

The sale of DeTeMedien to a consortium of medium-sized publishers was completed on June 14, 2017. The purchase price, which is not to be disclosed pursuant to the agreement, comprises a cash component along with additional elements that included a settlement of the dispute with the buyers, who for several years have pursued legal proceedings concerning the level of charges for subscriber data. In addition, the publishers have assumed the obligation to publish subscriber directories.

In an accelerated book-building process, effective June 23, 2017 we placed the remainder of our direct stake of 9.26 percent in Scout24 AG on the market at a price of EUR 32.20 per share; until that point, it had been accounted for in the consolidated financial statements using the equity method. The proceeds from the sale amounted to EUR 319 million.

On November 9, 2017, T-Mobile US signed an agreement to acquire 100 percent of the shares in online TV provider Layer3 TV. The agreement includes a cash purchase price of around USD 325 million. The transaction was completed on January 22, 2018. T-Mobile US expects the acquisition to further strengthen its TV and video portfolio and its plans include rolling out its own TV service in 2018.

On December 15, 2017, we signed an agreement with the Tele2 Group on the acquisition of telecommunications provider Tele2 Netherlands by T-Mobile Netherlands. This transaction is part of our long-term strategy and will establish a stronger, more sustainable provider of convergent fixed-network and mobile services on the Dutch market. Tele2 Group receives a purchase price in the form of a 25.0 percent stake in T-Mobile Netherlands and a cash component of EUR 190 million. We expect the transaction to close in the second half of 2018, following approval by the responsible antitrust authority.

On December 22, 2017, T-Mobile Austria agreed to acquire Austria's leading cable operator, UPC Austria, from Liberty Global. The agreed purchase price is around EUR 1.9 billion in cash less net debt. In line with our strategy, this acquisition will allow us to offer convergent product bundles to our customers on the European market. We expect the transaction to close in the second half of 2018, following approval by the antitrust authority and the City of Vienna.

SIGNIFICANT IMPAIRMENT LOSSES AND REVERSAL OF IMPAIRMENT LOSSES

In our Systems Solutions operating segment, the unexpected decline in order entry prompted intra-year impairment testing of the assets assigned to this unit. As a result, we have recognized an impairment loss on goodwill of EUR 1.2 billion. In the course of the annual impairment tests for our Europe operating segment, we recognized an impairment loss on goodwill and property, plant and equipment of EUR 0.9 billion – mainly relating to Poland. In our Group Development operating segment, we reduced the fair value of our financial stake in BT by around EUR 1.5 billion in 2017 due to the share price performance and the exchange rate effect. Impairment losses on spectrum licenses previously acquired by T-Mobile US were partially reversed, increasing the carrying amount by EUR 1.7 billion. This reversal of impairment losses is attributable to the fact that the grounds for the impairment loss recognized for the United States cash-generating unit in 2012 no longer apply thanks to the performance of T-Mobile US' share price. The increase in the value of the licenses was indicated by the results of the spectrum auction held by the U.S. regulatory authority, the Federal Communications Commission (FCC), which was completed in 2017. Of the EUR 1.7 billion after accounting for deferred taxes, income of EUR 0.6 billion is attributable to the owners of the parent (net profit (loss)).

FINANCING

In the first quarter of 2017, T-Mobile US prematurely canceled senior notes held by external investors with a total volume of USD 8.25 billion. In addition, in December 2017, T-Mobile US prematurely canceled senior notes originally due in 2022 with a nominal volume of USD 1 billion. Repayment was made in January 2018.

In 2017, Deutsche Telekom International Finance B. V. issued euro bonds with a total volume of EUR 5.0 billion and U.S. dollar bonds with a total value of USD 3.5 billion. In addition, Deutsche Telekom International Finance B. V. issued foreign-currency bonds with a total equivalent value of EUR 0.6 billion at particularly favorable terms. In 2017, T-Mobile US issued senior bonds with a total volume of USD 1.5 billion with external investors.

INTRA-GROUP FINANCING

In order to optimize the financing situation at T-Mobile US and the Group as a whole, in 2017 T-Mobile US was largely financed on an intra-Group basis. T-Mobile US received internal term loans and bonds in the volume of USD 11.5 billion.

SHARE BUY-BACK PROGRAM AT T-MOBILE US

In early December 2017, T-Mobile US announced a share buy-back program. Under the program, T-Mobile US may, until the end of 2018, buy back ordinary shares of the company in the capital markets for a total amount of up to USD 1.5 billion. By December 31, 2017, the company had already bought back ordinary shares valued at USD 0.4 billion (approx. EUR 0.4 billion).

TAX REFORM IN THE UNITED STATES

The reduction in the applicable federal tax rate (from 35 percent to 21 percent) as of the 2018 financial year resulted in a non-cash deferred tax benefit of EUR 2.7 billion for T-Mobile US due to the remeasurement of the surplus amount of deferred tax liabilities. EUR 1.7 billion of this benefit is attributable to the owners of the parent (net profit (loss)).

INVESTMENTS IN NETWORKS AND NEW SPECTRUM

The spectrum auction at which **T-Mobile US** acquired 1,525 licenses for 600 MHz spectrum – 31 MHz on average nationwide – for a purchase price of USD 7.99 billion ended in April 2017. In addition, swap arrangements were also consummated at T-Mobile US in the reporting year, giving rise to a total non-cash gain of EUR 0.1 billion.

Clear commitment to building out broadband. We are working hard to build out fiber-optic infrastructure and laid 40,000 kilometers of fiber-optic cable in the reporting year, far more than the 30,000 kilometers originally planned. For 2018, the planned figure rises to as much as 60,000 kilometers. Our fiber-optic network, which is extending over 455,000 kilometers, is already the largest in Germany and has grown by some 25,000 kilometers per year on average since 2010. The majority of the Group's investment volume in Germany, which currently amounts to over EUR 5 billion a year, is for the build-out of broadband networks. A main focus of our FTTH activities is providing coverage to business parks and we launched a special campaign to put the infrastructure in place for 100 business parks, the majority of which will be covered by the end of 2018. This is in addition to subsidized build-out activities and partnerships with competitors. At the same time, our program to supply 80 percent of households with a download bandwidth of at least 50 Mbit/s continued, with 3 million new households connected to our high-speed network in 2017. We are also working non-stop in our European companies to upgrade our networks with optical fiber. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Project launch of "LTE everywhere." In March 2017, we launched a further step in the network build-out with the large-scale roll-out of LTE 900 in Germany. This will get our network ready for 5G, the communications standard of the future. The 900 MHz spectrum range is especially suited to carrying the mobile signal deeper into buildings and homes. This frequency will enable us to offer LTE by the end of 2019 everywhere where mobile telephony is already possible today. In addition, we are fitting out every cell site in Germany with the RAN (Single Radio Access Network) technology. The conversion of the technology and the use of LTE 900 are additional elements with which we are preparing our network for 5G.

Network build-out for Narrowband IoT in eight countries. We are clearing the way for the Internet of Things with NarrowBand IoT (NB IoT), which will not only be used for 4G but also for 5G. We are upgrading the network to support sensors that, for instance, display vacant parking spaces or indicate how full the local trash cans are. At the start of 2017, we began building out the network infrastructure for these applications in Germany and the Netherlands. We will make the existing NarrowBand IoT network coverage available in additional cities in Greece, Poland, Hungary, Austria, Slovakia, and the Czech Republic. SDG

11 SUSTAINABLE CITIES AND COMMUNITIES

Mobile campaign in Bavaria. We plan to install 1,000 additional cell sites in Bavaria and cover 135 previously unserved areas by the end of 2020. This will help the Bavarian state government roll out mobile coverage to areas considered difficult to develop due to their topography and economic circumstances. SDG

10 REDUCED INEQUALITIES

INNOVATION

"Feel connected all over Europe" was our motto at the 2017 Mobile World Congress in Barcelona. At the trade fair, we focused on the communications standard of the future, 5G. We used augmented reality and robotics to demonstrate that 5G is much more than just high-speed Internet, looked to the future of a connected Europe, and brought exciting developments to visitors' fingertips: augmented reality and position tracking on a slot-car track, smart parking, and predictive maintenance solutions using the Internet of Things, and the secure, Europe-wide Pan-Net. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Europe's first 5G antennas and new 5G applications. 5G technology is expected to launch worldwide in 2020. Four radio cells in the Deutsche Telekom network are demonstrating the future of communication right now. We have launched low-latency programs at our hub:raum sites in Berlin and Krakow to drive the development of new applications for 5G. These programs are aimed specifically at innovative developers who want to develop products and services using edge computing and enhance the performance of the 5G network at an early stage. We are also planning to pilot 5G for industry, for example, with the Port of Hamburg, which needs a network tailored specifically to its needs. In 2017, we showcased the potential of 5G technology in live demonstrations in Romania and Greece.

11 SUSTAINABLE CITIES AND COMMUNITIES

Our motto for CeBIT was: "Digitization. Simply. Make it happen." At our trade fair booth, we demonstrated specific success stories and solutions for new digital business models and secure networks centering around the key trends, i.e., the Internet of Things, drones, 5G, cloud services, virtual reality, smart city, and artificial intelligence. In addition, we unveiled new IoT starter kits for companies and demonstrated the opportunities of Narrowband IoT, the new network for IoT mass applications.

10 REDUCED INEQUALITIES

New Mobility at IAA 2017. At the International Motor Show (IAA), we showcased the digital mobility of the future at the International Motor Show (IAA). Like the smart parking app, Park and Joy, which makes it easy to find a parking space: find, book, and pay – it's all done using the mobile app. The app displays and guides drivers to vacant parking spaces. The Digital Drive retrofit option transmits information on a vehicle's condition, location, and driving behavior direct to the user's smartphone. In addition, at eMove 360°, the first international trade fair for Mobility 4.0, we presented an end-to-end electro mobility service chain, from the installation, maintenance, service, and logistics of electric charging points, IT software and operation, to billing between consumers and the operators of charging points. SDG

3 GOOD HEALTH AND WELL-BEING

For further information on our innovations, please refer to the section "Innovation and product development," page 89 et seq.

13 CLIMATE ACTION

Smart city progress in Europe. Our goal is to be a leading provider of smart city solutions in Europe and a trustworthy, reliable, and long-term partner for the digitalization of cities. We have already equipped 18 European cities in 10 countries with digital solutions, and the Bonn Smart City project was officially launched at the UN Climate Change Conference in November 2017. The Budapest-based European Smart Solutions Center (ESC) plays a key role in the project, providing centralized functions such as marketing, partnering, pre-sales, and delivery services and working closely with local experts. At the Smart City World Congress in Barcelona in November 2017, we showcased a host of smart city solutions along with live data from existing projects: smart transport solutions including smart parking, smart electric vehicle charging, traffic and passenger management systems, smart waste management, smart lighting, smart metering, and smart public safety. We also featured NarrowBand IoT-based solutions and the Mayor's Dashboard – a web application that enables city administrators to monitor, control, and optimize their city infrastructure and applications conveniently from any device. Together with Cisco, we developed a package for cities to implement tailor-made, secure, and user-friendly WiFi4EU solutions with ease. In the mySmartLife project, we are testing other innovative solutions for energy supplies, mobility and communications with the City of Hamburg and other partners. SDG

With Smart Speaker, your home listens to your every word. We collaborated with internationally renowned research and development partners to create voice control technology for our services. The Smart Speaker is an intelligent assistant that makes life easier by allowing users to control our services with a simple call of "Hello Magenta." The voice-activated assistant learns continually and can be used to operate connected devices in the user's home, like our EntertainTV service. The Smart Speaker will be available in Germany in the first half of 2018. SDG

Sea Hero Quest VR – using modern virtual reality capabilities for dementia research. In the #gameforgood initiative, we are working in partnership with academics and game developers to collect data about the spatial orientation of healthy people. A further development of the mobile games app Sea Hero Quest uses modern virtual reality capabilities to refine the existing standard data for spatial orientation. To date, anonymous data from over three million players has been analyzed and used as the basis for defining the first ever standard data on human spatial orientation. This is an important step towards developing new ways of diagnosing dementia at an early stage. SDG

PARTNERSHIPS

Partnerships are key to the success of our Group. We have successfully partnered with key players for many years, including Apple, Samsung, and Microsoft. We again entered into and expanded a large number of partnerships in the reporting year. We would like to present some of them in detail:

International partnership with Netflix. Our international partnership with streaming service Netflix will benefit all of our international subsidiaries by bringing hit shows exclusive to Netflix to our customers' screens. EntertainTV customers in Germany have been able to access Netflix shows in ultra-HD directly via their EntertainTV set-top box since October 2017, while T-Mobile Polska has been offering the Netflix service to customers in Poland since 2016. A new offer just launched by T-Mobile Netherlands combines its extremely popular Unlimited rate plan with the option to try Netflix for six months at no cost. In addition, our customers in Germany, Poland, Croatia, Greece, and Romania can stream unlimited Netflix titles via the mobile network using the free add-on option StreamOn, which includes Netflix. At T-Mobile US, Netflix is part of the Un-carrier campaign launched in September 2017.

Partnerships to drive the fiber-optic build-out. Together with EWE, we are planning to build out the fiber-optic network and directly connect one million private households. Specifically, we plan to jointly build out fiber-optic infrastructure in the regions of Lower Saxony, North Rhine-Westphalia, and Bremen, with a main focus on rural areas, over the next ten years. EWE and Deutsche Telekom intend to invest a total of EUR 2 billion in this initiative, which is scheduled to begin in mid-2018. The partnership still has to be approved by the Bundeskartellamt. Going forward, we will utilize the infrastructure of five city network operators in Bavaria and Baden-Württemberg. The partnerships cover some 125 thousand households, roughly half connected through municipal fiber-optic lines to the home (FTTH and FTTB) and through VDSL via fiber-optic lines to the street cabinets (FTTC). Previously, we agreed similar partnerships with EWE Tel, NetCologne, and innogy TelNet.

Partnership between BT and T-Systems improves global reach for international customers. At the beginning of March 2017, BT and T-Systems signed an agreement giving T-Systems access to numerous BT network services in future. T-Systems and BT will link up their networks in specific cases in the future to even better meet the needs of individual customers. This will not only increase T-Systems' international reach, but also allow it to offer its customers global network services such as MPLS (Multiprotocol Label Switching) with seamless connectivity. SDG

Toll4Europe GmbH commences business activities. In April 2017, T-Systems together with Daimler AG and DKV Euro Service GmbH & Co. KG established Toll4Europe GmbH to develop and implement a European Electronic Toll System (EETS) for vehicles over 3.5 metric tons. With a 55 percent stake, T-Systems controls the company. A toll box that can be used across Europe is scheduled to be available from 2018. Belgium and Germany will be connected to the system from its launch, with France, Austria, Spain, Portugal, Italy, and Hungary expected to either join at the same time or at a later date.

Telekom Open IoT Labs: Opening of an enterprise lab with Fraunhofer IML. We have added an industrial IoT component to our existing network of research and development organizations in the form of the Telekom Open IoT Labs, which were established in November 2017 together with the Fraunhofer Institute for Material Flow and Logistics in Dortmund. Up to six experts from the Fraunhofer Institute and three of our IoT experts are jointly developing, testing, and readying Internet of Things solutions for market launch with the aim of optimizing processes in the manufacturing, logistics, and aerospace industries. The Labs are open to working with further companies interested in developing application-specific IoT prototypes. SDG

Membership in the Industrial Data Space Association (IDSA). In February 2017, we became a member of the Industrial Data Space Association e.V. (IDSA), a non-profit organization that has set itself the task of advancing the general conditions for a digitally connected economy and to establish secure exchange of data. We contribute in particular our expertise in the area of data security to this alliance of research and industry partners. SDG

Together with Huawei, we are connecting the Internet of Things for KONE. Over the next few years, industrial company KONE will be working with T-Systems and hardware and technology vendor Huawei to connect over a million elevators, escalators, and doors to the cloud. As KONE's longstanding IT service partner, T-Systems helped to develop the 24/7 connected service and used its expertise to help with the integration into the existing system landscape. KONE's goal is to optimize maintenance processes, establish "predictive" remote diagnostics systems, and ensure that service technicians are better prepared for site visits.

For more information, please go to **www.telekom.com/media**

NEW PRODUCTS AND RATE PLANS

Of course, we again launched new products, services and rate plans on the market in the reporting year, some of which are presented below:

StreamOn: We are revolutionizing the mobile market. StreamOn was launched in April 2017 and is a revolutionary new rate option that enables Magenta customers to stream music and videos over the mobile network to their smartphones without using up the high-speed data volume included in their rate plans. We also offer similar options, for example, in Croatia, Poland, Romania, Greece, and at T-Mobile US.

StartTV: The simple way to switch to digital TV. In May 2017, we added StartTV to our portfolio. It is a simple, cost-effective way to switch to digital television. From just EUR 2 a month, StartTV includes around 100 channels (22 in HD), a program guide, and a smart search function. Customers can additionally purchase further HD channels and the "EntertainTV mobil" option for on the go.

8 DECENT WORK AND ECONOMIC GROWTH

Telekom Sport: The world of sport in one offer. In August 2017, we expanded our live sport offering. One highlight is the option of watching the original Sky conferences of the soccer Bundesliga, the UEFA Champions League, and the games of the DKB Handball Bundesliga (HBL) live via Sky Sport Kompakt. The program package also contains all the games of the 3rd soccer league, top games of the women's Bundesliga, content from FC Bayern.tv live, and all games of the Basketball Bundesliga and the German ice hockey league. We also added combat sports events to the service at the end of the year.

MagentaEINS 12.0: More for families and young people. MagentaEINS 12.0 is full of great benefits for families. Since September 2017, customers can add up to four low-cost Family SIM Cards for partners and family members to their mobile contracts. For all customers under the age of 27, MagentaEINS Young offers an exclusive benefit: MagentaZuhause Surf allows a flexible combination of mobile communications and Internet at home. This offer is targeted at all young people who need a mobile contract and a high-performance DSL connection without telephony.

In January 2017, T-Mobile US introduced Un-carrier Next, where monthly wireless service fees and sales taxes are included in the monthly recurring charge for T-Mobile ONE. T-Mobile US also unveiled Kickback on T-Mobile ONE, where participating customers who use 2 GB or less of data in a month, will get up to a USD 10 credit on their next month's bill per qualifying line. In addition, the Un-contract for T-Mobile ONE with the first-ever price guarantee on an unlimited 4G LTE plan was introduced which allows current T-Mobile ONE customers to keep their price for service until they decide to change it. In September 2017, T-Mobile US introduced **Un-carrier Next: Netflix On Us** through an exclusive new partnership with Netflix where a standard monthly Netflix service plan is included at no charge to qualifying T-Mobile ONE customers on family plans.

Global network service for business. In September 2017, T-Systems began offering corporate customers international network connections and services with high-speed availability. This service is based on the ngena network – the Next Generation Enterprise Network Alliance – a global alliance established by us and several other partners. The resulting business model remains unique so far in the industry: All ngena partners connect up their networks to create one global, highly standardized network. Thanks to state-of-the-art technology and software-based management, corporate networks and data connections as virtual private networks (VPN) can be set up for multinational corporate customers much faster than before. T-Systems is the first partner in the alliance to launch a network service based on the ngena platform. The service is called Smart SD-WAN powered by ngena (software-managed wide area network) and is available in various access formats. SDG

Digital revolution for small companies: MagentaBusiness POS. Offering small companies digital solutions that have previously been reserved for large corporations, thereby making them fit for the digital age: That is the central idea behind the partnership we signed with IT startup enfore. enfore has developed an integrated point-of-sale/service (POS) system, we make our network available, and our POS specialists provide service and support. We have been marketing the product since September 2017 as a complete solution under the name MagentaBusiness POS.

AWARDS

We received a large number of awards again in the reporting year – among other things for our outstanding networks, our excellent service, our innovative marketing concepts, and for our extremely valuable Telekom brand. The following graphic summarizes the main awards received in 2017.

For details on more awards, please go to **www.telekom.com/media**

For information on awards received for our HR activities, please refer to the section "Employees," **page 96 et seq.**

Major awards in 2017

Brand Finance Global 500: Deutsche Telekom is the most valuable European telecommunications brand

Telekom Service certified by TÜV: Telekom Service rated “good” overall in TÜV customer survey

Deutscher Preis für Wirtschaftskommunikation: German business communication award from “We Care” magazine in the Corporate Publishing category

Pan-European Extel Survey 2017: best investor relations work in all of Europe across all sectors, and best CEO and CFO in the telecommunications sector in Europe

ISG Provider Lens Germany: Information Services Group recognizes T-Systems as a leading provider of digital workspace services & solutions in 11 categories

Blue Angel: Telekom media receiver awarded the German ecolabel Blue Angel

OpenSignal: T-Mobile US came out on top in large-scale U.S. network testing in all six categories

The Peer Awards For Excellence (HR): Deutsche Telekom wins in three categories with the Lead-to-Win Award (L2W Award) project

National German Sustainability Award: Deutsche Telekom honored with the National German Sustainability Award

connect network test: Best mobile network for telephony and surfing the Internet for seventh year running (issue 1/2018)

Car Connectivity Award: CHIP and auto motor sport put Telekom in the top spot in the Mobile Networks category

ISO27017/18 certificate for Open Telekom Cloud und DSI vCloud: DEKRA confirms data privacy and data protection at Deutsche Telekom in IaaS cloud services

2017 readers’ choice awards of connect magazine: Telekom wins in ten categories, incl. best fixed-network and best mobile provider as well as awards for congstar, T-Mobile Austria, and T-Mobile Netherlands (issue 27/2017)

Institutional Investor Survey 2017: best company, best CEO, best CFO, and best IR department in the telecommunications sector

Deutscher Investor Relations Preis: German IR award for best investor relations work in DAX

Gartner Magic Quadrant: T-Systems singled out for its cloud services for the seventh time in a row and rated as the “most visionary leader”

Emmy Awards: EntertainTV series The Handmaid’s Tale receives awards in eight categories

Mobile Excellence Award: Cosmote wins four Gold, three Silver, and one Grand award for mobile services and innovation

Deutscher Ideenpreis: Deutsches Institut für Betriebswirtschaft singles us out in the “Best ideas management” category

CHIP network test: Winner of the mobile network test for the eighth time in a row; network rated “very good” (issue 1/2018)

Best in Test: P3 communications singles out our networks in Albania, Croatia, the Czech Republic, Greece, Hungary, F.Y.R.O. Macedonia, Montenegro, the Netherlands, Poland, Romania, and Slovakia

GROUP ORGANIZATION

BUSINESS ACTIVITIES AND ORGANIZATION

Business activities. With 168 million mobile customers, around 28 million fixed-network and around 19 million broadband lines, we are one of the leading integrated telecommunications companies worldwide. We offer our consumers fixed-network/broadband, mobile, Internet, and Internet-based TV products and services, as well as ICT solutions for our business and corporate customers. We have an international focus and are represented in more than 50 countries. In the 2017 financial year, we generated around 67.2 percent of net revenue, i.e., EUR 50.4 billion, outside Germany. Overall, we employ some 217,300 people (December 31, 2017).

Fixed-network business includes all voice and data communications activities based on fixed-network and broadband technology. This includes the sale of terminal equipment and other hardware, as well as the sale of services to resellers. Our mobile communications business offers mobile voice and data services to consumers and business customers; in addition, we sell mobile devices and other hardware. We also sell mobile services to resellers and to companies that buy network services and market them to third parties (mobile virtual network operator, or MVNOs). Drawing on a global infrastructure of data centers and networks, our corporate customer arm, T-Systems, operates information and communication technology (ICT) systems for multinational corporations and public-sector institutions.

We believe that economic, social, and ecological aspects can be reconciled; sustainability is the guiding principle behind all our actions. A range of sector-specific and general conditions are crucial to the success of business activities. These include first-rate quality at reasonable costs – in data privacy and security, in customer service, in network build-out, and in materials procurement – as well as qualified staff and good working conditions within our own Group, but also at our suppliers. It is also important to consider the potential consequences of climate change for our business activities: for example, to construct our network infrastructure in

For information on our footprint, please visit **www.telekom.com/worldwide**

such a way that it is protected from severe weather conditions, changes in temperatures, and higher wind speeds. We also help our customers to reduce their carbon footprint with innovative products and services. Furthermore, we want to reduce the Group's CO_2 emissions despite rapid growth in data traffic and the network build-out that this requires. Also beyond our core business, we do everything we can to ensure that our actions are socially acceptable. For us, this means conducting ourselves in a way that is ethical and compliant with the law and informing and involving our stakeholders in a transparent way. SDG

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Our responsible corporate governance and business success are based on our shared corporate values and our Guiding Principles, which are as follows:

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

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

Organization. Our financial reporting conforms with our Group strategy and is based on the following organizational structure.

Organizational structure

Deutsche Telekom Group

Group Headquarters & Group Services

Germany	United States	Europe	Systems Solutions	Group Development
Fixed-network and mobile communications	Mobile communications	Fixed-network and mobile communications	Global ICT solutions	Selected subsidiaries

Our Group is divided into five operating segments, which we describe in detail below.

Our **Germany** operating segment comprises all fixed-network and mobile activities for consumers and business customers in Germany. In addition, it provides wholesale telecommunications services for our Group's other operating segments. The organization for consumers and business customers and for customer services were restructured as part of a reorganization as of July 1, 2017 with the aim of enabling a customer-centric sales approach for consumers and business customers with separate sales companies for each. Since then, network build-out has been managed entirely by the Technology business unit in the Germany operating segment. In addition to consumer and business customer business, the segment focuses on wholesale business. As a pioneer of digitalization, the Germany operating segment offers its customers an individual service and product portfolio that is innovative while at the same time secure and simple.

Our **United States** operating segment combines all mobile activities in the U.S. market. T-Mobile US is the third largest provider in the United States and its mobile network offers the highest transmission speeds as well as high network coverage. T-Mobile's success on the U.S. mobile market has been built on the back of the various Un-carrier initiatives launched in the last few years. The company continues to build out its network with the 600 MHz spectrum acquired in April 2017 and the previously acquired A-block spectrum, thereby substantially further increasing capacity and quality. In addition to the network build-out, the company has also significantly expanded its sales network.

Our **Europe** operating segment comprises all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. The agreed acquisition of cable network operator UPC Austria will help us transform our subsidiary in Austria into a fully integrated provider. In addition to consumer business, most of our national companies also offer ICT solutions for business customers. On January 1, 2017, management of the Netherlands subsidiary was transferred to our Group Development operating segment. The new Technology and Innovation Board department is now responsible for the GNF (Global Network Factory) and Group Technology units as well as the Pan-Net companies; this new Board department is part of the Group Headquarters & Group Services segment. The International Carrier Sales & Solutions unit (ICSS) – the main part of our international wholesale business – remains within our Europe operating segment. As part of our international wholesale business, we sell wholesale telecommunications services to our operating segments as well as to third parties.

As a leading ICT service provider, our **Systems Solutions** operating segment offers business customers integrated solutions for fixed and mobile networks, highly secure data centers, and a comprehensive cloud ecosystem made up of standardized platforms and global partnerships. The offering primarily includes services from the cloud, M2M, and security solutions, complementary, standardized mobile and fixed-network products, as well as solutions for virtual collaboration and IT platforms. They form the basis for the digital business models of our corporate customers. The business of T-Systems is mapped by four business areas: the IT Division, the TC Division (Telecommunications), the Digital Division, and Telekom Security.

Since January 1, 2017, we have reported on the new **Group Development** operating segment: This includes T-Mobile Netherlands (previously part of our Europe operating segment), Deutsche Funkturm (DFMG, previously part of our Germany operating segment), Deutsche Telekom Capital Partners (DTCP), and our equity investments in BT and Ströer SE & Co. KGaA, as well as Strato AG, which was sold in March 2017, and the stake in Scout24 AG, which was sold in June 2017 (all previously part of our Group Headquarters & Group Services segment). We want to actively manage these units and subsidiaries and increase their value, with the aim of giving them the level of entrepreneurial freedom they need and thus promoting their strategic further development. The management teams maintain an intensive dialog with the segment management and the relevant supervisory and advisory boards. The Group functions of Mergers & Acquisitions and Strategic Portfolio Management have also been assigned to Group Development.

Group Headquarters & Group Services comprises all Group units that cannot be allocated directly to one of the operating segments. Since January 1, 2017, the segment also reports on our new Technology and Innovation Board department. As the organization that sets the direction and provides momentum, it defines strategic aims for the Group, ensures they are met, and becomes directly involved in selected Group projects. Group Services provides services to the entire Group; in addition to typical services such as financial accounting, human resources services, and operational procurement, Group Services also includes agency services, which are provided by our personnel service provider, Vivento. On the one hand, it is in charge of securing external employment opportunities for employees, mainly civil servants, predominantly in the public sector. On the other, Vivento also seeks to strategically place them internally, with the aim of retaining professional expertise within the Group, so as to reduce the use of external staff. Further units are Group Supply Services (GSUS) for our real estate management and our strategic procurement, and MobilitySolutions, which is a full-service provider for fleet management and mobility services.

Our Technology and Innovation Board department unites the cross-segment network, innovation and IT activities of our Germany, Europe and Systems Solutions operating segments. These include Deutsche Telekom IT, which focuses on the Group's internal national IT projects, and our central innovation unit, Product Innovation, which works closely with our operating segments to develop new business areas and create products. Furthermore, there are the units Global Network Factory (GNF), Group Technology and Pan-Net: GNF manages and operates a global network for providing wholesale customers with voice and data communication. Group Technology ensures efficient and customized provision of technologies, platforms, and services for mobile and fixed-network communications. Pan-Net is responsible for the shared pan-European network and for developing and providing services for our European national companies.

The prior-year comparative figures for the organizational measures in connection with the new Technology and Innovation Board department and the Group Development operating segment have been adjusted retrospectively.

Changes in the organizational structure from January 1, 2018. We integrated Vivento Customer Services GmbH, a provider of call center services, into our Germany operating segment as of January 1, 2018; previously it was part of our Group Headquarters & Group Services segment.

MANAGEMENT AND SUPERVISION

As of December 31, 2017, Board of Management responsibilities were distributed across eight Board departments. Five of these are the central management areas:

- Chairman of the Board of Management

and the Board departments

- Finance
- Human Resources
- Data Privacy, Legal Affairs and Compliance
- Technology and Innovation

In addition, there are three segment-based Board departments:

- Germany
- Europe
- T-Systems.

Changes in the composition of the Board of Management. At its meeting on June 30, 2016, the Supervisory Board of Deutsche Telekom AG resolved to extend the Group Board of Management by setting up a new Board department Technology and Innovation. The new department is headed by Claudia Nemat effective January 1, 2017, who was previously responsible for the Europe and Technology department. At its meeting on June 30, 2016, the Supervisory Board of Deutsche Telekom AG also appointed Srini Gopalan as the new Board member responsible for Europe effective January 1, 2017.

In a resolution reached on July 18, 2017, the Supervisory Board of Deutsche Telekom AG complied with the request of Niek Jan van Damme, the Board of Management member responsible for Germany at Deutsche Telekom AG, to terminate his appointment as a Board member effective midnight, December 31, 2017. At its meeting on July 18, 2017, the Supervisory Board of Deutsche Telekom AG also appointed Dr. Dirk Wössner as the new Board member responsible for Germany effective January 1, 2018.

The Supervisory Board of Deutsche Telekom AG resolved in its meeting on September 13, 2017, in agreement with Reinhard Clemens, the Board of Management member responsible for T-Systems at Deutsche Telekom AG, to terminate his appointment as a Board member effective midnight, December 31, 2017. At its meeting on September 13, 2017, the Supervisory Board of Deutsche Telekom AG also appointed Adel Al-Saleh as the new Board member responsible for T-Systems effective January 1, 2018.

Dr. Thomas Kremer was reappointed as member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance effective June 1, 2017 as per a resolution of August 30, 2016. Dr. Christian P. Illek was reappointed as member of the Board of Management responsible for Human Resources effective April 1, 2018 as per a resolution of May 30, 2017.

For more information, please refer to the Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

For more information, please refer to the section "Forecast," **page 101 et seq.**

Changes in the composition of the Supervisory Board (shareholders' representatives). The shareholders' meeting on May 31, 2017 elected Dagmar P. Kollmann to the Supervisory Board for another term of office. Dr. Wulf H. Bernotat died on August 27, 2017. He had been a member of the Supervisory Board of Deutsche Telekom AG since January 1, 2010. Marget Suckale was court-appointed to the Supervisory Board of Deutsche Telekom AG effective September 28, 2017.

Changes in the composition of the Supervisory Board (employees' representatives). Sylvia Hauke resigned from her position as a member of the Supervisory Board of Deutsche Telekom AG effective midnight, June 30, 2017. Karin Topel was court-appointed to the Supervisory Board of Deutsche Telekom AG effective July 1, 2017. Hans-Jürgen Kallmeier resigned from his position as a member of the Supervisory Board of Deutsche Telekom AG effective midnight, December 31, 2017. Odysseus Chatzidis was court-appointed to the Supervisory Board of Deutsche Telekom AG effective January 3, 2018.

The Supervisory Board of Deutsche Telekom AG advises the Board of Management and oversees its management of business. It is composed of 20 members: Ten represent the shareholders and ten the employees.

For details on the activities of the Supervisory Board in the reporting year, please refer to **page 7 et seq.**

The members of the Board of Management are appointed and discharged in accordance with § 84 and § 85 of the German Stock Corporation Act (Aktiengesetz – AktG) and § 31 of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).

Amendments to the Articles of Incorporation are made pursuant to § 179 and § 133 AktG and § 18 and § 21 of the Articles of Incorporation. According to § 21 of the Articles of Incorporation, the Supervisory Board is authorized, without a resolution by the shareholders' meeting, to adjust the Articles of Incorporation to comply with new legal provisions that become binding for the Company and to amend the wording of the Articles of Incorporation.

Composition of the Board of Management

Members of the Board of Management	Department
Timotheus Höttges	Chairman of the Board of Management (CEO)
Reinhard Clemens (until Dec. 31, 2017) Adel Al-Saleh (from Jan. 1, 2018)	T-Systems
Niek Jan van Damme (until Dec. 31, 2017) Dr. Dirk Wössner (from Jan. 1, 2018)	Germany
Thomas Dannenfeldt	Finance (CFO)
Srini Gopalan	Europe
Dr. Christian P. Illek	Human Resources
Dr. Thomas Kremer	Data Privacy, Legal Affairs and Compliance
Claudia Nemat	Technology and Innovation

8 DECENT WORK AND ECONOMIC GROWTH

For a description of the compensation systems for the Board of Management and the Supervisory Board, please refer to the section "Other disclosures," **page 128 et seq.**

The compensation system for our Board of Management is oriented towards the long-term performance of our Group. Since 2013, the compensation for our Supervisory Board has no longer included any long-term remuneration components. The recommendations of the German Corporate Governance Code are complied with. SDG

GROUP STRATEGY

- Deutsche Telekom aims to be the leading telecommunications provider in Europe
- Group strategy successfully implemented again in 2017
- Strategic action areas re-emphasized and refined

OUR CORPORATE STRATEGY: LEADING EUROPEAN TELCO

Since 2014, we have been aligning all of our corporate activities with our Leading European Telco strategy – with the aim of becoming Europe's leading telecommunications provider.

This strategy has proved very successful: In terms of market capitalization, we are currently one of Europe's highest value telecommunications companies (as of December 31, 2017). In the past financial year, we increased revenue, adjusted EBITDA and free cash flow once again. At the same time, we see our Group as facing new challenges:

- New technologies, such as virtual, voice-activated assistants from Google, Amazon and Apple are creating entirely new usage scenarios and permanently changing the way our customers use the Internet.

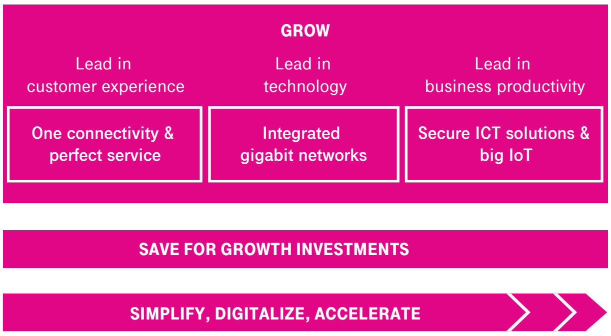
- Our direct competitors from the telecommunications industry are also increasingly digitizing their core business, setting new benchmarks in terms of customer experience and efficiency in the process.

- New business models such as the Internet of Things not only require new network technologies for ever more connected devices, but also corresponding software to manage and control these devices.

- On top of this in Germany comes ongoing public and political pressure with regard to our broadband strategy and the role we play in the provision of fast Internet.

We are tackling these challenges head on. That is why we have **further developed** our **Leading European Telco strategy**, re-emphasizing and refining certain aspects. As the graphic on the next page shows, our claim to leadership ranges over three dimensions: customer experience, technology, and business customer productivity. From this we derive three specific action areas with which we are creating the foundation for future organic growth. Because only if we grow can we sustainably secure our earnings performance and continue to reliably meet the high demands of our investors. This growth target is supported by two areas of operation which provide the framework for our internal activities.

Leading European Telco corporate strategy



STRATEGIC AREAS OF OPERATION

One connectivity & perfect service

We want to offer our customers a seamless and technology-neutral telecommunications experience. Hence, we market fixed-network and mobile communications in one **convergent product** (fixed-mobile convergence or FMC). By the end of the reporting year, some 3.6 million customers in Germany had opted for MagentaEins; that is more than 0.6 million more than in the prior year. The integrated national companies of our Europe operating segment won some 0.8 million new customers for MagentaOne and similar FMC offerings in 2017. Because we want to continue on this path of growth, we work continuously to improve and expand our convergent offer.

Our offer also includes attractive **TV content** across all screens – on any device. In Germany, for example, with Entertain TV, we aggregate linear television and the best streaming offers of our partners like Netflix or Maxdome on one platform; what's more, since 2017, the offer has included exclusive TV series such as The Handmaid's Tale, Valkyrien, and Cardinal, and our unique Telekom Sport offering. In the reporting year, we won 0.3 million new TV customers in Germany. In our Europe operating segment, we increased the number of TV customers by 0.2 million in the same period. Over the coming years we will continue to expand our content portfolio – for instance as part of our international partnership with Netflix – and implement new operating concepts such as voice control through smart speakers.

As a premium provider, we set ourselves apart from our competitors with perfect **customer service**: T-Mobile US leads the competition in numerous surveys. This is one of the reasons why we won 5.7 million new mobile customers in the United States in 2017. We also introduced a number of initiatives to improve customer service in Germany in the reporting year, including callback services, a service for optimizing home Wi-Fi, and installation packages for the home network. In 2018, for example, we are working on noticeably increasing our first-call resolution rate for customer queries. At our national companies in Europe, we are currently focusing on increasing the level of digitalization in customer interaction; for example, using our integrated sales and service app. In the coming years, the expansion of our online channel and a seamless transition between different channels will remain a major priority.

We measure **customer satisfaction** using the globally recognized TRI*M method. Based on this performance indicator, we improve our customer contact processes, and our products and services. At the same time, we determine the loyalty of our customers towards the Company. The results are presented as a performance indicator, the TRI*M index, which ranges between minus 66 and plus 134 points. At the end of the reporting year, the indicator came in at 68.6 points versus 69.6 points at the start of the year (measured on a comparable basis). This slight decline is due in part to the trend in the Systems Solutions operating segment, which was not able to fully match its high prior-year level. Our goal for the coming years is to achieve a steady overall improvement in customer satisfaction.

Integrated gigabit networks

Convergent products require **integrated networks**. So we are systematically building out and interlinking our fixed and mobile networks so that we can offer our customers the fastest possible connection at top quality, wherever they are at all times. Integrated management also improves the capacity utilization of our infrastructure and increases efficiency in operations and maintenance. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Fiber optic-based **fixed networks** are the basis for an integrated network experience. We already operate the largest fiber-optic network in Germany with more than 455,000 kilometers of fiber-optic cable. In 2018, we will add nearly 60,000 more kilometers. Overall, the Germany operating segment currently invests around EUR 4 billion per year primarily in building out and operating networks – more than any of our competitors. In 2017, for example, we gave some 2,200 municipalities fast Internet access through vectoring technology; by the end of 2019, we want to be able to offer approximately 80 percent of households a download bandwidth of at least 50 Mbit/s. At the same time, we are again stepping up the pace of the fiber-optic roll-out to offices and homes: In the next five years, for example, we plan to supply up to 3,000 business parks with FTTH and thus offer optical fiber to around 80 percent of companies in business parks. Across Europe, we are migrating our entire fixed network to the Internet protocol (IP) step by step. We have already completed this migration in five national companies, most recently also in Hungary. In Germany, the transformation is already well advanced. Existing customers are gradually being migrated to IP-based solutions and in consultation with the customers themselves. SDG

8 DECENT WORK AND ECONOMIC GROWTH

In **mobile communications**, we set ourselves apart from our competitors with the outstanding quality of our network. We have regularly come out on top in independent network tests. At the end of 2017, we won the mobile network tests conducted in Germany by the magazines Chip and connect for the seventh and eighth times in succession. In our Europe operating segment, eight national companies were rated as "best in test" by the P3 communications network experts, as was T-Mobile Netherlands.

Furthermore, T-Mobile US came out on top in all six categories of the OpenSignal tests in August 2017. We intend to remain a quality leader and hence are further rolling out our LTE networks: In Germany, we plan to cover approximately 95 percent of the population with LTE by the end of 2018; in our European national companies, coverage is to reach between 89 and 99 percent. Thanks to the successful conclusion of the spectrum auction in April, T-Mobile US will also further improve its national LTE coverage.

We will continue to drive forward seamless integration of fixed and mobile networks with the **fifth-generation mobile communications standard (5G)**. To this end, network functions will be decoupled from the access medium (e.g., glass, copper or air). By distributing computing power in the network (mobile edge computing) and creating dedicated network layers for individual applications (network slicing), 5G also creates the basis for future technologies such as virtual reality, autonomous driving, and the Internet of Things. Europe's first 5G antennas have already been transmitting in Berlin with transmission rates of 2 Gbit/s since October 2017. We anticipate that 5G will be ready from 2020.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

3 GOOD HEALTH AND WELL-BEING

Secure ICT solutions & big IoT

We are the leading provider of international **connectivity solutions** for German business customers. In 2017, our revenues from telecommunications services for corporate customers in the Systems Solutions operating segment, for example, grew by 2.5 percent. Since we want to consolidate and build on this position of strength, we have co-founded the network alliance ngena (Next Generation Enterprise Network Alliance), which comprised 12 partner companies as of the end of 2017. This alliance, which is primarily aimed at international business customers, uses Cisco cloud and virtualization technology to link up the individual partners' local networks into a global network and offers this to the partners as a platform. We launched the first product in this area – Smart SD-WAN powered by ngena – on the market in the reporting year. Step by step, we plan to establish ngena as a global platform for software-defined telecommunications networks (SD-WAN).

Our business with "traditional" IT outsourcing services for international corporate customers has been in decline for a number of years now, mainly due to persistent intense competition. For this reason, we will manage our Systems Solutions operating segment on a portfolio basis going forward and set up an integrated sales organization. We will also tailor our **IT and cloud offers** even more closely to the needs of our SME customers in the future. In 2017, we generated revenue of some EUR 560 million in this area in our Germany operating segment, up by around 20 percent against 2016. As we expect this business to grow significantly over the coming years, we are expanding our IT and cloud ecosystem for SMEs together with market leading technology partners such as Huawei, Microsoft and Salesforce.

For us, the biggest growth driver in the business customer environment is the **Internet of Things**. Over the next few years, we expect many millions of new devices – means of production such as machines or tools, everyday objects like cars or fridges, but also public infrastructure like street lights or park benches – to be connected to the Internet. Narrowband-IoT networks, which we have already begun to build out in eight European countries, and machine-to-machine (M2M) connectivity create the basis for cost-effective and energy-efficient networking. SDG For example, since July 2016, BMW has fitted all its vehicles in 65 countries with 4G connectivity from Deutsche Telekom. In addition, we will provide our customers – e.g., in the automotive, healthcare and public sectors – with the platforms to manage these devices and use the data collected for their business. SDG

We supplement these offers with our comprehensive **cyber security portfolio**. Telekom Security, which was established in early 2017, is already Germany's leading provider of cyber security solutions. Looking ahead at the medium term, our goal is to become a leading provider in Europe in this market. Since cyber attacks pose a growing threat to companies and our customers' need for data privacy and security is increasing, we expect growth rates at Telekom Security to remain high over the next few years.

SUPPORTING AREAS OF OPERATION

Save for growth investments

Future growth requires adequate investment. Thanks to our strict **cost discipline**, we generate the funds we need to finance this investment and safeguard our competitiveness. We will therefore systematically continue on this path of cost transformation. In the long term, we also want to be Europe's leading telecommunications provider in terms of efficiency.

We manage our **portfolio of shareholdings** with the aim of enhancing value. Business areas that cannot be adequately developed within the Group are disposed of, while our growth ambitions are bolstered by means of equity investments and acquisitions. In order to be able to offer convergent products from a single source in Austria and the Netherlands in the future, our subsidiaries in those countries, T-Mobile Austria and T-Mobile Netherlands, signed agreements in December 2017 to acquire the fixed-network providers UPC Austria and Tele2 Netherlands, respectively. Both of these transactions are awaiting approval from the responsible authorities, which is expected in the course of 2018. Also in December of the reporting year, T-Mobile US announced the acquisition of online TV provider Layer3 TV, which was closed on January 22, 2018.

We carefully consider all options in terms of their **added value** for our Group. No transaction is better than a bad one, both for our shareholders and ourselves. Hence we and the management of T-Mobile US decided against a merger of our subsidiary with its competitor Sprint. We do not believe the successful continuation of our growth course is jeopardized by this decision.

Simplify, digitalize, accelerate

Simplicity in our offers and in our organization makes the digital transformation of our core business easier. In this way, we increase our **implementation speed** – both in the interaction with customers and in the implementation of new, strategic initiatives. This is why we want to become simpler, more digital, and ultimately more agile.

There are two main thrusts to our pursuit of **simplicity**. First, we want to offer our customers intuitive products and easy to understand rates: Our convergent products such as MagentaEins are a first step in this direction. Going forward, we want to significantly further reduce product complexity. Second, we want our internal operation to be as efficient as possible, i.e., in terms of time and costs. Hence we will scrutinize our organization, processes, and decision-making procedures and further optimize them wherever possible.

With the **digitalization** of our core business, we want to improve customer experience and increase our efficiency. In Germany, more than 1,500 front-end assistants provide fully-automated support in up to 2.9 million transactions per month. This frees up our employees from technical service to provide more detailed consultations and deal with complex customer issues. Another application is the use of chatbots in direct dialog with customers: At T-Mobile Austria, Tinka currently answers the queries of around 50,000 customers per month. Our long-term aim is to completely digitalize all stages of the value chain: including a standardized app landscape, predictive maintenance of customer hardware, use of standardized data structures, and analysis models and artificial intelligence based on this.

Simplicity and digitalization require new **skills**, incentive models, and a culture of change. In 2017, therefore, we created levelUP!, an innovative development program for executives, and further developed our "Lead to win" leadership model, adapting it to changes in the world of work. Future Work offers our employees modern, open office environments that enable flexibility and new ways of working together. One of our focuses for the future will be on skills management. Ultimately, we want to identify and further develop the skills of our employees at an early stage. SDG

In summary, our Leading European Telco strategy is reflected in our goal:

To be the leading European telecommunications provider.

- We want to be a **leader** in terms of customer experience, technology, and the implementation of advances in productivity for our business customers. Because only when we lead can we grow and meet the demands of our investors in the long term.
- This growth will be made possible by carefully managing our **financial resources** and **systematically transforming** the Company to be simple, digital, and agile in every sense.
- We play a responsible and active role in **society**. We are a partner, not just at a social level, but also at a political one, and we work in the interests of ensuring the open, forward-looking development of all countries in which we are active. SDG

MANAGEMENT OF THE GROUP

- Finance strategy implemented consistently
- Group-wide value management

We continue to be committed to the concept of value-oriented corporate governance. We want to strike a balance between the contrasting expectations of our stakeholders so that sufficient funding is available for an attractive dividend, debt repayment, responsible staff restructuring, and new investment for a positive customer experience.

- Shareholders expect an appropriate, reliable return on their capital employed.

- Providers of debt capital expect an appropriate return and that Deutsche Telekom is able to repay its debts.

- Employees expect jobs that are secure, prospects for the future, and that any necessary staff restructuring will be done in a responsible manner.

- “Entrepreneurs within the enterprise” expect sufficient investment funding to be able to shape Deutsche Telekom’s future business and develop products, innovations, and services for the customer.

FINANCE STRATEGY

In 2017, we continued to systematically execute the finance strategy that we announced at the Capital Markets Days in February 2015. Part of our finance strategy was to achieve our target financial ratios – relative debt (ratio of net debt to adjusted EBITDA) and equity ratio – along with a liquidity reserve that covers our maturities of the coming 24 months at least. With these clear statements we intend to maintain our rating in a corridor from A- to BBB and safeguard undisputed access to the capital market.

For more information about the ROCE performance indicator, please refer to the section “Value management and performance management system,” page 39 et seq.

There is a reliable dividend policy for shareholders, which is subject to approval by the relevant bodies and the fulfillment of other legal requirements. We intend to pay a dividend of at least EUR 0.50 per dividend-bearing share for the financial years 2015 to 2018. Relative growth in free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years. Thus we offer our shareholders both an attractive return and planning reliability.

Total capital expenditure is also to remain high in the next few years. The scope for investment is to be used to further roll out our broadband infrastructure and to drive forward the transformation of the Company to an IP-based production model. In mobile communications, the infrastructure build-out will focus on the LTE standard, and in the fixed network, on optical fiber and vectoring.

The finance strategy supports the transformation of our Group into the Leading European Telco. In order to generate a sustainable increase in value, we intend to earn our cost of capital in the medium term. We aim to achieve this goal in part by optimizing the utilization of our non-current assets. We also intend to achieve our target of earning our cost of capital through strict cost discipline and improved cross-functional collaboration. A good example of this is the pooling of Telekom Deutschland’s service activities within the Service business unit. The aim is to establish end-to-end customer process responsibility to serve our customers with an even greater service focus. Improvements like this will ensure our viability. We also focus our performance management on unadjusted EBIT. Taking capital expenditure into consideration brings EBIT closer to the ROCE concept and supports our rigorous focus on the efficient allocation of capital at the Deutsche Telekom Group.

Our finance strategy until 2018

Equity	Equity Leading European Telco strategy	Debt
Reliable shareholder remuneration policy	**One connectivity & perfect service** / **Integrated gigabit networks** / **Secure ICT solutions & big IoT**	**Undisputed access to debt capital markets**
	Value creation: ROCE > WACC	
Dividend [a] Following free cash flow growth Floor at EUR 0.50 per share and year	1 **Infrastructure transformation** Support fast IP migration and transform network infrastructure 2 **Cost transformation** Reduce indirect cost 3 **Portfolio management** Deliver on preferred business model (integrated + B2C/B2B) and value generation 4 **Risk management** Maintain a low-risk country portfolio	**Rating:** A–/BBB **Net debt/adj. EBITDA:** 2 to 2.5 x **Equity ratio:** 25 to 35 % **Liquidity reserve:** covers maturities of coming 24 months

[a] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

We will inform you about the further development of our finance strategy for the years following 2018 at our Capital Markets Day, which is planned for the end of May 2018.

VALUE MANAGEMENT AND PERFORMANCE MANAGEMENT SYSTEM

In order to set and achieve our strategic goals more effectively, we are pursuing a Group-wide value management approach. Ultimately, specific performance indicators are required to measure success. The basis for this is a reliable and understandable performance management system. The following tables and information provide an overview of our key financial and non-financial performance indicators.

Financial performance indicators

		2017	2016	2015	2014	2013
ROCE	%	5.8	5.7	4.8	5.5	3.8
Net revenue	billions of €	74.9	73.1	69.2	62.7	60.1
Profit (loss) from operations (EBIT)	billions of €	9.4	9.2	7.0	7.2	4.9
EBITDA (adjusted for special factors)	billions of €	22.2	21.4	19.9	17.6	17.4
Free cash flow (before dividend payments, spectrum investment)[a]	billions of €	5.5	4.9	4.5	4.1	4.6
Cash capex[b]	billions of €	(12.1)	(11.0)	(10.8)	(9.5)	(8.9)
Rating (Standard & Poor's, Fitch)		BBB+	BBB+	BBB+	BBB+	BBB+
Rating (Moody's)		Baa1	Baa1	Baa1	Baa1	Baa1

[a] And before AT&T transaction and compensation payments for MetroPCS employees.
[b] Before spectrum investment.

PROFITABILITY

In order to underline the importance of the successful long-term development of our Group, we have incorporated sustainable growth in enterprise value into our medium-term aims and implemented it as a separate KPI (key performance indicator) for the entire Group. **Return on capital employed (ROCE)** is our central performance indicator. ROCE is the ratio of operating result after depreciation, amortization and impairment losses plus imputed taxes (net operating profit after taxes (NOPAT)) to the average value of the assets tied up for this purpose in the course of the year (net operating assets, NOA).

ROCE is the performance indicator that helps us to embed our aim of sustainably increasing the value of our Group across all operational activities. Additional value accrues when the return on capital employed exceeds the cost of capital. Our goal, therefore, is to achieve or exceed the return targets imposed on us by providers of debt capital and equity on the basis of capital market requirements. We measure return targets using the weighted average cost of capital (WACC).

Calculation of the ROCE financial performance indicator
millions of €

		2017	2016	2015
ROCE	%	5.8	5.7	4.8
Profit from operations (EBIT)		9,383	9,164	7,028
Share of profit (loss) of associates and joint ventures accounted for using the equity method		76	(53)	24
Interest component of unrecognized rental and lease obligations		525	573	725
Other NOPAT adjustments		0	0	0
NET OPERATING PROFIT (NOP)		**9,984**	**9,684**	**7,777**
Tax (imputed tax rate 2017: 31.5 %; 2016: 30.3 %; 2015: 30.3 %)		(3,145)	(2,934)	(2,356)
NET OPERATING PROFIT AFTER TAXES (NOPAT)		**6,839**	**6,750**	**5,421**
Cash and cash equivalents		3,312	7,747	6,897
Operating working capital		(3,555)	(5,056)	(5,311)
Intangible assets		62,865	60,599	57,025
Property, plant and equipment		46,878	46,758	44,637
Non-current assets and disposal groups held for sale [a]		161	372	849
Investments accounted for using the equity method		651	725	822
Other assets		410	279	532
Present value of unrecognized rental and lease obligations		13,127	14,320	18,137
Other provisions		(6,527)	(6,388)	(6,345)
Other NOA adjustments		0	0	0
NET OPERATING ASSETS (NOA)		**117,322**	**119,356**	**117,243**
AVERAGE NET OPERATING ASSETS (Ø NOA)		**118,927**	**119,101**	**112,441**

[a] Excluding the carrying amounts of companies accounted for using the equity method.

NOPAT is an earnings indicator derived from the income statement. As it does not take cost of capital into account, it also includes the interest component of unrecognized rental and lease obligations.

NOA include all assets that make a direct contribution to revenue generation. These include all elements on the asset side of the consolidated statement of financial position that are essential to the rendering of services. Operating working capital is calculated from trade and other receivables, inventories, trade and other payables, as well as additional current and non-current assets and liabilities selected in line with the internal steering logic. NOA also include rental and operating lease obligations recognized by the lessor where required for operations. The figure for other provisions is deducted as no return target exists for this.

We believe that ROCE best reflects the expectations of the four aforementioned stakeholders. The indicator measures how efficiently we generate revenues with the capital employed. ROCE is especially informative when taking a long-term view, because it takes into account both the immense value of the assets that are tied up in our capital-intensive infrastructure, and their utilization. This reveals the crucial advantage of this KPI. It does not focus on the absolute amount of the earnings generated, but rather how much earnings the capital employed generates. ROCE has given us a holistic perspective from which to consider our investments with fresh insight.

REVENUE AND EARNINGS

Revenue corresponds to the value of our operating activities. Absolute revenue depends on how well we are able to sell our products and services on the market. The development of our revenue is an essential indicator for measuring the Company's success. New products and services as well as additional sales activities are only successful if they increase revenue.

EBITDA corresponds to EBIT (profit/loss from operations) before depreciation, amortization and impairment losses. EBIT and EBITDA measure the short-term operational performance and the success of individual business areas. We also use the EBIT and EBITDA margins to show how these indicators develop in relation to revenue. This makes it possible to compare the earnings performance of profit-oriented units of different sizes. Taking unadjusted EBIT/EBITDA as performance indicators means special factors are also taken into account. This promotes a holistic view of our costs. However, special factors have an impact on the presentation of operations, making it more difficult to compare performance indicators with corresponding figures for prior periods. For this reason, we additionally adjust our performance indicators to provide transparency. Without this adjustment, statements about the future development of earnings are only possible to a limited extent. The adjusted values are calculated on the basis of the unadjusted performance indicators.

FINANCIAL FLEXIBILITY

We define **free cash flow** as net cash from operating activities less net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. This indicator is the main yardstick for providers of debt capital and equity. It measures the potential for further developing our Company, for generating organic growth, and for the ability to pay dividends and repay debt.

Central free cash flow management is responsible for transparency, steering, forecasts, and performance measurement in relation to free cash flow and especially in relation to working capital. As part of our measures to optimize working capital over the long term, in the reporting year the focus was on further extending the period of payment for our payables in Germany and Europe, expanding inventories management there, and further optimizing receivables management in all our operating segments, which also involved factoring measures. We plan to continue down this route in the coming years by focusing on the following areas: extending the period of payment for payables and improving receivables and inventories management in the United States, Germany, and Europe.

Cash capex (before spectrum investment) relates to cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, which are relevant for cash outflows as a component of free cash flow.

A **rating** is an assessment or classification of the creditworthiness of debt securities and its issuer according to uniform criteria. Assessment of creditworthiness by rating agencies influences interest rates on debt securities and thus also our borrowing costs. As part of our finance policy, we have defined a target range for our ratings. We are convinced that with a rating between A- and BBB (Standard & Poor's, Fitch) or between A3 and Baa2 (Moody's) we essentially have the necessary entry to the capital markets to generate the required financing.

For the reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors, please refer to the table on **page 54.**

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators

		2017	2016	2015	2014	2013
Customer satisfaction (TRI*M index)		68.6	70.2	67.4	65.9	64.9
Employee satisfaction (commitment index)[a]		4.1	4.1	4.1	4.0	4.0
FIXED-NETWORK AND MOBILE CUSTOMERS						
Mobile customers	millions	168.4	165.0	156.4	150.5	142.5
Fixed-network lines	millions	27.9	28.5	29.0	29.8	30.8
Broadband lines[b]	millions	19.0	18.5	17.8	17.4	17.1
SYSTEMS SOLUTIONS						
Order entry[c]	millions of €	5,241	6,851	5,608	7,107	7,792

[a] Commitment index according to the most recent employee surveys in 2017 and 2015.
[b] Excluding wholesale.
[c] The prior-year comparative for 2016 was adjusted retrospectively due to the change in the structure of the Group implemented as of January 1, 2017.

For more information, please refer to Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

As one of the leading providers of telecommunications and information technology worldwide, the development of our Group – and thus also our financial performance indicators – is closely linked to the development of **customer figures**. Acquiring and retaining customers are thus essential to the success of our Company. We have different ways of measuring the development of our customer figures according to the business activity in our operating segments: Depending on the activities of each segment, we measure the number of mobile customers and/or the number of broadband and fixed-network lines.

We want our customers to be satisfied – or even delighted – as satisfied customers act as multipliers for our Company's success. As a responsible, service-oriented company, the needs and opinions of our customers are of great importance to us, and we want them to stay with our Company in the long term. For this reason we measure **customer retention/satisfaction** in our companies using the globally recognized **TRI*M** method. The results of systematic surveys are expressed by an indicator known as the TRI*M index. To underscore the major significance of customer retention/satisfaction for our operations, since 2010 we have made this key indicator one of four parameters for the long-term variable remuneration (Variable II) for our Board of Management members. It is also used as a parameter in the long-term incentive plan, which was launched in 2015 and is offered to our managers (with the exception of Board of Management members). We take the TRI*M indexes calculated for the operating entities as an approximation of the respective entities' percentage of total revenue to create an aggregate TRI*M Group value. Over a period of four years, the eligible managers can benefit from the development of customer retention/satisfaction across the Group.

For more information on customer satisfaction, please refer to the section "Group strategy," page 34 et seq.

Our employees want to contribute to the further development of the Company and identify with it. We want to establish an open dialog and a productive exchange with our employees: New ways of working and modern means of communication help us achieve this, as do regular surveys. The most important feedback instruments across the Group (excluding T-Mobile US) for assessing **employee satisfaction** include regular employee surveys and the pulse survey carried out twice a year. In our Company, we measure the employee satisfaction performance indicator using the **commitment index** – derived from the results of the last employee survey and updated with the results of the last pulse survey. SDG

8 DECENT WORK AND ECONOMIC GROWTH

In view of the major significance of employee satisfaction for the success of the Company, Board members are now also being managed and incentivized by means of the long-term variable performance-based remuneration (Variable II). Employee feedback as one of four parameters has been relevant for Variable II since 2010, and for the long-term incentive plan which was relaunched in 2015 for our managers (excluding Board members). This allows Board members and eligible managers to benefit from the development of employee satisfaction across the Group.

For more information on employee satisfaction, please refer to the section "Employees," page 96 et seq.

In our Systems Solutions operating segment, we use **order entry** as a non-financial performance indicator. We define and calculate order entry as the total of all amounts resulting from customer orders that are yet to be processed. Order entry in the form of long-term contracts is of great significance to the Group in order to estimate revenue potential. In other words, order entry is an indicator that provides a high degree of planning reliability.

THE ECONOMIC ENVIRONMENT

- Economic development in our markets positive
- Regulatory intervention continues to impact negatively on the telecommunications market

MACROECONOMIC DEVELOPMENT

The global economy continued to gain momentum over the course of the reporting year. This was driven on the hand by strong private consumption and thriving global trade, and, on the hand, by highly dynamic investment growth in most industrial and emerging economies. In its January 2018 forecast, the International Monetary Fund (IMF) estimates that in 2017 gross domestic product (GDP) increased by 4.7 percent in the emerging and developing countries and by 2.3 percent in the industrialized countries.

In our core markets, economic growth rates largely recorded positive trends in 2017. GDP in Germany increased by 2.2 percent year-on-year, again driven in particular by growth in exports and private consumption. Averaging 5.7 percent, the unemployment rate in 2017 was at its lowest level since German reunification. The U.S. economy grew by 2.3 percent in the reporting year, with unemployment falling to 4.1 percent as of the end of the year, its lowest level in 17 years. GDP growth rates continued to develop very positively in 2017 in virtually all countries in our Europe operating segment. The economies continued to profit from rising domestic consumption and stable demand, primarily from the eurozone. Even the Greek economy has stabilized.

The situation in the national labor markets in our Europe operating segment continued to improve in most countries thanks to positive economic growth. The deep recession of the last few years means that Greece continues to suffer from high structural unemployment. High structural unemployment rates lead to reduced purchasing power among those affected and impact on their willingness to spend. Some customers have adapted their demand behavior. In addition to long-term unemployment, austerity measures in the public sector and the low willingness to invest also had a detrimental effect on demand for telecommunications and ICT services. In some countries, the intense pressure to shore up state finances led to special taxes being maintained for telecommunications companies.

The following table shows the GDP growth rate trends and the unemployment rates in our most important markets.

Development of GDP and the unemployment rate in our core markets from 2015 to 2017
%

	GDP for 2015 compared with 2014	GDP for 2016 compared with 2015	GDP estimate for 2017 compared with 2016	Unemployment rate in 2015	Unemployment rate in 2016	Estimated unemployment rate for 2017
Germany	1.7	1.9	2.2	6.4	6.1	5.7
United States	2.9	1.5	2.3	5.3	4.9	4.4
Greece	(0.2)	(0.1)	1.3	25.0	23.6	21.4
Romania	3.9	4.9	6.5	6.8	5.9	5.2
Hungary	3.2	1.9	3.8	6.2	4.3	4.2
Poland	3.8	2.7	4.3	7.5	6.2	6.1
Czech Republic	5.3	2.6	4.4	5.1	4.0	3.7
Croatia	2.2	3.0	2.9	17.4	14.8	12.1
Netherlands	2.3	2.2	3.1	6.9	6.0	5.0
Slovakia	3.8	3.3	3.3	11.5	9.7	8.1
Austria	1.1	1.5	2.7	5.7	6.0	5.4
United Kingdom	2.3	1.8	1.6	5.4	4.9	4.4

Sources: National authorities, Bloomberg Consensus, January 2018.

TELECOMMUNICATIONS MARKET

Worldwide, the market for information and communications technologies (ICT) grew by 4.0 percent in the reporting year to EUR 3.2 trillion. This increase was due in part to strong demand for telecommunications equipment and services, especially in India, China, and the United States. The high-tech association Bitkom (Federal Association for Information Technology, Telecommunications and New Media) and the EITO (European Information Technology Observatory) expect the telecommunications market segment (services and equipment) to record an increase of 4.0 percent worldwide to EUR 1.82 trillion and the information technology (IT) market segment to record an increase of 3.9 percent for 2017. In the European Union, revenue in the telecommunications market segment rose by 1.0 percent, primarily due to the capex-driven 5.0 percent increase in equipment. The European Telecommunications Network Operators' Association (ETNO) expects service revenues in the EU telecommunications market to have grown slightly by 0.1 percent compared with 2016 to EUR 223 billion in the reporting year. Radical regulatory interventions, such as the reduction in the European roaming and national termination rates as well as substitution by OTT (over-the-top) players, continue to have a negative impact on traditional voice and messaging services, which declined as a result. In 2017, these declines were offset by growth in data revenues.

The digitalization of the economy and society continues to advance steadily. This changes on the one hand the existing market structures, and on the other, the market realities of many industries that have previously been exclusively analog. Use of data services is growing exponentially. Demand is also rising for more speed, both download and upload, in fixed and mobile networks. New technological developments, like the Internet of Things (IoT), Industry 4.0, big data, or cloud computing place high demands on network infrastructure: Ubiquitous connectivity and high performance standards and security are critical to success for many applications. In a market environment in which the network infrastructure needs to be substantially upgraded and a broad ecosystem of rival market players has developed, investment incentives must be created – for the good of consumers, the industry, and a digitally sovereign economy.

Consolidation pressure remains high in the telecommunications industry, partly due to declining revenues in many markets as a result of regulatory interventions, increasing competition, and technological change. In addition, high investments are needed for the network build-out, for innovation, and for the acquisition of spectrum. In Germany, the Bundeskartellamt approved the merger of United Internet and Drillisch without conditions; Drillisch profited from conditions imposed by the European Commission on the merger of E-Plus and O_2. In March 2017, the European Commission approved our procurement joint venture with Orange, deeming it not to result in any restriction of competition. The European Commission conditionally approved Vivendi's de-facto control over Telecom Italia: In order to avoid restrictions to competition, Vivendi must sell its 70 percent stake in Telecom Italia to the TV service provider Persiderain. In order to ensure the continued provision of high-quality telecommunications services to European consumers in the long term, the European competition authorities should take care that short-term price effects are not the only focus of their competition analyses.

European General Data Protection Regulation. The European General Data Protection Regulation will enter into force on May 25, 2018. The new data protection law closes a major gap in the regulation of service providers outside of the EU by imposing the same rules for all market players operating in the EU. The Regulation assures Europe of a high level of data protection and, at the same time, will pave the way for new digital business models. The General Data Protection Regulation applies directly in the member states and does not need to be transposed into national law. Contrary or redundant German law must be repealed by way of a specific act (Rechtsbereinigungsgesetz).

IT Security Act. In the course of implementing the EU Network and Information Security Directive, a number of provisions were added to the German IT Security Act (IT-Sicherheitsgesetz), requiring online marketplaces, search engine operators, and cloud service providers to comply with minimum requirements designed to safeguard the security of their infrastructures and to report incidents. On a positive note, the legislator included additional powers for telecommunications providers to enable the detection and clearing of network outages and security incidents – a significant step forward in view of the necessary inclusion of all parties involved in the value chain. It remains to be seen whether the new German government will make any further attempt to address the remaining deficits in the IT Security Act (lack of systematic involvement of hardware and software manufacturers). SDG

EU subsidies for Croatia. On June 6, 2017, the EU Commission granted its approval for EU subsidies for Croatia. The Croatian government plans to use this money to fund a new state-owned network operator. The development increases the risk of a massive distortion of competition and of other countries following suit.

Payment Services Directive 2, which replaces Payment Services Directive 1 from 2007, must be implemented in the EU member states by the start of 2018. In Germany, this is being done by the German Payment Service Oversight Act (Zahlungsdiensteaufsichtsgesetz – ZAG), under which providers of telecommunications services must limit billing models for voice and non-voice services for invoicing third-party services via the telephone bill to a maximum of EUR 300 per month and EUR 50 per transaction – unless they have a payment services license. In addition, it will impose additional reporting obligations on the Federal Financial Supervisory Authority (BaFin). At the start of December, the Federal Financial Supervisory Authority published an information sheet on the practical implementation of the ZAG provisions.

GERMANY

According to EITO, revenue from IT products and services, telecommunications, and consumer electronics increased by 2.3 percent to around EUR 135.6 billion in Germany in the reporting year. Information technology recorded growth of 4.3 percent. Telecommunications revenues (telecommunications services, hardware, and infrastructure systems) decreased slightly by 0.3 percent to around EUR 57.7 billion. The positive development in data services could not completely offset weakening business with terminal equipment – caused in part by a further decline in smartphone revenues in 2017 – and steadily declining revenues from fixed-network and mobile services. Regulatory effects such as the reduction in EU roaming charges and interconnection rates were the main reason for slightly lower revenues from telecommunications services.

The German broadband market grew by 3.5 percent in 2017. As of the end of year, there were some 33 million broadband lines in Germany. Companies with their own infrastructure benefited the most from this market growth, along with resellers and regional providers. High-bandwidth lines are increasingly marketed in cable and VDSL/vectoring networks. The offerings in this area are supported by innovative hybrid connection technologies. The availability of high bandwidths in Germany and the large choice of HD content and video-on-demand services are stimulating customer growth in IPTV business. Integrated offers comprising fixed-network and mobile communications offer customers many advantages and help increase customer retention. The trend towards integrated offerings continued in the reporting year, with more and more providers expanding their portfolios. We launched our first integrated offering, MagentaEins, on the market in fall 2014. Since then, we have been gradually enhancing the service both in the area of traditional communication and add-on services such as smart home, cloud services, and security applications. Vodafone and O_2 made up ground in terms of integrated offers. SDG

In the German mobile market, service revenues decreased slightly by around 0.7 percent against 2016 to approximately EUR 18.1 billion, driven largely by the aforementioned regulatory effects and ongoing price pressure. The use of mobile data is growing exponentially, the percentage of voice and data rate plans is rising steadily. Traditional voice and text messaging services are increasingly being replaced by free IP messaging services like WhatsApp and social networks like Facebook. Connected products such as smartphones and tablets, as well as watches, shoes, bicycles, and much more, are growing ever more popular, pushing up demand for mobile broadband speeds and for large data volumes in the rate plan portfolios.

Digitalization is continuing apace, and as a result there is also growing demand by the industry for even more connectivity to allow machines and production sites to be networked and to tap efficiencies in value chains. Extensive IT and cloud solutions, as well as intelligent approaches to M2M communication (machine-to-machine) are needed in order to meet these demands. We believe that the M2M sector alone grew by around 30 percent in the reporting year, and this growth is unlikely to slow in the coming years. In the IT sector, we expect market growth to be around 5 percent, driven primarily by the substantial increase in cloud services of around 17 percent. SDG

UNITED STATES

The mobile communications market in the United States continues to be divided between four major nationwide providers – AT&T, Verizon Wireless, T-Mobile US, and Sprint – and various regional network operators. In addition there are a number of mobile virtual network operators, which rely on the networks of one or more of the four national carriers to transport their mobile and data traffic. The two largest national network operators are AT&T and Verizon Wireless, followed by T-Mobile US and Sprint.

The market continues to be very dynamic. For example, the cable companies Comcast and Charter have activated their respective MVNO agreements with Verizon, and Comcast has already begun offering mobile services to its customers. Additionally, in May 2017, Comcast and Charter agreed to explore cooperation in the development of wireless products and services, and also agreed that each party must attain approval from the other before acquiring control of a full mobile network operator. Altice, whose 2016 acquisitions of Cablevision and Suddenlink created the nation's fourth largest cable operator, announced its own MVNO partnership with Sprint. AT&T is still planning to acquire media giant Time Warner Inc. for USD 85.4 billion, pending a legal challenge by the U.S. antitrust authorities. The consolidation and convergence of the U.S. telecommunications market is expected to continue, as fixed and wireless become more integrated and wireless companies acquire content providers.

After three quarters of decline due to high market penetration, the U.S. wireless market has grown slightly since the third quarter of 2017, although down on a year-on-year basis. Although revenues were down overall, profit improved due to expenditure cuts, with operators also prepping for 5G strategies in 2018-19. Smartphone penetration continues to rise steadily, sitting now at 92 percent. Accordingly, mobile data consumption continues to rise and average usage surpassed 6 GB/month by the end of 2017.

Since 2013, T-Mobile US has brought about a significant operational turnaround and intensified competition in the U.S. mobile market. This is mainly due to improvements in their network, as well as successful implementation of the Un-carrier initiatives, which contributed very successfully to customer satisfaction.

The FCC has noted the fierce competition in the market and has embarked on a deregulatory agenda. It has eased wireless infrastructure deployment by removing administrative obstacles; it has adopted new sharing tools in the 3.5 GHz band to free up 150 MHz of spectrum for broadband services; and it is working to free up spectrum above 24 GHz to enable deployment of 5G services. The Broadcast Incentive Auction (600 MHz) ended in April 2017. T-Mobile US purchased an average of 31 MHz of 600 MHz low-band spectrum covering 100 percent of the United States. In addition, the FCC adopted new rules on December 14, 2017, that pare down net neutrality regulation to just a transparency requirement. Bright line rules (no blocking, no throttling) will be eliminated and paid priority will be permitted. The rules are expected to be challenged in court.

EUROPE

Following a period of steady recovery, the traditional telecommunications markets in our Europe operating segment saw a return to moderate revenue growth for the first time in 2017 on a full-year basis. Steady growth in broadband and TV business offset some of the ongoing decline in voice business. Mobile data usage grew rapidly, especially due to video services. Overall, mobile business recorded growth and more than offset the decline in fixed-network business. The continued levying of special taxes on telecommunications services in some countries had a negative impact, for example in Greece and Hungary. The acquisition of new spectrum and extension of existing mobile licenses had a relatively low impact in 2017 (e.g., in Greece). There was only limited consolidation activity in the countries of our Europe operating segment in the reporting year (e.g., T-Mobile Austria, UPC Austria, Digi/Invitel in Hungary, and UPC/Mulimedia Polska in Poland; both transactions are awaiting approval from the responsible authorities).

The trend towards convergent product bundles combining fixed-network and mobile communications (FMC) continues, for example with Kombinieren & Sparen (combine & save) in Austria, Love in Poland, and MagentaOne and CosmoteOne in our subsidiaries with integrated telecommunications infrastructure. These offers are enjoying strong growth and for some providers, already address the majority of consumers. New providers pursuing aggressive pricing policies (e.g., in Hungary and Slovakia), whose market shares are still small, are intensifying competitive pressure. Services from OTT (over-the-top) players, like WhatsApp and Facebook, are increasingly replacing traditional voice and messaging services. Video streaming services like Netflix and Amazon Prime have so far had limited significance in our Europe operating segment (with the exception of Austria).

In the business customer segment, the advance of digitalization has prompted massive growth in M2M/IoT applications; we participate in this with our Smart City projects, for instance in Hungary, Romania and Greece. SDG SDG

SYSTEMS SOLUTIONS

In the information and communications technology (ICT) industry in our core market of Western Europe, the volume addressed by our Systems Solutions operating segment and the T-Systems brand increased by 4.1 percent in the reporting year to EUR 192 billion. However, this trend impacted the business areas of the market in very different ways.

In the telecommunications (TC) segment, the market was dominated by continued price erosion in telecommunications services and by intense competition, while the economic recovery had relatively little impact. The focus in this segment continues to be on the substitution of elements of the portfolio and demand for stable, intelligent and secure network solutions with increasingly large bandwidths. Growth in ICT security (cyber security), Internet of Things (IoT), cloud computing, and unified communications is leading to a long-term stabilization of the markets served by our operating segment. Substitution effects between fixed-network and mobile operations continue to intensify. The migration to all-IP solutions, e.g., the combination of Internet access, Voice over IP, IP VPN, and Unified Communications, continues to increase.

In terms of IT services, demand has grown further for cloud services and cyber security services, as has the importance of digitalization, intelligent networks, the Internet of Things (including Industry 4.0), and communication between machines (M2M). The advance of digitalization and the shift towards cloud solutions also transformed demand in the systems integration business. Traditional project business – application development and the associated integration – declined by 0.9 percent. By contrast, the market for consultation and integration services for cloud solutions grew by 28 percent.

The market for outsourcing computing and desktop services (CDS) shrank by 0.6 percent in the reporting year to EUR 58 billion. Two contrasting trends played a role in this context: Business from long-term, rather traditional outsourcing contracts declined by 4 percent, while the market for cloud computing grew by 10 percent.

Competitive and price pressure persisted in all submarkets of our Systems Solutions operating segment. This was caused in part by competitors such as BT Global Services, Orange Business Services, and NTT Communication in the telecommunications market, and IBM, Atos, and Capgemini in the IT segment; in addition, the IT segment in particular came under price pressure from cloud providers such as Amazon Web Services, Google, and Salesforce. This effect is further intensified by providers of services rendered primarily offshore. We are positioning ourselves in this environment as a digital enabler, a cloud transformer, and an ICT operator, with a focus on quality, data security, and end-to-end responsibility for the transformation, integration, and operation of ICT services. Furthermore, we are increasingly entering into strategic partnerships with our competitors with the aim of offering our customers innovative solutions.

GROUP DEVELOPMENT

The environment of our Group Development operating segment is largely dominated by the markets served by our companies T-Mobile Netherlands and Deutsche Funkturm (DFMG).

The mobile communications market in the Netherlands has been marked by high price and competitive pressure for quite some time, and this situation intensified again in 2017. One of the trends contributing toward this is the growing bundling of fixed-network and mobile products into convergent offers (FMC). The merger of Vodafone and Ziggo, for instance, has created a second strong nationwide FMC provider alongside market leader KPN. As in the past, the trend towards bundled offers brings pressure to bear on prices for mobile products. The strong discount segment, comprising mobile providers' secondary brands and MVNOs, has further intensified competition. In December 2017, we signed an agreement with the Tele2 Group on the acquisition of telecommunications provider Tele2 Netherlands by T-Mobile Netherlands.

DFMG is the biggest provider of passive wireless infrastructure for mobile communications and broadcasting in Germany. The market also saw increased demand for cell sites in financial year 2017, due on the one hand to the fact that network operators plan to close gaps in coverage, and on the other to the fact that demand for mobile data services is growing, which calls for a further increase in the density of mobile networks.

MAJOR REGULATORY DECISIONS

Our business activities are largely subject to national and European regulation, which is associated with extensive powers to intervene in our product design and pricing. We were again subject to extensive regulation in our mobile and fixed-network businesses in 2017. The focus was primarily on the regulation of services for wholesale customers and the corresponding charges as well as the award of mobile frequencies.

REGULATION

Federal Network Agency consultation on the FTTH/B roll-out. The Federal Network Agency held a public consultation process from March 14, 2017 to April 26, 2017 on proposals for how regulatory support could be provided to accelerate the roll-out of fiber-optic networks (FTTH/B) with a view to rates regulation. All market players were asked to respond to the consultation paper. The 17 responses received were published on May 17, 2017. The Federal Network Agency said it will first analyze these responses, some of which are extensive, before announcing any conclusions.

Further vectoring roll-out agreed. The Federal Network Agency reviewed the specific conditions required for nearshore vectoring by way of a reference offer procedure. It announced its ruling in its official journal on August 9, 2017. The deadlines for the three planned nearshore build-out tranches have thus now been set. A parallel rate approval procedure was also carried out at the Federal Network Agency from the end of March 2017 to set the rates for a nearshore ULL substitute product. The ruling for this process was also announced on August 9, 2017, finally giving the green light for our nearshore vectoring roll-out.

Regulation of termination rates. The Federal Network Agency issued final approval for fixed-network and mobile termination rates in the reporting year, with retroactive effect from January 1, 2017 (fixed-network termination rates) and December 1, 2016 (mobile termination rates), with no changes to the rates provisionally approved back in 2016. In these rate rulings, the Federal Network Agency followed for the first time the recommendation of the European Commission to set charges based on the “pure LRIC cost standard.” In the approval period, the charges declined by 30 percent overall for mobile termination and by as much as around 58 percent for fixed-network termination.

International roaming. The new EU Regulation to abolish roaming surcharges (commonly referred to as Roam Like at Home) within the European Union as well as in Iceland, Liechtenstein and Norway entered into force on June 15, 2017. In addition, on May 17, 2017, the European Council and European Parliament adopted amended regulations for wholesale roaming charges, significantly reducing regulated price caps at wholesale level. We had already launched customer-friendly Roam Like at Home offers on the market before this date.

Federal Network Agency decision on StreamOn. On December 15, 2017, the Federal Network Agency prohibited elements of the MagentaMobil StreamOn add-on option. According to the Federal Network Agency, two aspects of this option breach the EU Regulation on net neutrality and roaming. The ruling stipulates that, from April 1, 2018, we must transmit all StreamOn data traffic at the maximum available bandwidth and that this also cannot be deducted from the included data volume contingent when roaming within the EU. We remain of the opinion that our offer complies with EU law and will appeal against the ruling.

Federal Network Agency decision on bitstream charges. On November 30, 2017, the Federal Network Agency provisionally approved as of December 1, 2017 the rates we can charge to wholesale customers for access to our broadband lines for “layer 2 bitstream access.” We had requested an increase in the monthly rate as part of contingent models, but this was not approved. The Federal Network Agency will only set the final charges with retroactive effect once the national and EU-wide consultation processes are complete.

AWARDING OF SPECTRUM

The table below provides an overview of the main spectrum awards through auctions as well as license extensions in Germany and at our international subsidiaries. It also indicates spectrum to be awarded in the near future in various countries.

For further information on the spectrum awards, please refer to the section "Risk and opportunity management," page 111 et seq.

Main spectrum awards

	Start of award procedure	End of award procedure	Frequency ranges (MHz)	Award process	Acquired spectrum (MHz)	Spectrum investment
Albania	Q3 2018	Q4 2018	800	Sealed bid[a] or auction	tbd	tbd
Germany	Q2 2018	Q4 2018	2,000 / 3,400 – 3,700	Auction (SMRA[b]) expected	tbd	tbd
Greece	Q4 2017	Q4 2017	1,800	Sealed bid[a]	25 MHz	€ 83.2 million
Macedonia	Q1 2018	Q4 2018	900 / 2,100	Extension of licenses (expected)	tbd	tbd
Netherlands	Q1 2019	Q2 2019	700 / 1,500 / 2,100	Auction, details tbd	tbd	tbd
Austria	Q3 2018	Q4 2018	3,400 – 3,800	Auction (CCA[c]) (expected)	tbd	tbd
Austria	Q3 2019	Q4 2019	700 / 1,500 / 2,100	Auction, details tbd	tbd	tbd
Poland	Q2 2017	Q2 2017	3,700	Sealed bid	No spectrum acquired	–
Poland	Q2 2018	Q3 2018	1,500	tbd	tbd	tbd
Romania	Q2 2018	Q4 2018	700 / 800 / 1,500 / 2,600 / 3,500	Auction, details tbd	tbd	tbd
Slovakia	Q2 2017	Q2 2017	3,700	Auction (SMRA[b])	40 MHz for Bratislava	€ 200 thousand
Czech Republic	Q2 2017	Q3 2017	3,700	Auction (SMRA[b])	No spectrum acquired	–
Czech Republic	Q3 2017	Q4 2017	900 / 1,800	Extension of licenses (expected)	No spectrum acquired	–
Czech Republic	Q4 2018	Q2 2019	700 / 3,500	Auction, details tbd	tbd	tbd
Hungary	Q3 2018	Q4 2018	700 / 1,500 / 2,100 / 2,300 / 2,600 and 26,000	Details tbd	tbd	tbd
United States	Q3 2016	Q2 2017	600	Incentive Auction[d]	Regional licenses; mostly 2x20 MHz	$ 7.99 billion

[a] Submission of an individual bid in a sealed envelope, in some cases sequential, in several awards.
[b] Simultaneous electronic multi-round auction with ascending, parallel bids for all ranges.
[c] Combinatorial Clock Auction, three-stage, multi-round auction for spectrum from all frequency ranges.
[d] Quantity and prices of spectrum to be traded depends on spectrum surrendered by radio broadcasters.

DEVELOPMENT OF BUSINESS IN THE GROUP

- Adjusted EBITDA of EUR 22.2 billion
- Free cash flow of EUR 5.5 billion

STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2017

Bonn, February 13, 2018

2017 was another successful financial year. In 2017, we once again met our key company targets. Net revenue increased by 2.5 percent to EUR 74.9 billion. We grew year-on-year in our domestic market, Germany, and in the Europe operating segment, and continued to record strong growth in the United States. The revenue trend was driven by strong customer additions both in mobile and broadband business. While we continued to win mobile market shares with our Un-carrier strategy in the United States, the success in Germany and Europe was primarily attributable to the marketing of convergent products. To further strengthen our competitiveness in Europe, we also want to transform our subsidiaries in Austria as well as in the Netherlands into convergent providers. To this end, at the end of 2017, we signed agreements to acquire the fixed-network providers UPC Austria and Tele2 Netherlands.

Adjusted EBITDA grew by 3.8 percent to EUR 22.2 billion. Free cash flow (before dividend payments and spectrum investments) totaled EUR 5.5 billion as forecast; this represents year-on-year growth of around 11.3 percent.

In the reporting year, profit/loss from operations (EBIT) increased to EUR 9.4 billion, which was higher than expected. The main reason for this increase is a sound operational development, driven by revenue growth and further enhanced cost efficiency. In addition, profit/loss from operations was positively affected by some special factors in the reporting year, including the reversal of the impairment loss on spectrum licenses at T-Mobile US and the sale of Strato and Scout24 AG. This trend was partially offset by higher amortization of intangible assets (including goodwill) and higher depreciation of property, plant and equipment compared with 2016 as a result of the high level of investment in building and expanding our mobile networks and fixed-network infrastructure, as well as for the forward-looking migration to IP as part of our integrated network strategy. Net profit increased by just under 30 percent to EUR 3.5 billion, mainly due to the improved development of operations and the reduction in the U.S. federal tax rate, which resulted in a non-cash deferred tax benefit at T-Mobile US. Developments in the share price and exchange rate prompted us to also recognize an impairment on our financial stake in BT in 2017. In addition, loss from financial activities was also impacted as a result of negative remeasurement effects from the exercise and measurement of embedded derivatives at T-Mobile US – mainly relating to the early repayment of financial liabilities to third parties outside of the Group. ROCE improved slightly year-on-year due largely to the positive special factors.

Net debt increased from EUR 50.0 billion to EUR 50.8 billion, primarily due to the acquisition of spectrum and a further year-on-year increase in capital expenditure for network build-out and modernization in the United States, Germany, and Europe.

Subject to approval by the relevant bodies and the fulfillment of other legal requirements, we continue to adhere to our shareholder remuneration strategy as planned and will propose to the shareholders' meeting a dividend of EUR 0.65 per dividend-bearing share. We thus once again kept the promise we made at our Capital Markets Days in February 2015, which was to include our shareholders in the relative growth of free cash flow.

The trends in the industry, in particular on the European telecommunications markets, remain challenging, e.g., rising competition and strict regulatory requirements. The market for information and communications technologies, however, continues to grow. In order to succeed in the future, we continue to invest heavily in the key to our success: our network infrastructure. In 2017, we made investments (before spectrum) of EUR 12.1 billion, a substantially higher amount than in the prior year. In the fixed network, our focus was on investments in fiber-optic roll-out, IPTV, and the continued migration to an IP-based network. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for high-speed data transmission rates. Including the spectrum payments, this figure was as much as EUR 19.5 billion, of which EUR 7.2 billion was attributable to the acquisition of valuable spectrum at the auction in the United States, where T-Mobile US was particularly successful. Despite this high level of investment, our rating remained solid through 2017, and we had unrestricted access to the capital market at all times.

Against this backdrop, we are reasserting our commitment to the strategic goal we set ourselves in 2014 of being the leading European telecommunications provider. With this goal in mind, in 2017 we continued to focus intently on delivering state-of-the-art networks, products, and services that give our customers simple, convenient access to the digital world. This keeps us in a good position to remain the driving force behind the creation of a modern and competitive digital Europe.

COMPARISON OF THE GROUP'S EXPECTATIONS WITH ACTUAL FIGURES

In the 2016 Annual Report, we outlined expectations for the 2017 financial year for our financial and non-financial key performance indicators anchored in our management system. The following tables summarize the pro-forma figures for 2016, the results expected for the reporting year, and the actual results achieved in 2017. The performance indicators that we also forecast in the 2016 Annual Report and their development are presented in the individual sections.

Comparison of the expected financial key performance indicators with actual figures

		Pro-forma figures for 2016	Expectations for 2017	Results in 2017
ROCE	%	5.7	strong decrease	5.8
Net revenue	billions of €	73.2	increase	74.9
Profit (loss) from operations (EBIT)	billions of €	9.2	decrease	9.4
EBITDA (adjusted for special factors)	billions of €	21.4	22.4 to 22.5[c]	22.2
Free cash flow (before dividend payments and spectrum investment)	billions of €	4.9	5.5	5.5
Cash capex[a]	billions of €	11.0	12.0	12.1
Rating (Standard & Poor's, Fitch)		BBB+	from A- to BBB	BBB+
Rating (Moody's)		Baa1	from A3 to Baa2	Baa1

Comparison of the expected non-financial key performance indicators with actual figures

		Pro-forma figures for 2016	Expectations for 2017	Results in 2017
Customer satisfaction (TRI*M index)		70.2	slight increase	68.6
Employment satisfaction (commitment index)[b]		4.1	stable trend	4.1
FIXED-NETWORK AND MOBILE CUSTOMERS				
GERMANY				
Mobile customers	millions	41.8	increase	43.1
Fixed-network lines	millions	19.8	slight decrease	19.2
Broadband lines	millions	12.9	increase	13.2
UNITED STATES				
Branded postpaid	millions	34.4	strong increase	38.0
Branded prepay	millions	19.8	increase	20.7
EUROPE				
Mobile customers	millions	48.0	slight decrease	48.8
Fixed-network lines	millions	8.5	stable trend	8.4
Retail broadband lines	millions	5.4	increase	5.6
SYSTEMS SOLUTIONS				
Order entry	billions of €	7.1	decrease[c]	5.2

[a] Before spectrum investment.
[b] Commitment index according to the most recent employee surveys in 2017 and 2015.
[c] Contrary to the forecasts published in the 2016 combined management report (2016 Annual Report, page 87 et seq.), we adjusted the forecast figures for 2017 during the course of the year (Interim Group Report as of June 30, 2017, page 27, and Interim Group Report as of September 30, 2017, page 27).

We once again look back on a successful financial year. Our performance in 2017 was dominated by substantial growth in revenue and adjusted EBITDA. Net revenue grew in line with expectations to total EUR 74.9 billion at the year-end. We also met expectations with regard to adjusted EBITDA, which amounted to EUR 22.2 billion. Adjusted for exchange rate effects and changes to the composition of the Group, this put us exactly within the target corridor of EUR 22.4 to EUR 22.5 billion communicated most recently. Free cash flow of EUR 5.5 billion was also right on target. At EUR 12.1 billion, cash capex (before spectrum investments) was slightly higher than the communicated figure of around EUR 12.0 billion, representing yet another substantial increase to the already extremely high level of investment in the prior year.

Our key performance indicator ROCE (return on capital employed) improved by 0.1 percentage points in the reporting period to reach 5.8 percent. This moderately positive trend was due to an increase in net operating profit after taxes (NOPAT) while the average amount of net operating assets (NOA) remained virtually stable over the year. NOPAT increased in 2017 as a result of a substantial improvement in adjusted EBITDA, as well as positive special factors – mainly attributable to the partial reversal of impairment losses recognized on spectrum licenses at T-Mobile US (EUR 1.7 billion), to the sale of Strato (EUR 0.5 billion) and of further shares in Scout24 AG (EUR 0.2 billion), and to a settlement agreement concluded with BT (EUR 0.2 billion). NOPAT was negatively affected by impairment losses totaling EUR 2.2 billion recognized in the reporting year on goodwill and property, plant and equipment, in particular in the Systems Solutions and Europe operating segments (prior year: EUR 0.7 billion in the Europe operating segment). In the prior year, proceeds from the sale of our stake in the EE joint venture (EUR 2.5 billion) and proceeds from the exchange of mobile spectrum licenses at T-Mobile US (EUR 0.5 billion) had a positive effect on NOPAT. Despite the acquisition of spectrum in the United States and a consistently high level of investment in connection with our integrated network strategy, average NOA remained virtually unchanged in 2017 due to lower cash and cash equivalents on average and lower carrying amounts of goodwill, among other effects.

EBIT defied expectations of a decline and increased by EUR 0.2 billion to EUR 9.4 billion, primarily as a result of the same special factors that also had a positive effect on net operating profit after taxes (NOPAT).

We are also very well on track with our non-financial key performance indicators, especially with regard to the development of **fixed-network and mobile customer numbers**. In our United States operating segment, in particular, we again recorded continued strong mobile customer additions, both in the postpaid and prepay segments. At the end of the reporting year, **customer satisfaction** came in at 68.6 points versus 69.6 points at the start of the year (measured on a comparable basis). This slight decline is due in part to the trend in the Systems Solutions operating segment, which was not able to fully match its high prior-year level. Our goal for the coming years is to achieve a steady overall improvement in customer satisfaction. **Order entry** at our Systems Solutions operating segment declined markedly year-on-year and was well below our expectations for the reporting year. Although we concluded new deals in 2017, the level achieved was lower than expected. One reason for the decline in order entry was the market trend away from traditional IT business and toward cloud computing and digitalization, which resulted in shorter terms of contract.

RESULTS OF OPERATIONS OF THE GROUP

NET REVENUE

In 2017, we generated net revenue of EUR 74.9 billion, which was 2.5 percent or EUR 1.9 billion up on the prior-year level. Our United States operating segment contributed to this positive trend with revenue growth of 5.9 percent: T-Mobile US' successful Un-carrier initiatives and the success of the MetroPCS brand gave a strong boost to the number of new customers and thus also to service revenues. Terminal equipment revenues continued to rise, in part due to the stronger focus on offering terminal equipment under installment plans. In our German home market, there was a slight positive trend in revenue, with an increase of 0.7 percent compared with the prior year. This was partly due to a rise in mobile revenues and, primarily, growth in non-contract handset revenues. Increased IT and broadband revenues also had a positive impact on fixed-network revenue, although it was not sufficient to offset the overall decline in revenue in the fixed-network business. In the Europe operating segment, revenue also increased slightly by 1.2 percent compared with the prior year. Revenue development in our growth areas and an increase in terminal equipment revenue had a positive effect. By contrast, lower roaming charges in many countries and ongoing intense competition in the telecommunications footprint markets put further pressure on revenue. In the Systems Solutions operating segment, revenue decreased by 1.1 percent against the prior year. This decline was primarily attributable to the completion in 2016 of the set-up phase for the toll collection system in Belgium. Excluding this toll collection effect from the prior year, however, our telecommunications business posted revenue growth. By contrast, revenue from our traditional IT business continued to decrease due to the general downward trend in market prices and to a decline in order entry, especially at international level. Our strategic growth areas cloud, Internet of Things, and our new Telekom Security unit made a positive contribution. Revenue generated in our Group Development operating segment decreased by 3.6 percent in 2017 compared with the prior year, which was largely attributable to the revenue lost as a result of the sale of Strato as of March 31, 2017. By contrast, revenue growth at T-Mobile Netherlands had a positive impact.

Excluding the negative net exchange rate effects of EUR 0.6 billion – in particular from the translation of U.S. dollars into euros – and slightly negative effects of changes in the composition of the Group of EUR 0.1 billion – mainly from the sale of Strato – revenue even increased by EUR 2.6 billion or 3.6 percent.

Details on the trends in our financial and non-financial key performance indicators can be found in this section as well as in the section "Development of business in the operating segments," page 61 et seq.

For detailed information on revenue development, please refer to the section "Development of business in the operating segments," page 61 et seq.

Contribution of the segments to net revenue
millions of €

	2017	2016	Change	Change %	2015
NET REVENUE	**74,947**	**73,095**	**1,852**	**2.5**	**69,228**
Germany[a]	21,931	21,774	157	0.7	22,185
United States	35,736	33,738	1,998	5.9	28,925
Europe[a]	11,589	11,454	135	1.2	11,674
Systems Solutions[a]	6,918	6,993	(75)	(1.1)	6,837
Group Development[a]	2,263	2,347	(84)	(3.6)	2,428
Group Headquarters & Group Services[a]	2,943	3,467	(524)	(15.1)	3,355
Intersegment revenue	(6,433)	(6,678)	245	3.7	(6,176)

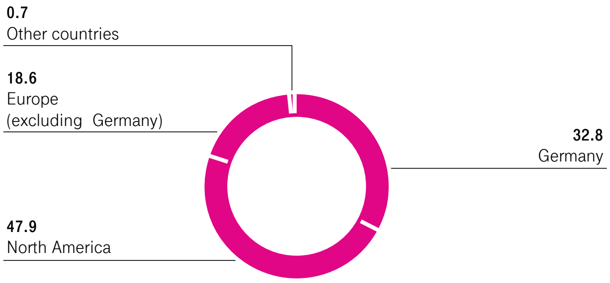
[a] Since January 1, 2017, we have reported on the Group Development operating segment and within the Group Headquarters & Group Services segment on the Board of Management department Technology and Innovation. Comparative figures have been adjusted retrospectively.

For more information on changes in the organizational structure, please refer to the section "Group organization," page 31 et seq, and Note 31 "Segment reporting" in the notes to the consolidated financial statements, page 220 et seq.

At 47.7 percent, our United States operating segment again provided the largest contribution to net revenue of the Group. This was an increase of 1.5 percentage points compared with the prior year, due in particular to ongoing strong customer additions. By contrast, the contributions by our other operating segments and the Group Headquarters & Group Services segment decreased. The proportion of net revenue generated internationally continued to increase, from 66.3 percent to 67.2 percent.

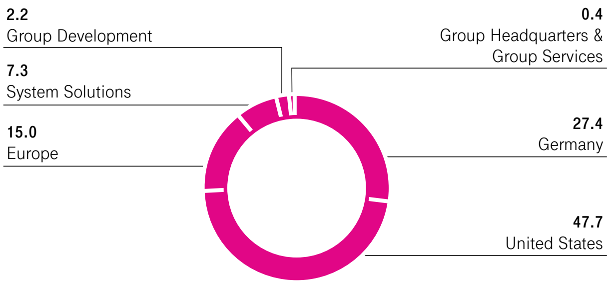
Breakdown of revenue by region

%



Contribution of the segments to net revenue

%



For more information on net revenue, please refer to Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

EBITDA, ADJUSTED EBITDA

Excluding special factors, **adjusted EBITDA** increased year-on-year by EUR 0.8 billion or 3.8 percent to EUR 22.2 billion in 2017. This development was primarily driven by our United States operating segment, which recorded an increase in its adjusted EBITDA contribution of 8.8 percent, mainly as a result of the continued success of the Un-carrier initiatives. EBITDA adjusted for special factors also grew in our Germany operating segment by 2.8 percent compared with 2016, driven by efficiency enhancement measures while revenue increased slightly. Adjusted EBITDA declined due to higher market investments and revenue-driven cost increases at the B2B/ICT business customer unit in our Europe operating segment. Slight revenue growth and increased cost efficiency had an offsetting effect. Adjusted EBITDA in our Systems Solutions operating segment also recorded a downward trend; however, this was largely due to the non-recurring effect already mentioned from the prior year and the tense situation in the ICT market. In the Group Development operating segment, adjusted EBITDA declined mainly due to the forgone earnings following the sale of Strato. A positive trend at T-Mobile Netherlands had a contrasting effect. Adjusted for negative net exchange rate effects and slightly negative effects of changes in the composition of the Group of EUR 0.2 billion, adjusted EBITDA even increased by EUR 1.0 billion or 4.9 percent.

EBITDA increased by EUR 1.4 billion or 6.3 percent year-on-year to EUR 24.0 billion. Special factors were positive on balance, increasing by EUR 0.6 billion compared with 2016 to EUR 1.7 billion. These factors included a partial reversal of impairment losses on spectrum licenses at T-Mobile US, increasing the carrying amount by EUR 1.7 billion as of September 30, 2017. Other positive factors were income from divestitures in connection with the sale of Strato completed as of midnight, March 31, 2017 (EUR 0.5 billion), income from the sale of the remaining shares in Scout24 AG (EUR 0.2 billion), and income from a settlement agreement concluded with BT in July 2017 (EUR 0.2 billion). Special factors in connection with staff-related measures and non-staff-related restructuring expenses amounted to EUR 0.6 billion, EUR 1.1 billion lower than the expenses reported in the prior-year period. Special factors in the prior year included income of EUR 2.5 billion from the sale in early 2016 of our stake in the EE joint venture and income in the amount of EUR 0.5 billion from transactions for the exchange of spectrum licenses between T-Mobile US and two telecommunications companies.

For detailed information on the development of EBITDA/adjusted EBITDA in our segments, please refer to the section "Development of business in the operating segments," **page 61 et seq.** For an overview of the development of special factors, please refer to the table on **page 54.**

Contribution of the segments to adjusted Group EBITDA

	2017 millions of €	Proportion of adjusted Group EBITDA %	2016 millions of €	Proportion of adjusted Group EBITDA %	Change millions of €	Change %	2015 millions of €
EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP	**22,230**	**100.0**	**21,420**	**100.0**	**810**	**3.8**	**19,908**
Germany[a]	8,468	38.1	8,237	38.5	231	2.8	8,273
United States	9,316	41.9	8,561	40.0	755	8.8	6,654
Europe[a]	3,749	16.9	3,866	18.0	(117)	(3.0)	3,944
Systems Solutions[a]	509	2.3	530	2.5	(21)	(4.0)	581
Group Development[a]	915	4.1	943	4.4	(28)	(3.0)	1,050
Group Headquarters & Group Services[a]	(716)	(3.2)	(670)	(3.1)	(46)	(6.9)	(554)
Reconciliation	(11)	(0.1)	(47)	(0.3)	36	76.6	(40)

[a] Since January 1, 2017, we have reported on the Group Development operating segment and within the Group Headquarters & Group Services segment on the Board of Management department Technology and Innovation. Comparative figures have been adjusted retrospectively.

For more information on changes in the organizational structure, please refer to the section "Group organization," **page 31 et seq.**, and Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

MARKETING EXPENSES

Marketing communication in our Group mainly takes the form of product and brand campaigns, such as Family Card, Stream On, Entertain, SmartHome, or of corporate campaigns such as our network build-out campaign. In 2017, marketing expenses amounted to EUR 2.4 billion, up slightly on the prior-year level of EUR 2.3 billion. The marketing expenses comprise expenses incurred through market research, market analysis, target market studies, determining marketing strategies, designing the marketing mix, and carrying out and managing marketing initiatives. They also include expenses arising from customer retention programs, market planning and segmentation, and product forecasts.

EBIT

Group EBIT stood at EUR 9.4 billion, up EUR 0.2 billion or 2.4 percent against the prior year. This increase is partly due to the effects described under EBITDA. A year-on-year increase in depreciation, amortization and impairment losses of EUR 1.2 billion reduced EBIT. EBIT was negatively impacted by the impairment losses recognized on goodwill in the Systems Solutions operating segment of EUR 1.2 billion and in the Europe operating segment in our national companies in Poland, Romania, and Albania of EUR 0.8 billion in total. Goodwill impairment losses of EUR 0.5 billion had been recognized in the prior year, mainly in the Netherlands cash-generating unit. In addition, impairment losses on property, plant, and equipment totaling EUR 0.1 billion were recognized (prior year: EUR 0.2 billion). Depreciation of property, plant and equipment and amortization of intangible assets were slightly lower than in the prior year.

PROFIT BEFORE INCOME TAXES

Profit before income taxes increased from EUR 4.5 billion in the prior year to EUR 5.0 billion. This is due to the positive trend in EBIT, as well as to a year-on-year decrease in the loss from financial activities by EUR 0.2 billion to EUR 4.4 billion. As in the prior year, impairments of our financial stake in BT, which in 2017 totaled EUR 1.5 billion recognized in profit and loss, were one of the main factors affecting profit/loss from financial activities. These impairments comprise both the share price effect and the exchange rate effect. In 2016, the impairment amounted to EUR 2.2 billion. Negative remeasurement effects from the exercise and measurement of embedded derivatives at T-Mobile US – mainly relating to the early repayment of financial liabilities to third parties outside of the Group – increased the loss from financial activities. As in 2016, we received dividend payments amounting to EUR 0.2 billion from our financial stake in BT in the reporting year. The prior-year figure included a final dividend of EUR 0.2 billion received in connection with the sale of our stake in the former EE joint venture. Finance costs decreased by EUR 0.3 billion to EUR 2.2 billion.

For further information, please refer to Note 26 "Income taxes" in the notes to the consolidated financial statements, **page 212 et seq.**

For further details, please refer to Note 22 "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, **page 210.**

NET PROFIT/LOSS

Net profit increased year-on-year by EUR 0.8 billion to EUR 3.5 billion. After recording a tax expense of EUR 1.4 billion in the prior year, in 2017 we recorded a tax benefit of EUR 0.6 billion, mainly attributable to the reduction in the U.S. federal tax rate from 35 percent to 21 percent, which resulted in a non-cash deferred tax benefit of EUR 2.7 billion at T-Mobile US. Profit attributable to non-controlling interests increased compared with 2016 by EUR 1.7 billion to EUR 2.1 billion. Alongside positive business performance and the partial reversal of impairment losses on spectrum licenses acquired previously in the United States operating segment, the increase in profit attributable to non-controlling interests was driven in particular by the deferred tax benefit recognized.

For further information on the development of our results of operations, please refer to the disclosures under "Notes to the consolidated income statement" in the notes to the consolidated financial statements, **page 209 et seq.**

The following table presents a reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors.

Consolidated income statement and effects of special factors
millions of €

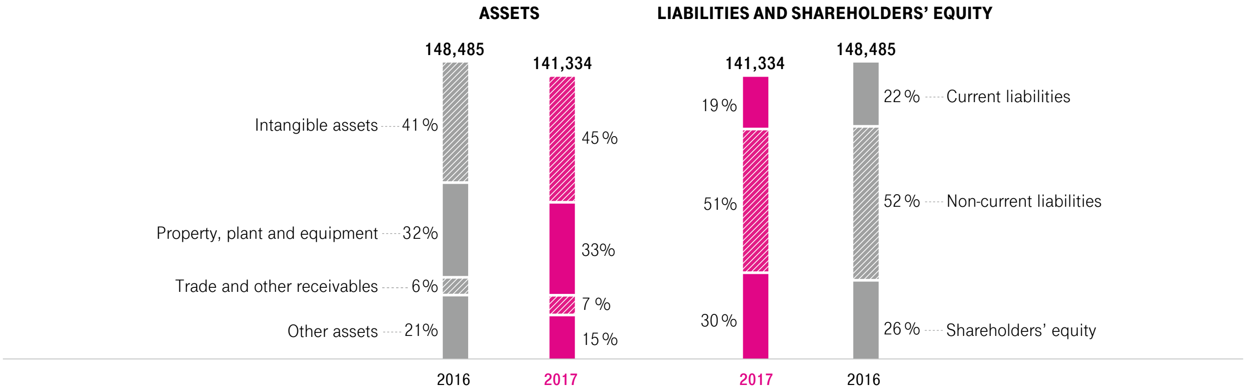
	EBITDA 2017	EBIT 2017	EBITDA 2016	EBIT 2016	EBITDA 2015	EBIT 2015
EBITDA/EBIT	**23,969**	**9,383**	**22,544**	**9,164**	**18,388**	**7,028**
GERMANY	**(306)**	**(306)**	**(910)**	**(910)**	**(545)**	**(545)**
Staff-related measures	(219)	(219)	(854)	(854)	(402)	(402)
Non-staff-related restructuring	(26)	(26)	(38)	(38)	(112)	(112)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	0	0
Other	(61)	(61)	(18)	(18)	(31)	(31)
UNITED STATES	**1,633**	**1,633**	**406**	**406**	**(425)**	**(425)**
Staff-related measures	(7)	(7)	(11)	(11)	(50)	(50)
Non-staff-related restructuring	0	0	0	0	0	0
Effects of deconsolidations, disposals and acquisitions	(11)	(11)	417	417	(382)	(382)
Reversal of impairment losses on non-current assets	1,651	1,651	–	–	–	–
Impairment losses	–	–	–	0	–	0
Other	0	0	0	0	7	7
EUROPE	**(130)**	**(995)**	**(93)**	**(277)**	**(207)**	**(250)**
Staff-related measures	(92)	(92)	(100)	(100)	(166)	(166)
Non-staff-related restructuring	(3)	(3)	(4)	(4)	(12)	(12)
Effects of deconsolidations, disposals and acquisitions	18	18	25	25	33	33
Impairment losses	–	(866)	–	(184)	–	(43)
Other	(53)	(52)	(14)	(14)	(62)	(62)
SYSTEMS SOLUTIONS	**(229)**	**(1,477)**	**(252)**	**(276)**	**(481)**	**(548)**
Staff-related measures	(132)	(132)	(136)	(136)	(233)	(233)
Non-staff-related restructuring	(2)	(2)	(5)	(5)	(229)	(229)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	(4)	(4)
Impairment losses	–	(1,242)	–	0	–	0
Other	(94)	(100)	(111)	(135)	(15)	(82)
GROUP DEVELOPMENT	**893**	**893**	**2,547**	**2,132**	**556**	**556**
Staff-related measures	1	1	(35)	(35)	(6)	(6)
Non-staff-related restructuring	(5)	(5)	(3)	(3)	(2)	(2)
Effects of deconsolidations, disposals and acquisitions	708	708	2,585	2,585	580	580
Impairment losses	–	–	–	(415)	–	0
Other	189	189	0	0	(16)	(16)
GROUP HEADQUARTERS & GROUP SERVICES	**(121)**	**(121)**	**(574)**	**(574)**	**(416)**	**(432)**
Staff-related measures	(109)	(109)	(502)	(502)	(353)	(353)
Non-staff-related restructuring	(49)	(49)	(31)	(31)	(78)	(78)
Effects of deconsolidations, disposals and acquisitions	63	63	(11)	(11)	(8)	(8)
Impairment losses	–	0	–	0	–	0
Other	(26)	(26)	(29)	(29)	23	7
GROUP RECONCILIATION	**0**	**(1)**	**(1)**	**(1)**	**(2)**	**(1)**
Staff-related measures	0	(1)	0	0	(1)	(1)
Non-staff-related restructuring	0	0	0	0	0	1
Effects of deconsolidations, disposals and acquisitions	0	0	(1)	(1)	1	1
Other	0	0	0	0	(2)	(2)
TOTAL SPECIAL FACTORS	**1,740**	**(374)**	**1,124**	**501**	**(1,520)**	**(1,645)**
EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)	**22,230**	**9,757**	**21,420**	**8,663**	**19,908**	**8,673**
Profit (loss) from financial activities (adjusted for special factors)		(2,895)		(2,323)		(2,233)
PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)		**6,863**		**6,340**		**6,440**
Income taxes (adjusted for special factors)		949		(1,858)		(1,927)
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)		**7,812**		**4,482**		**4,513**
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO						
Owners of the parent (net profit (loss)) (adjusted for special factors)		6,039		4,114		4,113
Non-controlling interests (adjusted for special factors)		1,773		368		400

FINANCIAL POSITION OF THE GROUP

Condensed consolidated statement of financial position
millions of €

	Dec. 31, 2017	Change	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
ASSETS						
CURRENT ASSETS	**20,392**	**(6,246)**	**26,638**	**32,184**	**29,798**	**21,963**
Cash and cash equivalents	3,312	(4,435)	7,747	6,897	7,523	7,970
Trade and other receivables	9,723	361	9,362	9,238	10,454	7,712
Non-current assets and disposal groups held for sale	161	(211)	372	6,922	5,878	1,033
Other current assets	7,196	(1,961)	9,157	9,127	5,943	5,248
NON-CURRENT ASSETS	**120,943**	**(904)**	**121,847**	**111,736**	**99,562**	**96,185**
Intangible assets	62,865	2,266	60,599	57,025	51,565	45,967
Property, plant and equipment	46,878	120	46,758	44,637	39,616	37,427
Investments accounted for using the equity method	651	(74)	725	822	617	6,167
Other non-current assets	10,548	(3,217)	13,765	9,252	7,764	6,624
TOTAL ASSETS	**141,334**	**(7,151)**	**148,485**	**143,920**	**129,360**	**118,148**
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES	**27,366**	**(5,760)**	**33,126**	**33,548**	**28,198**	**22,496**
Financial liabilities	8,358	(6,064)	14,422	14,439	10,558	7,891
Trade and other payables	10,971	530	10,441	11,090	9,681	7,259
Current provisions	3,372	304	3,068	3,367	3,517	3,120
Liabilities directly associated with non-current assets and disposal groups held for sale	–	(194)	194	4	6	113
Other current liabilities	4,664	(337)	5,001	4,648	4,436	4,113
NON-CURRENT LIABILITIES	**71,498**	**(5,016)**	**76,514**	**72,222**	**67,096**	**63,589**
Financial liabilities	49,171	(1,057)	50,228	47,941	44,669	43,708
Non-current provisions	11,530	(241)	11,771	11,006	10,838	9,077
Other non-current liabilities	10,798	(3,717)	14,515	13,275	11,589	10,804
SHAREHOLDERS' EQUITY	**42,470**	**3,625**	**38,845**	**38,150**	**34,066**	**32,063**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**141,334**	**(7,151)**	**148,485**	**143,920**	**129,360**	**118,148**

Structure of the consolidated statement of financial position
millions of €



Total assets amounted to EUR 141.3 billion, down by EUR 7.2 billion against December 31, 2016. This decrease is largely attributable to the repayment of financial liabilities. Exchange rate effects, in particular from the translation of U.S. dollars into euros, also contributed to the decline.

For detailed information on the change in cash and cash equivalents, please refer to the consolidated statement of cash flows, **page 152**, and Note 30 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **page 217 et seq.**

Cash and cash equivalents decreased by EUR 4.4 billion year-on-year due in part to the outflows for the spectrum license purchased in the United States amounting to EUR 5.2 billion.

Trade and other receivables increased by EUR 0.4 billion to EUR 9.7 billion. Receivables increased slightly as of year-end in each of the Europe, Group Development, and Germany operating segments. In the United States operating segment, receivables remained more or less unchanged from the prior-year level. The higher volume of receivables for terminal equipment sold under installment plans in connection with the market launch of higher-priced smartphones had an increasing effect. This increase was offset in particular by exchange rate effects from the conversion of U.S. dollars into euros and factoring agreements concluded in the reporting period on revolving monthly sales of trade receivables due.

Non-current assets and disposal groups held for sale decreased by EUR 0.2 billion to EUR 0.2 billion. The sale of Strato completed in March 2017 had a decreasing effect of EUR 0.1 billion. In addition, the transaction completed by T-Mobile US in March 2017 on the exchange of spectrum licenses also reduced this item by EUR 0.1 billion. Further transactions on the exchange of spectrum licenses were agreed and completed in the United States operating segment in the course of the year.

Other current assets developed as follows until December 31, 2017: Other current financial assets decreased by EUR 2.4 billion to EUR 3.3 billion. This decline was mainly attributable to the utilization of a cash deposit of EUR 2.0 billion placed with the FCC in June 2016 in connection with the spectrum auction concluded in April 2017 in the United States operating segment. Exchange rate effects from the translation of U.S. dollars into euros also contributed to the decline. Inventories increased by EUR 0.4 billion to EUR 2.0 billion, primarily due to higher inventories of terminal equipment (in particular new, higher-priced smartphone models) as of the reporting date in our United States and Germany operating segments. Exchange rate effects from the translation of U.S. dollars into euros decreased the carrying amount here again.

Intangible assets and property, plant and equipment increased by EUR 2.4 billion compared with the end of 2016 to EUR 109.7 billion in total.

Intangible assets grew by EUR 2.3 billion to EUR 62.9 billion, mainly due to additions totaling EUR 11.6 billion. In particular, investments in new mobile spectrum licenses by the United States operating segment at the spectrum auction that ended in April 2017 had an increasing effect of EUR 7.2 billion. In addition, the partial reversal recognized as of September 30, 2017 of impairment losses on spectrum licenses previously acquired by T-Mobile US increased the carrying amount by EUR 1.7 billion. By contrast, in the Systems Solutions operating segment, the unexpected decline in order entry prompted intra-year impairment testing of the assets assigned to this unit. An impairment loss on goodwill of EUR 1.2 billion was recognized as of September 30, 2017 as a result. In the Europe operating segment, the annual impairment test resulted in impairment losses on goodwill of EUR 0.8 billion in total in our national companies in Poland, Romania, and Albania. Negative exchange rate effects of EUR 4.5 billion, primarily from the translation of U.S. dollars into euros, and amortization of EUR 4.1 billion, decreased the carrying amount. The reclassification of intangible assets worth EUR 0.3 billion to non-current assets and disposal groups held for sale also reduced the carrying amount.

Property, plant and equipment increased by EUR 0.1 billion compared to December 31, 2016 to EUR 46.9 billion. Additions of EUR 11.5 billion resulted from investments in intensifying the network build-out in the United States operating segment and investments in the Germany and Europe operating segments in the broadband and fiber-optic roll-out, the IP transformation, and mobile infrastructure. This also included EUR 1.0 billion for capitalized higher-priced mobile handsets in connection with the JUMP! On Demand business model introduced at T-Mobile US under which customers do not purchase the device but lease it. Of the additions, 69 percent related to investments intended to increase operating capacities. Exchange rate effects of EUR 1.9 billion, primarily from the translation of U.S. dollars into euros, reduced the carrying amount, as did depreciation of EUR 8.3 billion, impairment losses of EUR 0.1 billion, and disposals of EUR 1.0 billion. Of these disposals, EUR 0.7 billion was attributable to terminal equipment returned by customers under the JUMP! On Demand model.

As of December 31, 2017, other non-current assets included the following significant effects compared with the end of 2016: The carrying amount of other non-current financial assets decreased by EUR 2.2 billion to EUR 5.7 billion. This was largely attributable to the impairment losses of EUR 1.5 billion recognized in profit and loss in 2017 on the exchange-traded shares in BT, and to the exercise and remeasurement of early repayment options embedded in bonds issued by T-Mobile US. Deferred tax assets decreased by EUR 1.2 billion compared with the prior year, due in part to the remeasurement of deferred taxes undertaken as a result of the reduction in the applicable U.S. federal tax rate as of the 2018 financial year.

Current and non-current financial liabilities decreased by EUR 7.1 billion compared with the end of 2016 to EUR 57.5 billion. This is primarily the result of the early repayment of T-Mobile US' debt instruments in the amount of EUR 9.5 billion (translated into euros) and regular repayments of bond liabilities of EUR 3.3 billion. New bonds of EUR 10.2 billion (translated into euros) were issued. In our United States operating segment, the Mandatory Convertible Preferred Stock issued by T-Mobile US in December 2014 was converted into T-Mobile US ordinary shares in December 2017. In connection with this conversion, EUR 0.8 billion were reclassified from financial liabilities to capital reserves, and associated conversion rights of a further EUR 0.9 billion embedded in these preferred shares were reclassified from financial liabilities to capital reserves.

Trade and other payables increased by EUR 0.5 billion compared with the end of 2016 to EUR 11.0 billion, mainly due to higher inventories of terminal equipment (in particular new higher-priced smartphone models) in our United States and Germany operating segments. Exchange rate effects from the translation from U.S. dollars into euros have an offsetting effect.

Current and non-current **provisions** increased slightly against the prior-year level by EUR 0.1 billion to EUR 14.9 billion, of which EUR 8.4 billion (December 31, 2016: EUR 8.5 billion) related to provisions for pensions and other employee benefits. The slight decrease in pension provisions is mainly due to the positive yield development from plan assets at fair value that resulted in an actuarial gain of EUR 0.1 billion recognized under other comprehensive income. At EUR 6.5 billion, other provisions were slightly higher than in the prior year.

Other non-current liabilities decreased by EUR 3.7 billion compared with the prior year to EUR 10.8 billion and included **deferred tax liabilities**, which decreased by EUR 3.0 billion compared with the end of 2016 to EUR 7.0 billion. The decrease was mainly attributable to our United States operating segment, where the reduction in the applicable U.S. federal tax rate from 35 percent to 21 percent as of the 2018 financial year prompted a remeasurement of the surplus amount of deferred tax liabilities. Other liabilities also decreased due to the decline in liabilities to Bundesanstalt für Post- und Telekomunikation (Federal Posts and Telecommunications Agency) resulting from the early retirement model, and to exchange rate effects, in particular from the translation of U.S. dollars into euros.

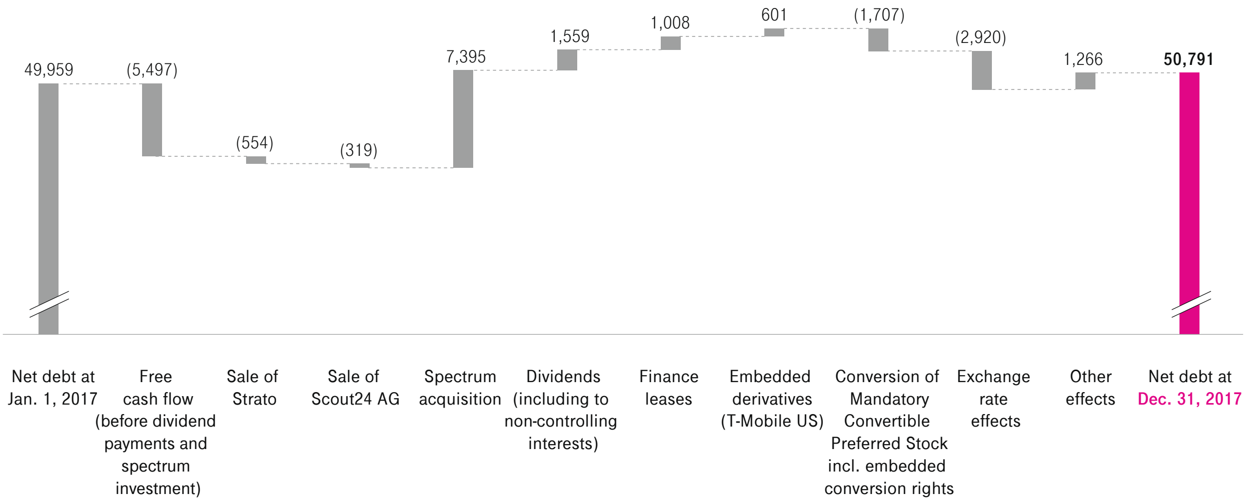
Shareholders' equity increased from EUR 38.8 billion as of December 31, 2016 to EUR 42.5 billion, due to profit after taxes of EUR 5.6 billion. Shareholders' equity increased by EUR 1.7 billion overall in connection with the conversion of Mandatory Convertible Preferred Stock into ordinary shares of T-Mobile US in our United States operating segment in December 2017, including the transfer of the conversion rights embedded in these preferred shares. In addition, in connection with the option granted to our shareholders to have their dividend entitlements for 2016 converted into shares, a capital increase of EUR 1.4 billion was carried out involving the contribution of the dividend entitlements. Dividend payments for the 2016 financial year to Deutsche Telekom AG shareholders of EUR 2.8 billion and to non-controlling interests of EUR 0.1 billion had an offsetting effect. As of December 31, 2017, ordinary shares in the amount of USD 0.4 billion (around EUR 0.4 billion) had been purchased under the share buy-back program announced at T-Mobile US in early December 2017. Under the program, T-Mobile US may, until the end of 2018, buy back ordinary shares of the company for a total amount of up to USD 1.5 billion. Currency translation effects recognized directly in equity reduced shareholders' equity by EUR 2.2 million.

For further information on the development of financial liabilities, please refer to the explanations in Note 10 "Financial liabilities" in the notes to the consolidated financial statements, **page 192 et seq.**

Net debt
millions of €

	Dec. 31, 2017	Change	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Financial liabilities (current)	8,358	(6,064)	14,422	14,439	10,558	7,891
Financial liabilities (non-current)	49,171	(1,057)	50,228	47,941	44,669	43,708
FINANCIAL LIABILITIES	**57,529**	**(7,121)**	**64,650**	**62,380**	**55,227**	**51,599**
Accrued interest	(692)	263	(955)	(1,014)	(1,097)	(1,091)
Other	(781)	248	(1,029)	(857)	(1,038)	(881)
GROSS DEBT	**56,056**	**(6,610)**	**62,666**	**60,509**	**53,092**	**49,627**
Cash and cash equivalents	3,312	(4,435)	7,747	6,897	7,523	7,970
Available-for-sale financial assets/ financial assets held for trading	7	(3)	10	2,877	289	310
Derivative financial assets	1,317	(1,062)	2,379	2,686	1,343	771
Other financial assets	629	(1,942)	2,571	479	1,437	1,483
NET DEBT	**50,791**	**832**	**49,959**	**47,570**	**42,500**	**39,093**

Changes in net debt
millions of €



Our **net debt** increased by EUR 0.8 billion year-on-year to EUR 50.8 billion. The reasons for this are presented in the graphic above. Other effects of EUR 1.3 billion include, among other factors, liabilities for the acquisition of media broadcasting rights and financing options under which the payments for trade payables become due at a later point in time by involving banks in the process. This figure also includes the acquisition of ordinary shares in T-Mobile US under the aforementioned share buy-back program.

Off-balance sheet assets and other financing formats. In addition to the assets recognized in the statement of financial position, we use off-balance sheet assets. This primarily relates to leased property.

For more information, please refer to the explanations in Note 33 “Leases,” **pages 226 and 227**, and Note 34 “Other financial obligations,” **page 228**, in the notes to the consolidated financial statements.

Off-balance-sheet financial instruments mainly relate to the sale of receivables by means of factoring. Total receivables sold as of December 31, 2017 amounted to EUR 4.7 billion (December 31, 2016: EUR 4.9 billion). This mainly relates to factoring agreements in the United States and Germany operating segments. The agreements are used in particular for active receivables management.

Furthermore, in the reporting year, we chose financing options totaling EUR 0.3 billion (2016: EUR 0.2 billion) which extended the period of payment for trade payables from operating and investing activities by involving banks in the process and which upon payment are shown under cash flows used in/from financing activities. As a result, we show these payables under financial liabilities in the statement of financial position.

In 2017, we leased network equipment for a total of EUR 1.0 billion (2016: EUR 0.9 billion), primarily in the United States operating segment, which is recognized as a finance lease. In the statement of financial position, we therefore also recognize this item under financial liabilities and the future repayments of the liabilities in net cash from/used in financing activities.

Finance management. Our finance management ensures our Group’s ongoing solvency and hence its financial equilibrium. The fundamentals of Deutsche Telekom’s finance policy are established each year by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management.

The rating of Deutsche Telekom AG

	Standard & Poor’s	Moody’s	Fitch
LONG-TERM RATING			
Dec. 31, 2013	BBB+	Baa1	BBB+
Dec. 31, 2014	BBB+	Baa1	BBB+
Dec. 31, 2015	BBB+	Baa1	BBB+
Dec. 31, 2016	BBB+	Baa1	BBB+
DEC. 31, 2017	**BBB+**	**Baa1**	**BBB+**
OUTLOOK	**Stable**	**Stable**	**Stable**
SHORT-TERM RATING	**A-2**	**P-2**	**F2**

Financial flexibility

		2017	2016	2015	2014	2013
RELATIVE DEBT						
Net debt / EBITDA (adjusted for special factors)		2.3 x	2.3 x	2.4 x	2.4 x	2.2 x
EQUITY RATIO	%	30.0	26.2	26.5	26.3	27.1

To ensure financial flexibility, we primarily use the KPI relative debt. This is a core component of our finance strategy and an important performance indicator for investors, analysts, and rating agencies.

Condensed consolidated statement of cash flows
millions of €

	2017	2016	2015
NET CASH FROM OPERATING ACTIVITIES	17,196	15,533	14,997
Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment (CASH CAPEX)	(12,099)	(10,958)	(10,818)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	400	364	367
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)	5,497	4,939	4,546
NET CASH USED IN INVESTING ACTIVITIES	(16,814)	(13,608)	(15,015)
NET CASH USED IN FINANCING ACTIVITIES	(4,594)	(1,322)	(876)
Effect of exchange rate changes on cash and cash equivalents	(226)	250	267
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	3	(3)	1
Net increase (decrease) in cash and cash equivalents	(4,435)	850	(626)
CASH AND CASH EQUIVALENTS	3,312	7,747	6,897

Free cash flow. Free cash flow of the Group before dividend payments and spectrum investment grew from EUR 4.9 billion in the prior year to EUR 5.5 billion, with net cash from operating activities increasing by EUR 1.7 billion to EUR 17.2 billion. Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment increased by EUR 1.1 billion.

The increase in net cash from operating activities was mainly attributable to the positive business development of our United States operating segment. In the reporting period, factoring agreements were concluded for monthly revolving sales of trade receivables, mainly in the United States and Germany operating segments. Their effect on net cash from operating activities amounted to EUR 0.3 billion and was thus EUR 0.5 billion lower than in the prior year. In 2016, cash inflows from the cancellation of or changes in the terms of interest rate derivatives had a negative effect of EUR 0.3 billion. A year-on-year increase of EUR 0.1 billion in cash outflows for income taxes also had a negative impact. The dividend payments received from BT amounted to EUR 0.2 billion compared with the prior year in which dividend payments comprised EUR 0.1 billion from BT and EUR 0.2 billion from the former joint venture EE. By contrast, net interest payments that were EUR 0.1 billion lower year-on-year had a positive impact on net cash from operating activities.

The EUR 1.1 billion increase in cash capex compared with 2016 primarily related to the United States, Germany, and Europe operating segments. Cash outflows relate to network modernization and the continued network build-out, including roll-out of the 4G/LTE network and the broadband/fiber-optic build-out.

For further details, please refer to Note 30 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **page 217 et seq.**

Reconciliation for the change in disclosure of key figures for the prior-year comparative period in 2017
millions of €

	Total revenue	Profit (loss) from operations (EBIT)	EBITDA	Adjusted EBITDA	Depreciation and amortization	Impairment losses	Segment assets	Segment liabilities
FY 2016/DECEMBER 31, 2016 PRESENTATION AS OF DECEMBER 31, 2016 – AS REPORTED								
Germany	22,041	4,081	7,890	8,800	(3,796)	(13)	33,353	26,423
United States	33,738	3,685	8,967	8,561	(5,282)	–	68,349	49,791
Europe	12,747	717	3,963	4,094	(2,594)	(652)	30,778	12,519
Systems Solutions	7,907	(330)	245	582	(575)	–	9,031	6,073
Group Headquarters & Group Services	2,212	1,001	1,522	(576)	(493)	(28)	42,628	50,502
TOTAL	**78,645**	**9,154**	**22,587**	**21,461**	**(12,740)**	**(693)**	**184,139**	**145,308**
Reconciliation	(5,550)	10	(43)	(41)	53	–	(35,654)	(35,668)
GROUP	**73,095**	**9,164**	**22,544**	**21,420**	**(12,687)**	**(693)**	**148,485**	**109,640**
FY 2016/DECEMBER 31, 2016 +/– CHANGE IN DISCLOSURE: TECHNOLOGY AND INNOVATION BOARD DEPARTMENT AND GROUP DEVELOPMENT OPERATING SEGMENT								
Germany	(267)	(457)	(563)	(563)	106	–	(1,336)	(829)
United States	–	–	–	–	–	–	–	–
Europe	(1,293)	467	(190)	(228)	242	415	(4,178)	(1,528)
Systems Solutions	(914)	180	33	(52)	147	–	(1,569)	(830)
Group Development	2,347	2,730	3,490	943	(345)	(415)	11,221	2,417
Group Headquarters & Group Services	1,255	(2,920)	(2,765)	(94)	(155)	–	(4,926)	(19)
TOTAL	**1,128**	**–**	**5**	**6**	**(5)**	**–**	**(788)**	**(789)**
Reconciliation	(1,128)	–	(5)	(6)	5	–	788	789
GROUP	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
FY 2016/DECEMBER 31, 2016 = PRESENTATION AS OF DECEMBER 31, 2017								
Germany	21,774	3,624	7,327	8,237	(3,690)	(13)	32,017	25,594
United States	33,738	3,685	8,967	8,561	(5,282)	–	68,349	49,791
Europe	11,454	1,184	3,773	3,866	(2,352)	(237)	26,600	10,991
Systems Solutions	6,993	(150)	278	530	(428)	–	7,462	5,243
Group Development	2,347	2,730	3,490	943	(345)	(415)	11,221	2,417
Group Headquarters & Group Services	3,467	(1,919)	(1,243)	(670)	(648)	(28)	37,702	50,483
TOTAL	**79,773**	**9,154**	**22,592**	**21,467**	**(12,745)**	**(693)**	**183,351**	**144,519**
Reconciliation	(6,678)	10	(48)	(47)	58	–	(34,866)	(34,879)
GROUP	**73,095**	**9,164**	**22,544**	**21,420**	**(12,687)**	**(693)**	**148,485**	**109,640**

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

GERMANY

CUSTOMER DEVELOPMENT

For information on changes in the organizational structure, please refer to the section "Group organization," **page 31 et seq.**, and Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

thousands

	Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
Mobile customers [a]	43,125	41,849	1,276	3.0	40,373
Contract customers	25,887	25,219	668	2.6	23,709
Prepay customers	17,238	16,630	608	3.7	16,665
Fixed-network lines	19,239	19,786	(547)	(2.8)	20,227
Of which: retail IP-based	11,996	9,042	2,954	32.7	6,887
Broadband lines	13,209	12,922	287	2.2	12,644
Of which: optical fiber	5,803	4,250	1,553	36.5	2,923
Television (IPTV, satellite)	3,139	2,879	260	9.0	2,683
Unbundled local loop lines (ULLs)	6,138	7,195	(1,057)	(14.7)	8,050
Wholesale unbundled lines	5,539	4,212	1,327	31.5	3,015
Of which: optical fiber	3,783	2,555	1,228	48.1	1,444
Wholesale bundled lines	100	165	(65)	(39.4)	227

[a] As of January 1, 2017, reporting of contract customers in business customer operations excludes test cards (minus 41 thousand). In addition, there was a one-time effect in the Business Customers segment from a change in system reporting for prepay customers (plus 180 thousand). Prior-year figures have not been adjusted.

Total

In Germany we continue to be market leader both in terms of fixed-network and mobile revenues. This success is attributable to our high-performance networks. We offer best customer experience with multi-award-winning network quality – in the fixed network and in mobile communications – and with a broad product portfolio. So far, we have won 3.6 million customers for our integrated product, MagentaEINS.

In mobile communications, we won another 1.1 million customers in 2017. Thanks to strong demand for mobile rate plans with integrated data volumes, the number of contract customers under our Telekom and congstar brands grew. We also recorded substantial growth in the number of prepay customers.

By the end of 2017, we had already migrated 17.3 million retail and wholesale lines to IP, which corresponds to a migration rate of 69 percent.

Strong demand for our fiber-optic products continued. The number of lines increased to 9.6 million overall by the end of 2017, which means we connected 2.8 million lines to our fiber-optic network in Germany over the reporting year. With the progress in fiber-optic roll-out and innovative vectoring technology, we also successfully drove forward the marketing of higher bandwidths. With our contingent model, we create incentives for the migration from traditional wholesale products – such as bundled wholesale lines or unbundled local loop lines (ULLs) – to higher-quality fiber-optic wholesale lines.

Mobile communications

In 2017, we won a total of 676 thousand contract customers under the Telekom and congstar brands and at Telekom Deutschland Multibrand GmbH. The contract customer business of resellers (service providers) remained at the prior-year level. The number of prepay customers increased by 428 thousand.

Fixed network

Due to the persistently challenging development in the fixed-network market, primarily owing to aggressive pricing offers of competitors, we are pursuing new paths in marketing, focusing on integrated offers and on TV and fiber-optic lines. As a result, the number of broadband lines increased by 287 thousand in 2017 compared with the prior year and the number of TV customers rose by 260 thousand. In the traditional fixed network, the number of lines decreased by 547 thousand.

Our MagentaZuhause rate plans offer a comprehensive product portfolio for the fixed network based on IP technology and rate plan-specific bandwidths. MagentaZuhause Hybrid bundles fixed-network and mobile technology in a single router. To date, 370 thousand customers, primarily based in rural areas, have selected this innovative product.

By the end of 2017, we had also connected a total of 218 thousand apartments to our network through our partnerships in the housing sector.

Wholesale

As of December 31, 2017, fiber-optic lines accounted for 32.1 percent of all lines – 10.0 percentage points higher than the prior-year figure. The strong growth in our wholesale unbundled lines by 1.3 million or 31.5 percent compared with 2016 was primarily attributable to the strong demand for our contingent model. By contrast, the number of bundled wholesale lines decreased by 65 thousand. This trend is likely to continue for the next few years due to the fact that our competitors are switching from bundled to unbundled wholesale products with more bandwidth, or to their own infrastructure. The number of unbundled local loop lines decreased by 1.1 million or 14.7 percent compared with the end of the prior year. This is due first to the move to higher-quality fiber-optic wholesale lines, and second to retail customers switching to cable operators. In addition, wholesale customers are migrating their retail customers to their own fiber-optic lines. The total number of lines in the wholesale sector increased compared with 2016 to 11.8 million.

DEVELOPMENT OF OPERATIONS

millions of €

		2017	2016	Change	Change %	2015
TOTAL REVENUE		21,931	21,774	157	0.7	22,185
Consumers		11,797	11,739	58	0.5	12,146
Business Customers [a]		6,017	5,923	94	1.6	5,943
Wholesale		3,747	3,742	5	0.1	3,677
Other [a]		370	370	0	0.0	419
Profit from operations (EBIT)		4,334	3,624	710	19.6	4,081
EBIT margin	%	19.8	16.6			18.4
Depreciation, amortization and impairment losses		(3,828)	(3,703)	(125)	(3.4)	(3,646)
EBITDA		8,162	7,327	835	11.4	7,728
Special factors affecting EBITDA		(306)	(910)	604	66.4	(545)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		8,468	8,237	231	2.8	8,273
EBITDA margin (adjusted for special factors)	%	38.6	37.8			37.3
CASH CAPEX		(4,214)	(4,031)	(183)	(4.5)	(5,459)

[a] As of July 1, 2017, a share of revenue previously recognized under “Other” was assigned to Business Customers on account of a reorganization. Prior-year figures have not been adjusted.

Total revenue

Total revenue increased by 0.7 percent year-on-year in 2017, due mainly to a 2.5 percent rise in mobile revenues and a 10.8 percent growth in non-contract handset revenues. Higher IT and broadband revenues also had a positive impact on fixed-network revenue. This was not quite sufficient to completely offset the decrease of 0.9 percent in fixed-network revenue compared with 2016.

Revenue from **Consumers** grew by 0.5 percent year-on-year. Volume-related revenue decreases continued to drive the traditional fixed-network business. By contrast, revenue from broadband business increased by 1.1 percent, while revenue from mobile business increased by 2.3 percent, primarily due to successful terminal equipment sales.

Revenue from **Business Customers** increased by 1.6 percent, with mobile revenues increasing by 2.7 percent and IT revenues by 19.5 percent compared with 2016. In the fixed network, by contrast, a decline was recorded in traditional voice telephony, due largely to the increasing number of customers moving to flat-rate plans.

Wholesale revenue remained at the prior-year level in 2017. Adjusted for regulatory price effects (from December 1, 2016), there was a positive trend, thanks primarily to higher revenues with unbundled lines, in particular as part of our contingent model.

EBITDA, adjusted EBITDA

EBITDA amounted to EUR 8.2 billion in 2017, an increase of 11.4 percent against the prior year, due mainly to lower special factors for expenses in connection with our staff restructuring. EBITDA adjusted for special factors increased by 2.8 percent compared with 2016 in the reporting year to EUR 8.5 billion, driven mainly by efficiency enhancement measures in all functions while revenue increased slightly. Our adjusted EBITDA margin increased to 38.6 percent (prior-year figure: 37.8 percent).

EBIT

Profit from operations increased by 19.6 percent year-on-year to EUR 4.3 billion. The increase in the level of EBITDA more than offset the slight increase in depreciation, amortization and impairment losses.

Cash capex

Cash capex increased year-on-year by 4.5 percent. As part of our integrated network strategy, we again made significant investments in the broadband and fiber-optic roll-out, our IP transformation, and our mobile infrastructure.

UNITED STATES

CUSTOMER DEVELOPMENT

thousands

	Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
Mobile customers	72,585	71,455	1,130	1.6	63,282
Branded customers [a]	58,715	54,240	4,475	8.3	49,326
Branded postpaid [a]	38,047	34,427	3,620	10.5	31,695
Branded prepay [a]	20,668	19,813	855	4.3	17,631
Wholesale customers [a,b]	13,870	17,215	(3,345)	(19.4)	13,956

[a] On September 1, 2016 T-Mobile US sold its marketing and distribution rights to certain of T-Mobile US' existing co-branded customers to a current wholesale partner for nominal consideration (the MVNO Transaction). Upon the sale, the transaction resulted in a transfer of 1,365 thousand branded postpaid customers and 326 thousand branded prepay customers to wholesale customers. Prospectively from September 1, 2016, net customer additions for these customers are included within wholesale customers.

[b] T-Mobile US believes current and future regulatory changes have made the Lifeline program offered by T-Mobile US' wholesale partners uneconomical. T-Mobile US will continue to support its wholesale partners offering the Lifeline program, but has excluded the Lifeline customers from the reported wholesale subscriber base resulting in the removal of 4,528 thousand reported wholesale customers beginning in the second quarter of 2017. No further Lifeline adjustments are expected in future periods.

At December 31, 2017, the United States operating segment (T-Mobile US) had 72.6 million customers compared to 71.5 million customers at December 31, 2016. Net customer additions were 5.7 million for the year ended December 31, 2017 – excluding Lifeline customer activity beginning in the second quarter of 2017 – compared to 8.2 million net customer additions for the year ended December 31, 2016 due to the factors described below.

Branded customers. Branded postpaid net customer additions were 3,620 thousand for the year ended December 31, 2017, compared to 4,097 thousand branded postpaid net customer additions for the year ended December 31, 2016. Branded postpaid net customer additions for the year ended December 31, 2017 were lower compared to the year ended December 31, 2016, primarily due to higher deactivations from a growing customer base, a decrease in the number of qualified branded prepay customers migrating to branded postpaid plans, and lower gross customer additions from increased competitive activity in the marketplace.

Branded prepay net customer additions were 855 thousand for the year ended December 31, 2017, compared to 2,508 thousand branded prepay net customer additions for the year ended December 31, 2016. The decrease was due primarily to higher MetroPCS brand deactivations from a growing customer base and increased competitive activity in the marketplace. Additional decreases resulted from the optimization of T-Mobile US' third-party distribution channels.

Wholesale customers. T-Mobile US believes current and future regulatory changes have made the Lifeline program offered by T-Mobile US wholesale partners uneconomical. T-Mobile US will continue to support its wholesale partners offering the Lifeline program, but has excluded the Lifeline customers from the reported wholesale subscriber base resulting in a removal of 4,528 thousand reported wholesale customers beginning in the second quarter of 2017. No further Lifeline adjustments are expected in future periods. Taking the aforementioned approach into consideration Wholesale net customer additions were 1,183 thousand for the year ended December, 2017, compared to wholesale net customer additions of 1,568 thousand for the year ended December 31, 2016. The decrease was due primarily to lower gross customer additions, partially offset by lower customer deactivations. Net customer activity for Lifeline was also excluded beginning in the second quarter of 2017.

DEVELOPMENT OF OPERATIONS

millions of €

		2017	2016	Change	Change %	2015
TOTAL REVENUE		35,736	33,738	1,998	5.9	28,925
Profit from operations **(EBIT)**		5,930	3,685	2,245	60.9	2,454
EBIT margin	%	16.6	10.9			8.5
Depreciation, amortization and impairment losses		(5,019)	(5,282)	263	5.0	(3,775)
EBITDA		10,949	8,967	1,982	22.1	6,229
Special factors affecting EBITDA		1,633	406	1,227	n. a.	(425)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		9,316	8,561	755	8.8	6,654
EBITDA margin (adjusted for special factors)	%	26.1	25.4			23.0
CASH CAPEX		(11,932)	(5,855)	(6,077)	n. a.	(6,381)

Total revenue

Total revenue for the United States operating segment of EUR 35.7 billion in 2017 increased by 5.9 percent compared to EUR 33.7 billion in 2016. In U.S. dollars, T-Mobile US' total revenues increased by 8.1 percent year-on-year due primarily to service revenue growth resulting from increases in T-Mobile US' average branded customer base from strong customer response to T-Mobile US' Un-carrier initiatives and success of the MetroPCS brand. Additionally, equipment revenues increased due primarily to a higher average revenue per device sold, an increase from the purchase of leased devices at the end of the lease term, and increased proceeds from liquidation of returned customer handsets, partially offset by a decrease in lease revenues due to T-Mobile US' continued focus on equipment installment plan sales.

EBITDA, adjusted EBITDA

Adjusted EBITDA increased by 8.8 percent to EUR 9.3 billion in 2017, compared to EUR 8.6 billion in 2016. In U.S. dollars, adjusted EBITDA increased by 10.7 percent in 2017, compared to 2016. Adjusted EBITDA increased due primarily to an increase in branded postpaid and prepay service revenues resulting from strong customer response to T-Mobile US' Un-carrier initiatives, the ongoing success of promotional activities, and the continued strength of the MetroPCS brand, partially offset by higher commissions, employee-related costs, promotional costs, higher costs associated with network expansion, and the negative impact from hurricanes in Texas, Florida and Puerto Rico. The negative impact in 2017 from lost revenue, assets damaged or destroyed and other hurricane-related costs incurred was approximately EUR 250 million. As of December 31, 2017, T-Mobile US expects additional expenses to be incurred and customer activity to be impacted in the first quarter of 2018, primarily related to T-Mobile US' operations in Puerto Rico. T-Mobile US has not recognized any potential insurance recoveries related to those hurricane losses as it continues to assess the damage and hold discussions with its insurance carriers. Adjusted EBITDA margin increased to 26.1 percent in 2017, compared to 25.4 percent in 2016 due to the factors described above.

EBITDA in 2017 included special factors of EUR 1.6 billion compared to special factors of EUR 0.4 billion in 2016. The increase in special factors related primarily to a spectrum impairment reversal in 2017. Overall, EBITDA increased to EUR 10.9 billion in 2017, compared to EUR 9.0 billion in 2016 due to the factors described above, including the impact of special factors.

EBIT

EBIT increased to EUR 5.9 billion in 2017, compared to EUR 3.7 billion in 2016 driven by higher EBITDA and lower depreciation expense related to devices leased under T-Mobile US' JUMP! On Demand program, partially offset by an increase from the continued build-out of T-Mobile US' 4G/LTE network.

Cash capex

Cash capex increased to EUR 11.9 billion in 2017, compared to EUR 5.9 billion in 2016, due primarily to EUR 7.3 billion of spectrum licenses acquired in 2017, compared with EUR 1.7 billion of spectrum licenses acquired in 2016. Excluding the effects of spectrum acquisitions, cash capex increased by EUR 0.4 billion in 2017, compared to 2016, due primarily to growth in network build as T-Mobile US continues deployment of low band spectrum and begins deployment of 600 MHz spectrum.

EUROPE

CUSTOMER DEVELOPMENT

thousands

		Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
EUROPE, TOTAL	Mobile customers	48,842	47,952	890	1.9	49,060
	Contract customers	25,483	24,315	1,168	4.8	23,657
	Prepay customers	23,359	23,637	(278)	(1.2)	25,403
	Fixed-network lines	8,439	8,531	(92)	(1.1)	8,763
	Of which: IP-based	5,734	5,016	718	14.3	4,132
	Retail broadband lines	5,647	5,393	254	4.7	5,189
	Television (IPTV, satellite, cable)	4,244	4,049	195	4.8	3,905
	Unbundled local loop lines (ULLs)/wholesale PSTN	2,265	2,259	6	0.3	2,239
	Wholesale bundled lines	143	123	20	16.3	121
	Wholesale unbundled lines	246	247	(1)	(0.4)	199
GREECE	Mobile customers	7,981	7,725	256	3.3	7,399
	Fixed-network lines	2,547	2,564	(17)	(0.7)	2,586
	Broadband lines	1,843	1,682	161	9.6	1,531
ROMANIA	Mobile customers	5,258	5,722	(464)	(8.1)	5,992
	Fixed-network lines	1,865	1,969	(104)	(5.3)	2,091
	Broadband lines	1,182	1,194	(12)	(1.0)	1,186
HUNGARY	Mobile customers	5,293	5,332	(39)	(0.7)	5,504
	Fixed-network lines	1,632	1,629	3	0.2	1,674
	Broadband lines	1,105	1,040	65	6.3	1,023
POLAND	Mobile customers	10,454	10,634	(180)	(1.7)	12,056
	Fixed-network lines	32	20	12	60.0	18
	Broadband lines	15	16	(1)	(6.3)	15
CZECH REPUBLIC	Mobile customers	6,176	6,049	127	2.1	6,019
	Fixed-network lines	197	140	57	40.7	154
	Broadband lines	167	134	33	24.6	134
CROATIA	Mobile customers	2,244	2,234	10	0.4	2,233
	Fixed-network lines	967	1,001	(34)	(3.4)	1,004
	Broadband lines	783	783	0	0.0	741
SLOVAKIA	Mobile customers	2,243	2,225	18	0.8	2,235
	Fixed-network lines	858	850	8	0.9	855
	Broadband lines	669	638	31	4.9	599
AUSTRIA	Mobile customers	5,702	4,594	1,108	24.1	4,323
OTHER[a]	Mobile customers	3,490	3,438	52	1.5	3,299
	Fixed-network lines	340	358	(18)	(5.0)	381
	Broadband lines	274	279	(5)	(1.8)	285

[a] Other: national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the lines of the GTS Central Europe group in Romania.

For information on changes in the organizational structure, please refer to the section "Group organization," **page 31 et seq.**, and Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

Total

The European market was again dominated by intense competition in the reporting year. We met this challenge successfully thanks to our convergent product portfolio MagentaOne, recording a strong increase of around 58.5 percent in our FMC customer base as of December 31, 2017. Our TV business has also established itself as a consistent revenue growth driver. In the mobile communications business, we recorded a year-on-year increase in the number of high-value contract customers of 4.8 percent to 25.5 million. We are systematically driving forward the roll-out of fast, fiber-optic lines (FTTH, FTTB, and FTTC) in the fixed network. As part of our pan-European network strategy, we also increased the number of IP lines – primarily thanks to the migration from traditional PSTN lines to IP technology.

Mobile communications

As of the end of December 2017, we had a total mobile customer base of 48.8 million – up by 1.9 percent compared with 2016. The rise was attributable to the positive trend in the high-value contract customer business, especially at our national companies in Poland, Hungary, and the Czech Republic. Overall, we recorded growth in the number of contract customers of 4.8 percent or some 1.2 million net contract additions; thus the growth trend continues. At the end of the reporting year, contract customers accounted for 52.2 percent of the total customer base. Thanks to our continued build-out of our mobile networks with 4G/LTE technology, our customers enjoy better network coverage with fast mobile broadband. As of December 31, 2017, we already covered 94 percent of the population in the countries of our operating segment with LTE, reaching around 106 million people in total. The high level of data volumes used as well as the sales figures for mobile devices prove that our customers actually use these high bandwidths: At the end of December 2017, smartphones accounted for 81 percent of all mobile terminal equipment sales, a further increase against the prior year. This enabled us to entirely offset customer losses in the prepay business. The effects of regulatory prepay registration requirements in Poland had a negative effect on customer development. We recorded a return to slight growth in prepay customers from the third quarter of 2017 compared with the prior quarter.

Fixed network

Our TV and Entertainment offers generated positive impetus again in the reporting year: The number of TV customers grew by 4.8 percent compared with the end of 2016 to 4.2 million, with the majority of the net customer additions – 195 thousand – at our national companies in Hungary, Slovakia and Greece.

Our convergence product portfolio, MagentaOne, is available to our customers in all of our integrated countries. By December 31, 2017, we had already gained 2.2 million FMC customers in total, with demand rising substantially in Greece in particular. We have been increasingly successful in marketing our MagentaOne Business product to business customers. A simplified and standardized network based on IP technology provides the technical underpinnings of FMC products. Overall, we have converted five of our national companies to IP technology. As of December 31, 2017, we recorded 5.7 million IP-based lines – up 14.3 percent compared with the prior year. IP lines accounted for around 67.9 percent of all fixed-network lines. The number of fixed-network lines in our Europe operating segment decreased slightly compared with 2016 to 8.4 million as of the end of the reporting year.

The number of retail broadband lines increased by 4.7 percent to 5.6 million overall, with fiber-optic-based lines accounting for the majority of net customer additions, once again growing considerably faster than DSL business. Romania, Hungary, and Slovakia were the main contributors to this growth. We continued to increase our overall fiber-optic coverage, with our national companies reaching around 32 percent of households as of December 31, 2017. This success bears out our continued investment in forward-looking, fiber optic-based technologies.

DEVELOPMENT OF OPERATIONS

millions of €

		2017	2016	Change	Change %	2015
TOTAL REVENUE		11,589	11,454	135	1.2	11,674
Greece		2,846	2,883	(37)	(1.3)	2,878
Romania		972	985	(13)	(1.3)	984
Hungary		1,808	1,673	135	8.1	1,848
Poland[a]		1,509	1,488	21	1.4	1,544
Czech Republic		1,011	959	52	5.4	958
Croatia		955	925	30	3.2	909
Slovakia		748	766	(18)	(2.3)	783
Austria		900	855	45	5.3	829
Other[b]		1,069	1,132	(63)	(5.6)	1,155
Profit from operations (EBIT)		462	1,184	(722)	(61.0)	1,342
EBIT margin	%	4.0	10.3			11.5
Depreciation, amortization and impairment losses		(3,157)	(2,589)	(568)	(21.9)	(2,395)
EBITDA		3,619	3,773	(154)	(4.1)	3,737
Special factors affecting EBITDA		(130)	(93)	(37)	(39.8)	(207)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		3,749	3,866	(117)	(3.0)	3,944
Greece		1,135	1,120	15	1.3	1,118
Romania		166	175	(9)	(5.1)	205
Hungary		545	539	6	1.1	526
Poland[a]		419	482	(63)	(13.1)	580
Czech Republic		406	400	6	1.5	390
Croatia		386	374	12	3.2	367
Slovakia		315	302	13	4.3	296
Austria		266	258	8	3.1	259
Other[b]		110	215	(105)	(48.8)	202
EBITDA margin (adjusted for special factors)	%	32.3	33.8			33.8
CASH CAPEX		(1,874)	(2,600)	726	27.9	(1,469)

The contributions of the national companies correspond to their respective unconsolidated financial statements and do not take consolidation effects at operating segment level into account.

[a] The business of T-Systems Polska Sp. z o.o., which was previously organizationally assigned to the Systems Solutions operating segment, is now disclosed under the Europe operating segment as of September 1, 2017. Figures for prior periods were not adjusted.
[b] "Other": national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as ICSS (International Carrier Sales & Solutions), the ICSS business of the local business units, GTS Central Europe group in Romania, and Europe Headquarters.

Total revenue

Our Europe operating segment generated total revenue of EUR 11.6 billion in the reporting year, a slight year-on-year increase of 1.2 percent. Revenue was 0.5 percent up on the prior-year figure in organic terms, i.e., assuming constant exchange rates and the same organizational structure.

Our national companies increased their revenues from growth areas by a substantial 11.0 percent in 2017, with growth areas accounting for around 33 percent of total segment revenue. Mobile data business made a key contribution to this, growing by 17.2 percent to EUR 1.6 billion. All of the countries in our operating segment contributed to this success, in particular Poland, Hungary, Greece, and Austria. Thanks to our innovative TV and program management, the uptrend continued in TV and broadband business, with TV revenue rising by 6.9 percent to EUR 498 million and broadband revenue rising by 2.9 percent to EUR 711 million in the reporting year. Our B2B/ICT business customer operations also recorded a year-on-year increase in revenues in 2017, mainly thanks to the particularly strong results with ICT solutions in Europe, primarily in Hungary. Thanks to our innovative and future-oriented business solutions we also recorded double-digit growth rates in revenue from cloud business and from convergent solutions for the SMEs (MagentaOne Business). We laid important groundwork in the reporting year to firmly establish ourselves as a preferred digitalization partner for customers.

In addition, we recorded higher revenue from terminal equipment sales and visitors (revenues with third parties from roaming in our home networks). This offset the overall revenue decline at segment level, which was primarily attributable to voice telephony. From a country perspective, Hungary, Austria, the Czech Republic, and Croatia made the biggest contributions to the organic development of revenue in the reporting year, offsetting declining revenue from Greece, Slovakia, Poland, and Romania in particular, as well as from international wholesale business. Intense competition on the telecommunications markets as well as lower roaming charges in many countries of our operating segment had a negative impact on our organic revenue.

EBITDA, adjusted EBITDA

Our Europe operating segment generated adjusted EBITDA of EUR 3.7 billion in the reporting year, a year-on-year decrease of 3.0 percent. In organic terms, i.e., assuming constant exchange rates, and adjusted for the internal reallocation to the new Board of Management department Technology and Innovation, adjusted EBITDA declined only slightly by 1.0 percent.

The positive revenue effect was offset by higher market investments and revenue-related cost increases in B2B/ICT business customer operations, among other factors. By contrast, increased cost efficiency had a positive effect on adjusted EBITDA at segment level. From a country perspective, the slight decline in organic adjusted EBITDA is primarily attributable to developments at our national companies in Poland, Romania, and Albania. In Poland in particular, the decrease in revenue from the smaller customer base resulting from the prepay SIM registration requirement and intense competition had a negative effect on adjusted EBITDA. Regulatory effects, such as the reduction in EU roaming surcharges and interconnection rates, as well as higher market investment costs also reduced adjusted EBITDA. These developments were contrasted by increases in adjusted EBITDA in Greece, Slovakia, Croatia, and Austria in particular. Adjusted EBITDA was also impacted by decisions by regulatory authorities and the introduction of special taxes.

Our unadjusted EBITDA decreased by 4.1 percent year-on-year to EUR 3.6 billion, due in part to the decline in adjusted EBITDA, and in part to an increase in negative special factors. In organic terms, EBITDA decreased by 2.0 percent.

Development of operations in selected countries

Greece. At EUR 2.8 billion, revenue in Greece was only slightly down against 2016. We performed well in the fixed-network business, with increased revenues from broadband and TV business as well as with our exclusive TV content. Revenue in the B2B/ICT business also performed well. However, we were not able to entirely offset the negative effects from the wholesale business and voice telephony. Mobile revenues were slightly up year-on-year, with rising revenues from mobile data services and visitors more than offsetting the primarily price-driven decline in revenue from voice telephony.

In 2017, adjusted EBITDA in Greece increased slightly year-on-year by 1.3 percent to EUR 1.1 billion. Thanks to increased cost efficiency, we more than offset the decline in revenues.

Hungary. In Hungary, revenue grew by 8.1 percent compared with the prior year to EUR 1.8 billion. In organic terms, it increased by 7.4 percent. This growth was driven by the fixed-network business with clear revenue growth in the B2B/ICT business customer operations. TV business also made a positive contribution to total revenues, as did our FMC offering MagentaOne for consumers and business customers. In mobile business, revenue from mobile data services increased by 23.5 percent compared with the prior year. Revenue from terminal equipment sales also increased significantly, more than offsetting the decline in voice revenue. Our high-speed, high-reach mobile network also contributed to the positive trend in mobile business.

Adjusted EBITDA increased by 1.1 percent year-on-year to EUR 545 million. In organic terms, adjusted EBITDA remained almost unchanged.

Austria. In Austria, we generated revenue of EUR 900 million in the reporting year, up 5.3 percent compared with the prior year. This was mainly attributable to the mobile data business which saw a further rise in volume and accounted for a share of total revenue of around 33 percent. Higher voice and visitor revenues and a one-time effect from the first quarter of 2017 also positively influenced the revenue trend. Overall, these positive effects more than offset the decrease in revenue from text messaging services and from sales of mobile terminal equipment.

The revenue trend is also evident in the increase in adjusted EBITDA by 3.1 percent to EUR 266 million in 2017.

EBIT

EBIT in our Europe operating segment decreased by 61.0 percent in 2017 to EUR 0.5 billion. In addition to the decline in EBITDA, this was primarily due to the EUR 0.6 billion increase in depreciation, amortization and impairment losses - in particular from the impairment of goodwill and property, plant and equipment amounting to EUR 0.9 billion resulting from the year-end impairment tests in Poland, Albania, and Romania. In the prior year, impairment losses on goodwill and on property, plant and equipment, primarily in Romania, reduced EBIT by EUR 0.2 billion overall.

Cash capex

In the reporting year, our Europe operating segment reported cash capex of EUR 1.9 billion. The decline of EUR 0.7 billion was primarily due to the acquisition of mobile licenses in Poland in the prior year. In 2017, we acquired a small amount of mobile spectrum in Greece. Excluding the effects from the acquisition of spectrum, cash capex increased by 11.8 percent compared with 2016 at segment level. As part of our integrated network strategy, we made significant investments in the broadband and fiber-optic roll-out, our IP transformation, and our mobile infrastructure.

SYSTEMS SOLUTIONS

ORDER ENTRY

millions of €

	Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
ORDER ENTRY	5,241	6,851	(1,610)	(23.5)	5,608

The prior-year comparative for 2016 was adjusted retrospectively due to the change in the structure of the Group implemented as of January 1, 2017.

For information on changes in the organizational structure, please refer to the section “Group organization,” **page 31 et seq.**, and Note 31 “Segment reporting” in the notes to the consolidated financial statements, **page 220 et seq.**

Development of business

Order entry at our Systems Solutions operating segment declined markedly year-on-year and was well below our expectations for the reporting year. Although we managed to conclude new contracts in 2017, the level achieved was lower than the prior year, which had included several major deals. One reason for the decline in order entry was the market trend away from traditional IT business and toward cloud computing and digitalization, which resulted in shorter terms of contract. Strategic partnerships remain a key component of our plan to expand strategic growth areas such as the cloud and the Internet of Things. It means that we offer our partners’ services from our data centers in Germany. In addition, we use our global partner alliance ngena (Next Generation Enterprise Network Alliance) to provide our customers with international network connections and services at short notice. In this context, security and high availability play a key role for our customers as well as for us. Launched at the start of the reporting year, our Telekom Security unit provides the key underpinnings for our strategy to grow in digital innovation areas. We continue to offer the main pillars of the digital transformation with our solutions for the Internet of Things and for the cloud – along with the corresponding security solutions.

DEVELOPMENT OF OPERATIONS[a]

millions of €

		2017	2016	Change	Change %	2015
TOTAL REVENUE		6,918	6,993	(75)	(1.1)	6,837
External revenue		5,504	5,678	(174)	(3.1)	5,826
Loss from operations (EBIT)		(1,356)	(150)	(1,206)	n. a.	(373)
Special factors affecting EBIT		(1,477)	(276)	(1,201)	n. a.	(548)
EBIT (adjusted for special factors)		121	126	(5)	(4.0)	175
EBIT margin (adjusted for special factors)	%	1.7	1.8			2.6
Depreciation, amortization and impairment losses		(1,636)	(428)	(1,208)	n. a.	(473)
EBITDA		280	278	2	0.7	100
Special factors affecting EBITDA		(229)	(252)	23	9.1	(481)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		509	530	(21)	(4.0)	581
EBITDA margin (adjusted for special factors)	%	7.4	7.6			8.5
CASH CAPEX		(383)	(402)	19	4.7	(432)

[a] The business of T-Systems Polska Sp. z o.o., which was previously organizationally assigned to the Systems Solutions operating segment, is now disclosed under the Europe operating segment as of September 1, 2017. Figures for prior periods were not adjusted.

Total revenue

Total revenue in our Systems Solutions operating segment was down slightly year-on-year to EUR 6.9 billion. The revenue trend differed in the course of the year. It decreased in the first half compared with the prior-year period, due to completion of the set-up phase of the toll collection system in Belgium in 2016. By contrast, revenue rose in the second half. Adjusted for the non-recurring effect from 2016, our telecommunications business grew year-on-year. On the other hand, revenue from our traditional IT business continued to decline. This business is marked by generally lower prices and declining order entry, especially for international business. Our strategic growth areas made a positive contribution, with revenue from cloud computing rising 19.2 percent year-on-year and from the Internet of Things by 4.9 percent. Our new Telekom Security unit generated revenue as well.

EBITDA, adjusted EBITDA

In the 2017 reporting year, our Systems Solutions operating segment recorded adjusted EBITDA of EUR 509 million compared with EUR 530 million in the prior year. Excluding the aforementioned non-recurring effect from the prior year, we reported a positive trend in line with our expectations despite a difficult ICT market, the provisions we had to set aside for certain corporate customer contracts, and the all-IP migration for some customer contracts. EBITDA remained roughly stable at EUR 280 million in the reporting year, up 0.7 percent year-on-year.

For further information on changes in the organizational structure, please refer to the section "Group organization," **page 31 et seq.**, and Note 31 "Segment reporting" in the notes to consolidated financial statements, **page 220 et seq.**

EBIT, adjusted EBIT

Adjusted EBIT in our Systems Solutions operating segment decreased by EUR 5 million year-on-year. The decline in order entry prompted impairment testing of the assets in the third quarter. An impairment loss on goodwill of EUR 1.2 billion was recognized as a result. That is why EBIT decreased by a substantial EUR 1.2 billion to minus EUR 1.4 billion.

Cash capex

Cash capex in the Systems Solutions operating segment stood at EUR 383 million in the reporting period, down EUR 19 million compared to the prior year. Our consistently high level of capital expenditure is linked to our strategy of investing in the strategic growth areas of digital transformation, the Internet of Things, healthcare solutions, cloud computing, and cyber security. The continued expansion of the European toll collection system also increases the need for investment.

GROUP DEVELOPMENT

Since January 1, 2017, we have reported on the new Group Development operating segment. Group Development actively manages and increases the value of selected Group subsidiaries and equity investments.

CUSTOMER DEVELOPMENT

thousands

		Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
NETHERLANDS	Mobile customers	3,850	3,746	104	2.8	3,677
	Fixed-network lines	191	164	27	16.5	–
	Broadband lines	191	164	27	16.5	–

Thanks to its successful repositioning in the market, T-Mobile Netherlands' mobile business for both consumers and business customers grew 2.8 percent in the reporting year. This increase was mainly due to the new rate plan portfolio introduced in the first quarter of 2017 and to the enhanced market approach it enabled. The number of customers in the fixed-network consumer portfolio we acquired from Vodafone at the end of 2016 also increased in 2017, by 16.5 percent.

DEVELOPMENT OF OPERATIONS

millions of €

		2017	2016	Change	Change %	2015
TOTAL REVENUE		2,263	2,347	(84)	(3.6)	2,428
Netherlands		1,355	1,331	24	1.8	1,394
Profit from operations (EBIT)		1,504	2,730	(1,226)	(44.9)	1,264
Depreciation, amortization and impairment losses		(304)	(760)	456	60.0	(342)
EBITDA		1,808	3,490	(1,682)	(48.2)	1,606
Special factors affecting EBITDA		893	2,547	(1,654)	(64.9)	556
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		915	943	(28)	(3.0)	1,050
Netherlands		421	358	63	17.6	500
EBITDA margin (adjusted for special factors)	%	40.4	40.2			43.2
CASH CAPEX		(290)	(271)	(19)	(7.0)	(373)

Total revenue

Total revenue in our Group Development operating segment decreased by 3.6 percent year-on-year, with the revenue lost following the sale of Strato having a negative impact. Revenue at DFMG remained virtually unchanged compared with 2016. The main positive effect was the revenue trend at T-Mobile Netherlands.

EBITDA, adjusted EBITDA

EBITDA decreased by EUR 1.7 billion year-on-year to EUR 1.8 billion. We are constantly analyzing our portfolio of shareholdings with a focus on ensuring adequate corporate growth. A consequence of this policy was our sale of Strato effective March 31, 2017 and of the remaining shares in Scout24 AG effective June 23, 2017. The disposals resulted in income of around EUR 0.7 billion being recognized as special factors. Positive special factors of EUR 0.2 billion originating from a settlement agreement with BT concluded in July 2017 also had an impact. T-Mobile Netherlands recognized provisions for new consumer credit regulations in its home market. The 2016 figure had included positive net special factors of EUR 2.5 billion, primarily from the sale of our stake in the EE joint venture.

Adjusted EBITDA in our Group Development operating segment was down by 3.0 percent year-on-year, with forgone earnings following the sale of Strato having a negative impact. In addition, there were non-recurring effects as well as effects from the assignment of DFMG to the Group Development operating segment at the beginning of the reporting year. Adjusted EBITDA at T-Mobile Netherlands increased by 17.6 percent year-on-year, mainly because of lower market investment expenditure due to a higher proportion of SIM-only contracts, and of a significant reduction in overheads brought about by the transformation program.

EBIT

EBIT decreased by EUR 1.2 billion year-on-year to EUR 1.5 billion, due to the same factors described under EBITDA. Depreciation, amortization and impairment losses were lower than in the prior year, both due to the impairment loss of EUR 0.4 billion on goodwill recognized in the Netherlands in the previous year, and to the deconsolidation of Strato.

Cash capex

Cash capex in our Group Development operating segment increased by 7.0 percent year-on-year, primarily due to the acquisition of Vodafone's fixed-network consumer portfolio by T-Mobile Netherlands and to the expansion of mobile network capacities.

For information on the effects of our equity investments on profit/loss from financial activities, please refer to the section "Development of business in the Group," page 49 et seq.

For information on changes in the organizational structure, please refer to the notes in the section "Group organization," page 31 et seq., and the disclosures under Note 31 "Segment reporting" in the notes to consolidated financial statements, page 220 et seq.

GROUP HEADQUARTERS & GROUP SERVICES
DEVELOPMENT OF OPERATIONS

millions of €

	2017	2016	Change	Change %	2015
TOTAL REVENUE	2,943	3,467	(524)	(15.1)	3,355
Loss from operations (EBIT)	(1,495)	(1,919)	424	22.1	(1,750)
Depreciation, amortization and impairment losses	(657)	(676)	19	2.8	(780)
EBITDA	(837)	(1,243)	406	32.7	(970)
Special factors affecting EBITDA	(121)	(574)	453	78.9	(416)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	(716)	(670)	(46)	(6.9)	(554)
CASH CAPEX	(1,005)	(936)	(69)	(7.4)	(983)

Total revenue

Total revenue in our Group Headquarters & Group Services segment in 2017 decreased by 15.1 percent year-on-year. This decline was mainly due to the fact that the costs of intragroup development services newly commissioned from Deutsche Telekom IT in Germany have no longer been charged internally since January 2016. Other reasons for the decrease were forgone revenue from DeTeMedien, the sale of which was completed in June 2017, and lower intragroup revenue from land and buildings, essentially due to further optimization of the use of space. In addition, lower intragroup revenue from Telekom Training and Deutsche Telekom IT – due to a reduction in the amounts charged for licenses and a narrower revenue-relevant cost base – had a negative impact. There was a positive effect on revenue from the structural further development of Deutsche Telekom Services Europe (DTSE).

EBITDA, adjusted EBITDA

Adjusted EBITDA at Group Headquarters & Group Services decreased by EUR 46 million compared with 2016 in the reporting year, primarily due to lower intragroup revenue from land and buildings, forgone earnings following the sale of DeTeMedien, and higher additions to provisions. By contrast, the following factors had a positive effect on adjusted EBITDA: the establishment of our Board department Technology and Innovation, higher income from the sale of real estate, the reduction in headcount brought about by ongoing restructuring of the Vivento workforce, and lower operating costs at Group Services.

Overall, negative special factors of EUR 121 million impacted EBITDA in 2017, largely due to staff-related expenses. Proceeds from the sale of DeTeMedien had an offsetting effect. Negative special factors of EUR 574 million in 2016 were mainly due to staff-related expenses.

EBIT

The improvement in EBITDA was the main cause of the year-on-year increase of EUR 424 million in EBIT. Depreciation, amortization and impairment losses were down EUR 19 million year-on-year, due in particular to lower depreciation and impairment losses on land and buildings as a result of our ongoing efforts to optimize our real estate portfolio.

Cash capex

Cash capex increased by EUR 69 million year-on-year, primarily owing to increased development activities in the Board department Technology and Innovation.

DEVELOPMENT OF BUSINESS AT DEUTSCHE TELEKOM AG

Deutsche Telekom AG prepares its annual financial statements in accordance with the principles of German GAAP, as specified in the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG).

As the Headquarters of the Deutsche Telekom Group, we perform strategic and cross-segment management functions and provide services for other Group companies. The profits and losses of our subsidiaries and Group financing measures have a material effect on our financial position and results of operations. In our home market, there was a slight upward trend in revenue. This was partly due to a rise in mobile revenues and, in particular, in non-contract handset business. Increased IT and broadband revenues also had a positive impact on fixed-network revenue, although it was not sufficient to offset the overall decline in revenue in the fixed-network business. In our Systems Solutions operating segment, business was negatively affected by the continued decrease in revenues from the traditional IT business, characterized by a general downward trend in prices in the market as well as a decline in order entry. A positive revenue trend in our growth areas and an increase in terminal equipment revenue, but also lower roaming charges and ongoing intense competition impacted on the Europe operating segment in 2017.

Deutsche Telekom AG reported income after taxes for the 2017 financial year of EUR 4.9 billion. In addition to the operating business, the development of business in the reporting year was influenced by a number of very different factors, including the intragroup restructuring within the DFMG group, the reversal of a write-down (indirect stake held in T-Mobile US, Inc., Bellevue) as well as a write-down at T-Mobile Global Zwischenholding GmbH, Bonn (indirect stake held in the BT Group plc, London), and a write-down of the carrying amount for the investment in T-Systems International GmbH, Frankfurt/Main, arising from both the company's own business and from income related to subsidiaries, associated and related companies.

RESULTS OF OPERATIONS OF DEUTSCHE TELEKOM AG

Statement of income of Deutsche Telekom AG under German GAAP (total cost method)
millions of €

	2017	2016	Change	Change %	2015
NET REVENUE	**3,603**	**3,927**	**(324)**	**(8.3)**	**3,313**
Other own capitalized costs	4	4	0	–	7
TOTAL OPERATING PERFORMANCE	**3,607**	**3,931**	**(324)**	**(8.2)**	**3,320**
Other operating income	2,769	2,120	649	30.6	4,065
Goods and services purchased	(1,060)	(1,151)	91	7.9	(1,165)
Personnel costs [a]	(2,732)	(3,516)	784	22.3	(2,949)
Depreciation, amortization and write-downs	(341)	(338)	(3)	(0.9)	(387)
Other operating expenses [a]	(4,251)	(3,570)	(681)	(19.1)	(4,186)
OPERATING RESULTS	**(2,008)**	**(2,524)**	**516**	**20.4**	**(1,302)**
Financial income (expense), net	7,151	4,717	2,434	51.6	3,492
Income taxes	(198)	(154)	(44)	(28.6)	(282)
INCOME AFTER INCOME TAXES	**4,945**	**2,039**	**2,906**	**n. a.**	**1,908**
Other taxes	(18)	(19)	1	5.3	(19)
INCOME AFTER TAXES	**4,927**	**2,020**	**2,907**	**n. a.**	**1,889**

[a] Pursuant to the provisions of IDW RS HFA 30, as amended, which was adopted in December 2016, the expenses arising from the collateral promise for pensions are recognized under personnel costs; in 2015, they had been included under other operating expenses. Figures for 2015 have been adjusted accordingly.

The negative operating results improved by approximately EUR 0.5 billion year-on-year, due mainly to a year-on-year decrease in personnel costs of EUR 0.8 billion and an increase in other operating income of EUR 0.6 billion. Higher other operating expenses of EUR 0.7 billion and a decline of EUR 0.3 billion in net revenue had an offsetting effect.

The decline in net revenue compared with the previous year is primarily attributable to lower revenue from renting and leasing out. An increase of EUR 0.4 billion in foreign currency translation gains and income from derivatives were the main drivers of the year-on-year growth in other operating income, which was up by EUR 0.6 billion. The foreign currency translation gains in the reporting year result in particular from exchange rate effects realized from the repayment of U.S. dollar loans extended or taken out. Offsetting effects from hedging are included in other operating expenses. Furthermore, other operating income improved in the reporting year as a result of the sale of the remaining shares in Scout24 AG, Munich, which generated EUR 0.3 billion.

Other operating expenses were up EUR 0.7 billion year-on-year, due mainly to an increase of EUR 0.7 billion as a result of higher foreign currency transaction losses and expenses arising from derivatives, caused in particular by the repayment in the current year of U.S. dollar loans extended or taken out and by effects from the market performance of U.S. dollar currency derivatives. Offsetting effects from hedging are included in other operating income.

The decrease in personnel costs of EUR 0.8 billion is mainly attributable to lower expenses arising from the early retirement program for civil servants.

Net financial income increased by EUR 2.4 billion to EUR 7.2 billion, primarily as a result of a EUR 3.2 billion increase in income related to subsidiaries, associated and related companies. The increase of EUR 1.0 billion in write-downs on financial assets, primarily due to the write-down of the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main, had an offsetting effect.

Income related to subsidiaries, associated and related companies, which increased by EUR 3.2 billion compared with the prior year, was positively affected in the reporting year by profits transferred by DFMG Holding GmbH, Bonn, T-Mobile Global Zwischenholding GmbH, Bonn, and Telekom Deutschland GmbH, Bonn. The transfer of the loss from Deutsche Telekom IT GmbH, Bonn, and from T-Systems International GmbH, Frankfurt/Main, had an offsetting effect.

In addition to the operating business of the consolidated subsidiaries, the income related to subsidiaries, associated and related companies resulted from effects arising from reorganization measures as well as from a write-up to the original acquisition costs at a subsidiary. A write-down on the investment held indirectly by T-Mobile Global Holding GmbH, Bonn, in the British BT Group plc, London, had an offsetting effect.

The reduction of EUR 0.2 billion in the net interest expense compared with the prior year was primarily the result of higher interest income from subsidiaries in the amount of EUR 0.3 billion, especially from T-Mobile USA, Inc., Bellevue. By contrast, expenses in connection with the interest added back on noncurrent accruals increased by EUR 0.2 billion.

Income after income taxes was particularly impacted by the aforementioned effects and increased by a total of EUR 2.9 billion year-on-year in 2017.

Other tax expense of EUR 18 million combined with the aforementioned factors resulted in income after taxes of EUR 4,927 million in 2017. Taking into account EUR 1,001 million in unappropriated net income carried forward, unappropriated net income totaled EUR 5,928 million.

FINANCIAL POSITION OF DEUTSCHE TELEKOM AG

Balance sheet of Deutsche Telekom AG under German GAAP
millions of €

	Dec. 31, 2017	Dec. 31, 2017 %	Dec. 31, 2016	Change	Dec. 31, 2015
ASSETS					
Intangible assets	195	0.2	249	(54)	261
Property, plant and equipment	2,698	2.2	2,993	(295)	3,295
Financial assets	93,807	77.3	81,240	12,567	84,469
NONCURRENT ASSETS	**96,700**	**79.7**	**84,482**	**12,218**	**88,025**
Inventories	1	0.0	1	0	1
Receivables	22,073	18.2	16,308	5,765	15,795
Other assets	1,659	1.4	1,629	30	1,338
Cash and cash equivalents	157	0.1	208	(51)	221
CURRENT ASSETS	**23,890**	**19.7**	**18,146**	**5,744**	**17,355**
Prepaid expenses and deferred charges	676	0.6	516	160	418
Difference between plan assets and corresponding liabilities	51	0.0	36	15	16
TOTAL ASSETS	**121,317**	**100.0**	**103,180**	**18,137**	**105,814**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Capital stock and reserves	53,011	43.7	51,651	1,360	50,615
Unappropriated net income	5,928	4.9	3,795	2,133	4,299
SHAREHOLDERS' EQUITY	**58,939**	**48.6**	**55,446**	**3,493**	**54,914**
Pensions and similar obligations [a]	3,164	2.6	3,247	(83)	3,512
Tax accruals	238	0.2	238	0	255
Other accruals [a]	2,321	1.9	1,642	679	1,493
ACCRUALS	**5,723**	**4.7**	**5,127**	**596**	**5,260**
Debt	6,398	5.3	5,021	1,377	9,428
Other liabilities	50,101	41.3	37,413	12,688	36,019
LIABILITIES	**56,499**	**46.6**	**42,434**	**14,065**	**45,447**
Deferred income	156	0.1	173	(17)	193
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**121,317**	**100.0**	**103,180**	**18,137**	**105,814**

[a] Pursuant to the provisions of IDW RS HFA 30, as amended, which was adopted in December 2016, the accruals from the collateral promise for pensions are recognized under pension accruals; in 2015, they had been included under other accruals. Figures for 2015 have been adjusted accordingly.

In addition to shareholders' equity, our financial position is mainly determined by noncurrent assets, and receivables from and payables to Group companies. Loans recognized under financial assets as well as receivables from and payables to subsidiaries primarily resulted from Deutsche Telekom AG's financing function for its subsidiaries, whereby financing on the external capital market is generally handled by Deutsche Telekom AG International Finance B.V., Maastricht, and passed on to Deutsche Telekom AG.

The balance sheet total increased by EUR 18.1 billion year-on-year to EUR 121.3 billion.

The development of total assets was attributable in particular to the increase of EUR 12.2 billion in noncurrent assets and the increase of EUR 5.8 billion in receivables.

The growth in financial assets of EUR 12.6 billion year-on-year was mainly due to the increase in loans to T-Mobile USA, Inc., Bellevue, of EUR 8.7 billion (net). Financial assets also increased by EUR 5.4 billion as a result of the capital increase at CTA Holding GmbH, Bonn. In particular, the write-down of the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main, in the amount of EUR 1.0 billion had an offsetting effect.

The decrease of EUR 0.3 billion in property, plant and equipment was primarily due to the depreciation of real estate.

The increase of EUR 5.8 billion in receivables from subsidiaries resulted from a EUR 5.4 billion increase in receivables from cash management. The increase in receivables from cash management is attributable to higher income related to subsidiaries, associated and related companies recorded in the reporting year.

The development of total shareholders' equity and liabilities was mainly influenced by the increase of EUR 12.7 billion in other liabilities, of EUR 3.5 billion in shareholders' equity, and of EUR 1.4 billion in financial liabilities. Other accruals also increased by EUR 0.7 billion.

The increase of EUR 12.7 billion in other liabilities was in particular the result of net loans of EUR 6.0 billion taken out from Deutsche Telekom International Finance B.V., Maastricht, as well as loans of EUR 5.4 billion taken out from CTA Holding GmbH, Bonn.

The increase in shareholders' equity was mainly due to income after taxes for the financial year of EUR 4.9 billion and its effect on unappropriated net income as well as to the deposits of EUR 1.4 billion reported in capital stock and reserves by shareholders who chose to exchange their dividend entitlement for the 2016 financial year for shares as part of the fulfillment of dividend entitlements. The EUR 2.8 billion dividend payment for the previous year had an offsetting effect.

The increase in financial liabilities was mainly due to new loans taken out for a net amount of EUR 0.7 billion and the issue of commercial paper for a net amount of EUR 0.5 billion.

The increase in other accruals is mostly attributable to the addition in the amount of EUR 0.5 billion to accruals arising from the new arrangement for early retirement for civil servants.

Statement of cash flows of Deutsche Telekom AG under German GAAP
millions of €

	2017	2016	Change	2015
INCOME AFTER TAXES	**4,927**	**2,020**	**2,907**	**1,889**
Net cash provided by (used for) operating activities	2,988	(1,531)	4,519	(134)
Net cash (used for) provided by investing activities	(12,890)	4,156	(17,046)	1,470
Net cash provided by (used for) financing activities	9,851	(2,638)	12,489	(1,502)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(51)**	**(13)**	**(38)**	**(166)**
Cash and cash equivalents, at the beginning of the year	208	221	(13)	387
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	**157**	**208**	**(51)**	**221**

Net cash provided by/used for operating activities increased year-on-year by EUR 4.5 billion, resulting in net cash provided by operating activities of EUR 3.0 billion. This increase was due mainly to the positive change in income after taxes after elimination of the non-cash write-downs, which were EUR 1.0 billion higher than in the previous year, but also to the EUR 1.2 billion lower net increase in receivables from cash management compared with the previous year. In particular, the decrease in liabilities from the early retirement program for civil servants compared with an increase in the previous year had an offsetting effect.

Net cash used for investing activities in the reporting year was largely attributable to medium- and long-term investments at subsidiaries of EUR 10.8 billion, mainly due to the increase in loans to T-Mobile USA, Inc., Bellevue, and to a capital increase at CTA Holding GmbH, Bonn. Primarily repayments of medium- and long-term investments by subsidiaries in the amount of EUR 3.0 billion, mainly by T-Mobile USA, Inc., Bellevue, had an offsetting effect. Net cash used for investing activities also included interest received of EUR 0.8 billion. In the previous year, net cash provided by investing activities of EUR 4.2 billion had included in particular an equity repayment by Deutsche Telekom IT GmbH (formerly T-Mobile Worldwide Holding GmbH), Bonn, in the amount of EUR 2.0 billion, repayments of medium- and long-term investments by subsidiaries of EUR 2.1 billion, interest received of EUR 0.6 billion, and cash inflows from the disposal of property, plant and equipment of EUR 0.2 billion and from the sale of further shares in Scout24 AG, Munich, of EUR 0.1 billion. Medium- and long-term investments of EUR 0.9 billion at subsidiaries had an offsetting effect.

Net cash provided by financing activities increased by EUR 12.5 billion year-on-year to EUR 9.9 billion and primarily comprised the net issuance of medium- and long-term liabilities of EUR 9.7 billion and the net issuance of current financial liabilities in the amount of EUR 2.8 billion in the reporting year. Interest paid of EUR 1.2 billion and the payment of the cash dividend for the 2016 financial year of EUR 1.4 billion had an offsetting effect. In the prior year, net cash used for financing activities of EUR 2.6 billion had primarily comprised net repayments of current financial liabilities of EUR 8.7 billion, the payment of the cash dividend for the 2015 financial year of EUR 1.5 billion, and interest paid of EUR 1.3 billion. The issuance of medium- and long-term liabilities of EUR 8.3 billion and cash inflows from the close-out of interest rate and currency derivatives of EUR 0.6 billion had an offsetting effect.

Combined, this resulted in a decrease in cash and cash equivalents of EUR 51 million in the reporting year.

RISK MANAGEMENT IN HEDGE ACCOUNTING

We use derivatives to hedge interest rate and currency exposures; i.e., exclusively for hedging purposes, not for speculative gains. In the process, we continuously monitor the effectiveness of the hedges.

CORPORATE RESPONSIBILITY AND NON-FINANCIAL STATEMENT

- Act responsibly. Enable sustainability.

We are more than a company providing society with telecommunications infrastructure. In an ever more complex and digital world, we are a trusted adviser through every stage of life. As such, we take our responsibility for society and the environment seriously. We work systematically to minimize the potentially negative impact of our business activities while creating effective, positive impetus for sustainable change. We have been reporting transparently on our corporate responsibility (CR) activities for over 20 years. Every year – in our CR report and annual report, and on our website – we provide comprehensive information on the challenges we face and the progress we have made as a responsible company focused on sustainable action. We regularly prepare a materiality analysis to help us align our sustainability activities to the expectations of our stakeholders and structure our reporting accordingly.

We have prepared this combined non-financial statement (NFS) to fulfill our reporting obligations under the CSR Directive Implementation Act: The NFS replaces the CR section in our combined management report. We have not only considered legal requirements in selecting which topics to report on, but also based our decision on many years of experience with our materiality process. This helps us ensure we fulfill our stakeholders' expectations. The Supervisory Board of Deutsche Telekom AG has reviewed the content of the NFS with the support of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (independent auditor) in the form of a limited assurance engagement. The audit was based on the International Standards on Assurance Engagements ISAE 3000 (revised). Unless stated otherwise, all disclosures in the NFS apply in equal measure to the Group and the parent company. To avoid repetitions within our management report, we refer to further information provided in other sections wherever relevant. References to disclosures not contained in the combined management report are provided as background information; these disclosures are not part of the NFS and thus are not covered by the review. In addition, this year we once again explain how our core business contributes to achieving the UN Sustainable Development Goals (SDGs) as part of the 2030 Agenda. In the reporting year, we received the Building Public Trust Award for best integrated reporting on the SDGs. Relevant passages in the management report are marked with the respective SDG symbol. With the publication of our 2017 CR report in April 2018, we will continue to use a proven format to fulfill our stakeholders' expectations of transparency, basing our work on the guidelines of the Global Reporting Initiative (GRI). In the reporting year, our CR report once again received the Platinum Econ Award for outstanding reporting. The concepts described in this NFS are in line with this longstanding reporting tradition and make reference to the GRI Standards.

EXPLANATION OF THE BUSINESS MODEL

We are one of the leading telecommunication companies worldwide. We offer our consumers fixed-network/broadband, mobile, Internet, and Internet-based TV products and services, as well as ICT solutions for our business and corporate customers.

For detailed information on our business model, please refer to the sections "Group organization," **page 31 et seq.**, and "Group strategy," **page 34 et seq.**

STRATEGIC AND ORGANIZATIONAL APPROACH TO SUSTAINABILITY

We see ourselves as a responsible company on the basis of our Leading European Telco strategy: We want to be the leading telecommunications provider in Europe. For us, social and ecological responsibility is inseparably connected with such a leadership role. We believe it is part of our mission to "Act responsibly. Enable sustainability." We are committed to implementing sustainability along our entire value chain and to playing an important role in meeting today's ecological, economic, and social challenges. We are expressly committed to the principles of the United Nations Global Compact, the German Sustainability Code, and the Code of Responsible Conduct for Business. Furthermore, we support the UN SDGs; in particular, we contribute to goals no. 3: Good health and well-being, 4: High-quality education, 5: Gender equality, 8: Decent work and economic growth, 9: Industry, innovation, and infrastructure, 11: Sustainable cities and communities, and 13: Climate action. We were awarded the distinguished National German Sustainability Award in December 2017 for our comprehensive sustainability management.

Our CR strategy, which is aligned with our core business, includes three fields of action: "Connected life and work – enabling a sustainable lifestyle," "Connect the unconnected," and "Low-carbon society." In addition, the following topics are of particular importance within our sustainability management system: data security and data privacy, digitalization, sustainable supply chains, human rights, circular economy, and resource decoupling, as well as responsible employers.

Our Board of Management bears overall responsibility for our CR goals, discussing and making decisions on key CR-related issues. The Group Corporate Responsibility (GCR) unit develops Group-wide guidelines and principles. It is also responsible for positioning and aligning CR strategically, and monitors all of the corresponding processes. The CR managers from the different business units and national companies are responsible for implementing our CR strategy, and work closely together in the international CR Manager Network. GCR is also advised by the CR Board, composed of the heads of key Group areas, in order to ensure direct feedback between CR and our core business. Our values and basic principles are anchored in our Guiding Principles, the Code of Conduct, and the Code of Human Rights & Social Principles. The cornerstones of our sustainability management activities are formally set out in our CR Policy for all Group units.

We record environmental, social and governance (ESG) data and performance indicators as part of our CR controlling system. We use this data primarily to calculate our Group-wide ESG KPIs (key performance indicators), which we use to measure and control our CR performance. We regularly review these KPIs to ensure they provide reliable information, revising them as needed. In some cases, the KPIs and other metrics can be linked to the SDGs to show the progress we are making in the SDG focus areas.

We use the Socially Responsible Investment ESG KPI to determine how the finance markets rate our sustainability activities. This indicator measures the proportion of T-Shares held by investors whose investment strategy is based not only on economic but also at least partially on the ecological and social aspects of corporate governance. As of September 30, 2017, roughly 18 percent of all T-Shares were held by SRI (socially responsible investment) investors, and around 3 percent were held by investors who manage their funds primarily in accordance with SRI aspects. In addition, during the reporting year our share was again listed on leading sustainability indexes, such as RobecoSAM's prominent DJSI World and DJSI Europe. Our share also continued to be listed on the FTSE4Good and UN Global Compact 100 indexes. SDG

8 DECENT WORK AND ECONOMIC GROWTH

Listing of the T-Share in sustainability indexes/ratings

Rating agency	Indexes/ratings/ranking	2017	2016	2015	2014	2013
RobecoSAM	DJSI World	✓	✓	✓	✗	✗
	DJSI Europe	✓	✓	✓	✗	✗
CDP	STOXX Global Climate Change Leaders	✓	✓	✓	✓	✓
oekom research AG	"Prime" (Sector Leader)	✓	✓	✓	✓	✓
Sustainalytics	STOXX Global ESG Leaders	✓	✓	✓	✓	✓
	iSTOXX 50 SD KPI	✓	✓	✓	✓	✓
	UN Global Compact 100	✓	✓	✓	✓	✓
FTSE Financial Times Stock Exchange	FTSE4Good	✓	✓	✓	✓	✓

✓ Successfully listed ✗ Not listed

PROCESS FOR DETERMINING SIGNIFICANT TOPICS

Our materiality process has been in place at our Company since 2015 in compliance with the method suggested by the Global e-Sustainability Initiative (GeSI) for our industry. This allows us to ensure we consider all issues key to the ICT sector. We actively and systematically integrate relevant stakeholders into the process. For more detailed information on our approach, please refer to our CR report.

We first held an interdisciplinary internal workshop to discuss how we can best fulfill the requirements of the CSR Directive Implementation Act. We then developed a concept for the content of the NFS based on the results of our materiality process. This involved identifying and clustering topics that are important to understanding the course of business, the outcome of business, and the situation of the Company, and to understanding the effects on non-financial aspects. We discussed and adjusted the concept during another interdisciplinary workshop. The Board of Management decided to issue the NFS as part of the annual management report, and the Supervisory Board agreed to this in its meeting in September 2017. Group Corporate Responsibility presented and discussed the concept in a meeting with the Audit Committee in November 2017.

As part of our comprehensive system of risk and opportunity management, we also determine current and potential risks and opportunities arising from ecological, economic, or social aspects, or from the management of our Company. Topics like climate protection, suppliers, data privacy, and data security, as well as mobile communications and health, involve potential risks, which we previously described in the "Risk and opportunity management" section of the management report. We maintain this practice to provide the transparency our stakeholders expect, even if the risk assessment has found that these topics have a "low" risk significance and do not therefore need to be rated as "very likely severe" in the meaning of the CSR Directive Implementation Act. This NFS focuses on these risks and opportunities in relation to relevant aspects.

ASPECT 1: ENVIRONMENTAL CONCERNS

"We assume responsibility for a low-carbon society" is one of the action areas of our CR strategy. It not only expresses our commitment to minimize the potential climate impacts of our business activities, but also our desire to utilize the opportunities offered by digitalization for sustainable development. The impacts of our business activities are comparatively minor in relation to other topics, such as water or waste, covered by our comprehensive environmental management system based on the international standard ISO 14001. Therefore, they are not included in this NFS, but rather in our CR report.

CLIMATE CHANGE AND ITS REPERCUSSIONS

Demand for fast data services with full-coverage availability is growing rapidly. That is why we continue to push the build-out of our infrastructure and increase data transmission rates. Our investments in the network build-out make us one of the biggest investors in the industry. Operating our network consumes energy. Increasing energy consumption is associated not only with higher costs, but can also lead to an increase in CO_2 emissions and thereby accelerate climate change and its repercussions. For this reason, we need to ensure our energy consumption grows at a slower rate than the volumes of data we transmit and, at the same time, promote the use of renewable energies to decouple energy use from CO_2 emissions. We are also required to utilize the possibilities offered by digitalization, as it too can help save energy and slow climate change.

Further information on the opportunities and risks associated with climate protection is provided in the section "Risk and opportunity management," **page 111 et seq.**

Our integrated climate strategy includes four aspects of climate protection: CO_2 emissions, renewable energy, energy efficiency, and sustainable products. The climate strategy applies Group-wide and is implemented on an interdisciplinary basis at the level of the national companies. Our Board of Management set a climate-related goal as early as in 2013: By the year 2020, we intend to reduce total CO_2 emissions in the Group (excluding T-Mobile US) by 20 percent compared with 2008. 40 business units in 29 countries have committed themselves to this goal. Our national companies are helping us achieve this goal in different ways and to different extents, depending on developments in their local markets. Group Corporate Responsibility reports to the Board of Management on the status quo on an annual basis. We have already achieved a moderate reduction in emissions (excluding T-Mobile US) over the past few years. Despite the challenges posed by rapidly growing data volumes and the continuous build-out of networks to cope with demand, we continue to stand by our ambitious climate goal and look into further measures that could be needed to help us meet this goal, such as increasing the relative share of energy obtained from renewable sources.

For further information, please refer to the section "Risk and opportunity management," **page 111 et seq.**

In order to achieve our climate goal, we are focusing on areas with especially high energy consumption, such as our networks and data centers. For instance, we are migrating our network infrastructure to IP technology, which is not only more powerful, but also consumes less electricity than existing technologies. By the end of 2017, we had migrated 69 percent of our lines – around 17.3 million – to IP. We are working to process data traffic from no more than a few, particularly efficient data centers. The PUE metric serves as an indicator for improvements in energy efficiency. We calculate this metric using the method recommended by The Green Grid Association, which takes the total energy consumed by data centers into account, not only that used to operate the servers. We reduced the average PUE metric at T-Systems data centers in Germany from 1.85 to 1.54 between 2008 and 2017. Our data center in Biere, Saxony-Anhalt, is extremely efficient. It was also awarded the respected LEED Gold sustainability certification (Leadership in Energy and Environmental Design). By migrating data from existing data centers to Biere, we achieved a PUE value of 1.43 by the end of 2017. During the course of 2018, we will migrate additional servers to Biere. The PUE metric is expected

For further information, please refer to the section "Development of business in the operating segments," **page 61 et seq.**

For further information, please refer to "Deployment of ICT products to the benefit of society" in this section, **pages 83 and 84.**

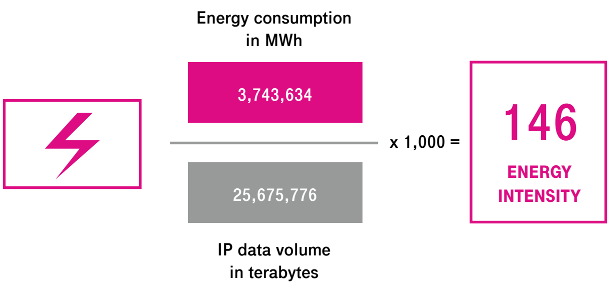
to rise further as a result of the increased utilization of our data center capacity there.

We are increasing our share of renewable energy – both through direct purchases and the acquisition of certificates for electricity from renewable energy sources – in order to reduce CO_2 emissions. In addition, we also invest in our own systems whenever possible and reasonable, for instance constructing cogeneration plants or installing photovoltaic systems. Climate protection is also an important consideration in the way we manage our fleet of vehicles in Germany, which includes testing out alternative drive concepts.

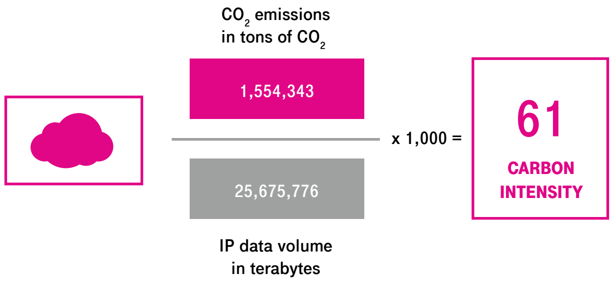
We determine the effectiveness of our climate protection measures using key performance indicators (KPIs). We have been recording two new KPIs since 2016: Energy Intensity and Carbon Intensity. These replaced the Energy Consumption and CO_2 Emissions KPIs. The two new ESG KPIs reflect our energy consumption and our CO_2 emissions in relation to the volume of data transmitted. They thus show the specific trend in the energy and emissions efficiency of our network. The KPI values for Deutsche Telekom in Germany are shown in the following graphics for 2016. The result for the Energy Intensity KPI is 146 and 61 for Carbon Intensity. We expanded the coverage of these KPIs to further parts of the Group in the course of 2017 and initial positive trends became apparent even before the year-end. We will publish the KPIs for the 2017 reporting year in our CR report. The Renewable Energy KPI shows how much of our Company's entire electricity consumption is obtained from renewable sources. In 2016, the share was 33 percent. The figure takes into account the share of renewable energy purchased directly, Guarantees of Origin, Renewable Energy Certificates, autoproduction, and the share of renewable energies in the national mix. We will also disclose this KPI for 2017 in our CR report to be published in April 2018. We use the Enablement Factor ESG KPI to calculate the positive CO_2 effects facilitated for our customers through the use of our products.

For further information, please refer to "Deployment of ICT products to the benefit of society" in this section, pages 83 and 84.

Energy Intensity ESG KPI
Deutsche Telekom Group in Germany 2016



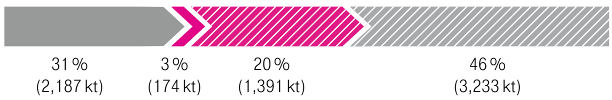
Carbon Intensity ESG KPI
Deutsche Telekom Group in Germany 2016



We use the internationally recognized GHG protocol to calculate our CO_2 emissions. This allows us to take measures to reduce our ecological footprint at the corporate and product levels. The standard distinguishes between three CO_2 emissions categories (Scope 1, 2, and 3). As part of the CDP, in June of every year we publish a Group-wide report not only on Scope 1 and Scope 2 emissions, but also Scope 3 emissions from our business operations in Germany and virtually all European subsidiaries.

The following graphic visualizes emissions of the different scopes from our business activities in Germany; shown as CO_2-equivalent emissions (CO_2e emissions).

CO_2e emissions (Scope 1–3)
Deutsche Telekom Group in Germany in % and kilotons of CO_2e



- **Scope 3 emissions from upstream activities:** Transport services, products and services purchased, capital goods, production waste, energy and fuel upstream chains, business travel, and journey to work.
- **Scope 1 emissions from Deutsche Telekom's own activities:** Emissions from the operation of Deutsche Telekom's systems, buildings and vehicles.
- **Scope 2 emissions from energy procured:** Emissions from the generation of electricity and district heating procured by Deutsche Telekom.
- **Scope 3 emissions from downstream activities:** Emissions from the transport of products sold to the customer, use of products sold or leased, and disposal and recycling of products sold.

We are aware that, to effectively contain climate change, all those involved need to collaborate and take determined action. That is why we participate in many national and international associations and organizations. One of them is GeSI – a corporate association with the vision of making society more climate-friendly and sustainable with ICT solutions. We also want to promote dialog within society on the opportunities the digital transformation offers for climate protection. Within the scope of the 23rd World Climate Change Conference in Bonn, we invited numerous stakeholders to an event to discuss "The Impact of ICT on climate change – curse or blessing," in November 2017. We are also working systematically and successfully on improving climate protection throughout our supply chain. Since 2016, CDP's supplier engagement rating has assessed how well companies have integrated the topic of climate protection into their supply chains. Over 3,300 companies participated in the rating; in 2016, just 29 companies qualified for the Supplier Engagement Leader Board, and Deutsche Telekom was one of them. SDG

ASPECT 2: EMPLOYEE CONCERNS

The digital transformation is supposed to improve everyone's lives. That is why people will remain a priority for us. This applies in particular to the around 217,300 employees working in our Company. They use their commitment, their expertise, and their abilities to smooth the path towards a digital society and make a key contribution to our business success. Five Guiding Principles, representing our values, form the cornerstones for collaboration within our Company. Our strategic priorities in HR focus on four areas. We value participation and cooperation based on fairness, we promote diversity, and engage in systematic health management. SDG

COLLABORATION WITH EMPLOYEES' REPRESENTATIVES AND TRADE UNIONS

Digitalization is fundamentally changing the way we work together. Employees are expected to show more flexibility, social skills, and personal responsibility. They also need to be life-long learners and be more self-directed. We have made it our goal to support our employees in this transformation – and to help them not only manage change, but also take an active role in shaping it.

Codetermination rights play a key role in the digital transformation. We want to create the working world of the future together with employees' representatives and trade unions – with an eye to the needs of our workforce and the success of our Company. We negotiated and signed over 250 agreements in 2017 through constructive dialog with our works councils. One key project was the organizational measure "Einfach Anders" (Simply different), which focused on a re-alignment of the entities within the Germany operational segment. The new organizational structure allowed us to harmonize the management of service responsibilities combined within the Service board department, to establish a customer-centric sales process for consumers and business customers in separate sales entities, and to combine the activities for the network build-out in a single entity. We concluded another 65 collective agreements with the ver.di union in 2017. In order to make phased retirement an even more attractive option for leaving working life early with sufficient social security, a general collective agreement on phased retirement was concluded in 2017 between Arbeitgeberverband für Telekommunikation und IT e.V. (agv:comunity e.V., the employers' association for the telecommunications and IT industry) and the ver.di union. As the underlying laws and contracts vary from country to country, codetermination matters with trade unions and employee representatives are managed locally. Group management is involved in all major issues as a matter of principle. SDG

The works councils, central works councils, and Group Works Council represent the interests of the employees at our Group in Germany. Our partner at a European level is the European Works Council (EWC). We also have executive staff representation committees and representatives of disabled employees at unit, company, and Group level. The EWC, which currently has 32 members, has been a key dialog partner for us for many years and represents the interests of Group employees within EU countries. Collective bargaining plays an important role and has a long tradition at our Company, a fact made clear by the percentage of employees covered by collective agreements. As of December 31, 2016, 69 percent of employees in Germany were covered by collective agreements.

17 PARTNERSHIPS FOR THE GOALS

We thoroughly accompanied the union topics in our operative segment USA in 2017 and discussed individual issues in dialogs with T-Mobile US' management. The responsibility for national Human Resources Management matters lies with T-Mobile US' management. This responsibility is carried out with great commitment and accompanied by excellent customer satisfaction results. In a US-wide survey of 360,000 customers carried out by market researcher "HarrisX", T-Mobile US achieved the highest customer satisfaction rates among all mobile providers in the US in each of the four quarters in 2017.

Our Guiding Principles are stated in the section "Group organization," page 31 et seq.

For further information, please refer to the section "Employees," page 96 et seq.

Deutsche Telekom respects freedom of association and the right to collective bargaining in accordance with national regulations. This naturally applies to the USA as well. Employees at T-Mobile US have the right to form and join a trade union. At the same time, employees are also free to choose not to do so. T-Mobile US will not favor or impede employees on the basis of their choice.

8 DECENT WORK AND ECONOMIC GROWTH

T-Mobile US' employee survey results for 2017 show that as many as 93 percent of respondents take pride in working for T-Mobile US. A further 84 percent said their company inspires them to "go above and beyond" their normal job duties to help the company succeed and another 88 percent said they often recommend T-Mobile to others as a great place to work. These results are among the highest in all of Deutsche Telekom group companies.

T-Mobile US has also been honored with a Glassdoor Employees' Choice Award, recognizing the Best Places to Work in 2018. The Employees' Choice Awards program, now in its 10th year, relies solely on the input of employees, who elect to provide feedback on their jobs, work environments and companies via Glassdoor. More than four out of five (81 percent) T-Mobile employees say they recommend the company to a friend – the highest in the US wireless industry. In addition to the Glassdoor award, T-Mobile US also received further recognitions for Best Places to Work throughout 2017.

Collaboration with employee representatives is based on our commitment to trusted cooperation – anchored in our Group-wide Employee Relations Policy. It sets out eleven core elements to describe what we stand for as an employer around the world. The policy also describes our aspiration with regard to the following HR topics: employee development, responsible handling of changes, health and sustainability, fair pay, work-life balance, leadership, diversity, the prohibition of discrimination, and how we communicate and work together with employees' representatives. In order to ensure the Employee Relations Policy is implemented throughout the Group, two or three national companies undergo

17 PARTNERSHIPS FOR THE GOALS

an internal review process each year. If the results of this review deviate from the norm, we initiate improvement measures. Our Code of Human Rights & Social Principles also includes a voluntary commitment to the freedom of association and collective bargaining (in compliance with national law in each case).

Our employee survey, carried out every two years, is a key indicator of the relationship between our Company and its workforce. We supplement it with pulse surveys, which give us a snapshot of the mood across the Group twice a year. In the most recent 2017 employee survey (excluding T-Mobile US), the commitment index was 4.1 (on a scale of 1.0 to 5.0) and therefore remained at a high level.

For more detailed information, please refer to the section "Employees," page 96 et seq.

3 GOOD HEALTH AND WELL-BEING

DIVERSITY AND EQUAL OPPORTUNITY

Social trends like globalization, demographic developments, and different understandings of roles must not result in individual groups being shut out of the labor market. Equal opportunity is not only essential to a stable society, but to our Company as well. Respecting human individuality and harnessing individuals' distinctive traits for joint success is just as important for our Group as developing a shared identity. A Culture & Diversity Team, based in the HR Development unit, was created specifically for this task.

Women and men, young and old as well as people with different abilities and cultural backgrounds from roughly 150 countries work together very effectively at our Company. This diversity helps us remain competitive around the world with good ideas and outstanding products and consolidate our position as an attractive employer. Developments in the share of women in leadership positions and on the supervisory boards are reported to the Board of Management every six months, while the age structure and internationality of the workforce is reported on an annual basis in our Personnel Structure Report. For us, diversity also means offering our employees numerous opportunities to develop personally and grow professionally, regardless of their gender, age, sexual preference, health situation, ethnic background, religion, or culture. Our Group-wide Diversity Policy, five Guiding Principles, Employee Relations Policy, and Code of Human Rights & Social Principles form the foundation for our commitment. We are also a founding member of the Diversity Charter corporate initiative and want to promote diversity within and outside of our Company. In order to comply with the new legal requirements set out in the Act to Promote Transparency of Pay Structures, we filed a separate report, which does not form part of the audited management report. SDG

For detailed information on our diversity measures, including on the advancement of women, please refer to the section "Employees," page 96 et seq.

10 REDUCED INEQUALITIES

OCCUPATIONAL HEALTH AND SAFETY

Measures that promote health within the Company not only help individual employees and ensure long-term business success, but also have positive effects on society as a whole. We use health management to take on social responsibility and proactively promote a culture of health. We support our employees in maintaining their health and occupational safety with a host of target audience-specific measures and extensive prevention programs. We consider the statutory requirements to be only the minimum standard we must achieve. Our corporate occupational health and safety measures are effectively incorporated into our structures via certified management systems and appropriate policies and guidelines. We support this Group-wide approach with a uniform Health, Safety & Environmental Management system at international level, based on international standards OHSAS 1800, ISO 14001, and ISO 9001 for health, occupational, and environmental safety, and quality. SDG

The Board of Management assumes overall responsibility for occupational health and safety, and environmental protection. Quarterly reports on the health rate are just one example of its commitment in this area. Our Health & Safety Environment handbook describes the details of our health and safety management system, including the parties involved, their duties, and the programs. The handbook serves to harmonize, simplify, and align our management system with common targets across the Group. We combine and control our occupational and health safety programs at Group level; health and safety managers are responsible for implementing these programs locally. We systematically review our programs to ensure they are effective. To do so, we review the results of our employee survey, evaluating stress prevention measures under collective agreements, competitor benchmarks, and other relevant indicators. We analyze this data each year to derive measures that exceed the statutory requirements. Raising awareness, prevention, and encouraging individual responsibility have a high priority at our Company.

We use Group-wide initiatives to promote health awareness and health literacy among all employees. These include services that can be used by all teams in 30 countries based on the results of the health index, which is determined every two years. Occupational health promotion in Germany covers a range of services for employees, such as stress prevention programs; flu vaccinations; colon cancer screening; information on diet and nutrition, exercise, and relaxation; and a comprehensive annual health check-up. We also offer psychosocial support to our employees and managers. Standards in Germany serve to improve occupational safety by regulating aspects such as safe, ergonomic environments in buildings and vehicles. We also offer driver safety training (car and motorbike) for all employees and their relatives, as well as cycling schemes for employees at various locations across Germany. Alongside generally available services, we also have target group-specific programs in place, such as driver safety training for specific areas of work or training on the prevention of falling accidents in cooperation with the “Tritt sicher” (step safely) campaign developed by Berufsgenossenschaft Verkehr, the German professional association for transport and traffic. By raising awareness and implementing preventive measures, our aim is to promote employees’ health and motivation, improve the health rate, and continue to reduce the accident rate.

Many different key figures demonstrate the effectiveness of our corporate health management services. The health rate (including long-term illnesses) at Deutsche Telekom in Germany decreased slightly in 2017, by 0.1 percentage points to 93.7 percent, although it remained at an average level. The health rate is reported to the Board of Management at the end of each quarter. In 2017, we launched a project designed to improve the health rate by 2020. The aim is to achieve a health rate across the Group of 95.9 percent (excluding long-term illnesses). The total number of work-related accidents continued to decline in the reporting year in comparison with the previous year. The accident rate in Germany was 8.5 accidents (resulting in over three days of absence) per thousand employees, well below the industry average. The Group-wide health index – calculated as part of the 2017 employee survey in 30 countries – increased positively by 0.1 to 3.6 (on a scale from 1 to 5). From 2018, new steps will be taken designed primarily to improve the health rate. These include, for example, a workshop in which managers learn about a range of short-, medium-, and long-term strategies to influence the health rate. They will also be given the skills to become more confident at handling healthy and sick employees. The initiative will be piloted in Germany with the goal of rolling it out across the Group by 2020.

The digital transformation is also taking on an increasingly important role in the context of health. In addition to identifying potential stressors triggered by the effects of digitalization, our current products are also being adapted to the demands of rising levels of virtualization, digitalization, and internationalization on a step-by-step basis. For example, we already offer web-based training for managers on health and safety, mental health, and operational integration management.

ASPECT 3: SOCIAL CONCERNS

We are finding new answers to many different challenges our society currently faces through the digital transformation. Since it affects every area of our lives, access to modern information technologies is an important key to participating in the information and knowledge society. As a telecommunications company, we are responsible for providing such access to as many people as possible and for promoting the competent use of ICT. The security of our customers’ data is a key concern. Used correctly, ICT can also contribute to sustainable development and help us achieve the SDG goals.

DEPLOYMENT OF ICT PRODUCTS TO THE BENEFIT OF SOCIETY

One of the biggest challenges we must face is climate change. We want to help limit global warming to less than two degrees Celsius, which is why we are working to reduce our own CO_2 footprint. We can make a much larger contribution with our products and services. According to the GeSI study SMARTer2030, ICT products have the potential to save almost ten times as much CO_2 emissions in 2030 in other industries as the ICT industry itself produces. We can also use our products, services, and activities to participate in managing many other ecological and social challenges, as was made clear in a comparison with the 17 sustainability goals (SDGs) put out by the United Nations, page 22. For instance, ICT solutions can help reduce resource consumption in agriculture and increase harvests, help get cities ready for the future in terms of sustainability, stabilize power supply grids, or improve access to education and medical care. SDG These areas of application carry market potential for us. In order to evaluate the concepts described in this NFS, it is important to also look to the opportunities that digitalization opens up for sustainable development. We are thus addressing the topic at this point, even though it is not a holistic concept in the meaning of the CSR Directive Implementation Act. The individual national companies are responsible for developing new products and solutions.

For further information, please refer to the section “Risk and opportunity management,” page 111 et seq.

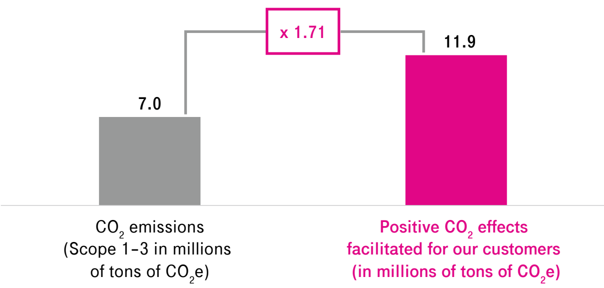
Since 2014, we have been analyzing the scope of the sustainability benefits offered by select products. These advantages include benefits in health care. In Greece, a telemedicine network was set up in 2016 to connect health care centers on the Aegean islands with the mainland. As examinations can be transmitted via live stream directly to hospitals in Piraeus, expensive medical transports from the islands to the mainland are necessary only when the patient actually needs to be treated in a hospital. SDG In South Africa, a smart water meter offered by T-Systems South Africa helps reduce the consumption of scarce water resources. It helps optimize consumption in private households and makes occupants aware of hidden pipeline leaks. SDG ICT can even help better understand illnesses and improve treatment – like our cell phone game Sea Hero Quest, which is helping with dementia research. Overall, we have subjected 22 of our product groups to a detailed investigation of how they contribute to sustainability. We use the Sustainable Revenue Share ESG KPI to determine how much revenue (excluding T-Mobile US) we generate with these products; in the reporting year this share was approximately 40 percent. For detailed information about the methods used in our analysis, please refer to the CR report.

13 CLIMATE ACTION

We also calculate the positive CO_2 effects facilitated for our customers through the use of our products. We combine this figure with our own CO_2 emissions, then use this enablement factor to measure our overall performance in relation to climate protection. According to this figure, the positive CO_2 effects facilitated for our customers in Germany were 71 percent higher in 2017 than our own CO_2 emissions (enablement factor of 1.71 to 1). SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Enablement Factor ESG KPI
Deutsche Telekom Group in Germany



For further details on our build-out goals, please refer to the section "Group strategy," page 34 et seq.

3 GOOD HEALTH AND WELL-BEING

For more detailed information, please refer to the section "Risk and opportunity management," page 111 et seq.

Sustainable products are another key competition factor at our Company. In order to highlight these sustainability benefits for our customers, we aim to have our products certified by recognized environmental labels such as the Blue Angel. The majority of Telekom Deutschland's fixed-network devices carry the Blue Angel seal of approval. The strict requirements for these environmental awards not only provide us with ways to further improve our products, but also encourage us to do so.

ACCESS AND PARTICIPATION IN THE KNOWLEDGE SOCIETY

All around the world, having access to modern information technologies is a requirement for economic performance and participation in the knowledge and information society. That is why we continue to rapidly expand our infrastructure and improve transmission speeds with new, secure technology. At the same time, we use our social initiatives to reduce potential obstacles to ICT use. Responsibility for shaping the digital transformation has to be assumed by society as a whole. The Board of Management of Deutsche Telekom AG plays an active role in this discussion.

For further information on our investment activities, please refer to the "Statement of the Board of Management on business development in 2017," page 49.

4 QUALITY EDUCATION

Demand for fast data services with full-coverage availability is growing continuously. Each year we invest around EUR 5 billion in Germany alone in building out our network infrastructure. This has made us the biggest investor in this sector for several years. This network build-out is based on the goals of our Europe-wide integrated network strategy, which we use to help achieve the network build-out goals of the EU Commission and the Federal Government's Digital Agenda and broadband strategy. Our strategy is based on four pillars: LTE, optical fiber, VDSL vectoring, and hybrid technology. As one component, we plan to upgrade our mobile networks with 4G/LTE technology to offer greater network coverage with fast mobile broadband. In 2017, we supplied 94 percent of the population of Germany with LTE. We continued to build out the fiber-optic network in 2017, covering around 46 percent of households in Germany with high-speed Internet (at least 50 Mbit/s) by the end of the year. In addition to vectoring technology, we are also using other innovative products, like our hybrid router, which combines the transmission bandwidths of fixed-network and mobile communications, thus enabling much higher transmission speeds, in particular rural areas. SDG

In general, we want to make our network infrastructure and our products as efficient and as environmentally and health-friendly as possible. That is why we are committed to addressing the topic of mobile communications and health responsibly. Our Group-wide EMF Policy (EMF = electro-magnetic fields) has played a key role in this process since 2004: It includes uniform minimum requirements for mobile communications and health which go far beyond applicable national regulations. SDG

However, simply having access to technology is not enough to ensure everyone can participate in the knowledge and information society. People also need to know how to use media safely, competently, and responsibly. More and more, this issue not only has a private dimension – the protection of personal data – but also a social and political one. Incorrect information and hate posts shape public opinion and can even influence elections. That is why we are working to build media literacy skills in broad swaths of society. Group Corporate Responsibility is in charge of managing this topic at Group level. The individual national companies are responsible for developing and implementing media literacy projects as this allows them to make much greater provision for local conditions. We present all of our initiatives in Germany on the German-language website "Medien, aber sicher!" (Media, sure! But secure) (www.medienabersicher.de). With our award-winning Teachtoday initiative (www.teachtoday.de), we teach children and young people how to confidently and expertly navigate the digital world. Many of our national companies are also working to improve media literacy: For instance, Telekom Romania has been offering programming workshops for children and young adults since 2011. The Deutsche Telekom Foundation is one of Germany's largest corporate foundations working to improve education in the field of digital learning and teaching. Children are not the only ones, however, who need support in navigating the digital world, which is why we offer information and materials for every age and user group. SDG

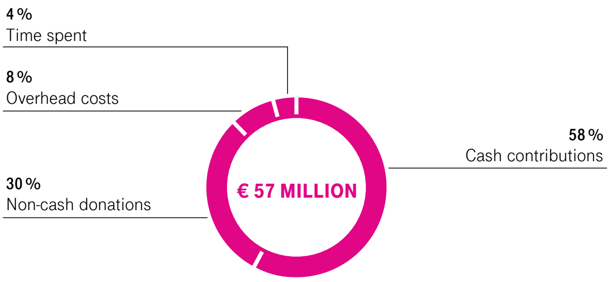
Data security is another focal point of our efforts. Our German-language online advisory service www.sicherdigital.de and our "We care" app magazine in German and English offer practical hints and tips on how to use digital media safely and securely.

Being able to tell the difference between reliable information and intentionally misleading statements is a key aspect of media literacy in our view. That's why we invited all of our employees in Bonn to attend the first "1001 Truths – Trust and opinion-forming online" event which was held in July 2017. We provided interesting insights and practical suggestions related to the topic of "fake news" in workshops, panel discussions, and events. For detailed information, please refer to our 2017 CR report.

We measure the impact of our social commitment with a set of three Group-wide ESG KPIs. The Community Investment ESG KPI maps our social engagement in terms of financial, human, and material resources: a total of EUR 57 million.

Community Investment ESG KPI

%



The Beneficiaries ESG KPI indicates the number of people engaged and people reached. This figure totaled 19 million in the reporting year. The Media Literacy ESG KPI determines the percentage of people in our target group we actually reached with measures to enhance media literacy as part of our social engagement. At 41 percent, this metric was slightly higher than the prior-year figure of 40 percent. We aim to reach 45 percent by 2020. The ESG KPI values for the Deutsche Telekom Group in Germany are EUR 32 million (Community Investment), 18 million people reached (Beneficiaries), and 44 percent (Media Literacy).

Our efforts to help refugees is another building block in promoting a diverse society. After concentrating on comprehensive initial aid in response to the large numbers of refugees in 2015, we are now focusing on integrating these refugees into the labor market. Based on current figures, around 86 percent of refugees do not have any formal professional qualifications that are recognized in Germany. That is why, in 2016, we founded the "Internship PLUS direct entry" initiative together with the Deutsche Post DHL Group, Henkel, and the Federal Employment Agency. We also hold special applicant days to provide easier access to internships. Through recruitment measures, communication on social media, and volunteer work, we increased the number of applications received from refugees, bringing the number of applicants per vacant position up from around two to five. In 2017, around 340 refugees benefited from work options offered by our Company, such as internships, training, "Internship PLUS direct entry," or direct entry. We have helped these people enter the German labor market. SDG

DATA PRIVACY AND DATA SECURITY

The process of digitalization comes with new kinds of threats, such as hacker attacks on the sensitive data of private individuals or companies. People will only actually use new ICT solutions if they trust the security of their personal data – and only then can these solutions show their true potential for more sustainable development. As an ICT company, the trust of our customers is extremely important to our business success. That is why the privacy and security of their data is so important to us. SDG

For detailed information, please refer to the section "Risk and opportunity management," page 111 et seq.

In 2008 we set up a Board of Management department for Data Privacy, Legal Affairs and Compliance as well as the Group Privacy unit. The responsible Board member has been advised by the independent Data Privacy Advisory Council, which comprises renowned experts from politics, science, business, and independent organizations, since 2009. In addition, we were the first DAX company to have our data privacy-related compliance management system reviewed and certified according to the IDW PS 980 standard in September 2014. It describes the measures, processes, and audits we use to ensure compliance with laws, regulations, and voluntary commitments to data privacy in our Group.

Data privacy and data security are subject to our Group policies for data privacy (Binding Corporate Rules Privacy) and security. The former regulates how personal data is handled, and a supplementary document entitled Binding Interpretations sets forth concrete recommendations and best-practice examples for implementing the EU General Data Protection Regulation which takes effect in May 2018. The second Group policy includes significant security-related principles valid within the Group, which are based on international standard ISO 27001. These policies allow us to guarantee an adequately high and consistent level of security and data privacy throughout our entire Group.

We have been publishing an annual transparency report for Germany since 2014, which covers the types and amount of information we disclose to security agencies and allows us to fulfill our legal obligations as a telecommunications company. Our national companies have also been publishing similar transparency reports since 2016.

In order to ensure even better data privacy and data security within our Group, our corporate units are audited and certified regularly by internal and external professionals. This includes regular Group-wide internal security checks as well as audits of individual Group units as part of our Security Maturity Reporting. This helps us evaluate the maturity of the security status quo in our Group, based on a self-assessment.

Our consumers and business customers can find information on the topic of security on our new web portal launched in 2017 (https://security.telekom.com)

17 PARTNERSHIPS FOR THE GOALS

We use two surveys – the Group Data Privacy Audit (GDPA) and Online Awareness Survey (OAS) – to measure our employees' awareness of data privacy and security by means of annual random checks. We use the GDPA to survey 50,000 Deutsche Telekom employees on topics related to data privacy and data security. We use these results to calculate the Data Protection Award indicator, which quantifies the level of data protection in the units on a scale of 0 to 100 percent. It is based on what the employees said they thought, did, and knew about data protection. In 2017, the Data Protection Award indicator was 75 percent (excluding T-Mobile US, prior year: 70 percent). The Online Awareness Survey, which we have been conducting since 2005, surveys roughly 40,000 employees and provides key data on their awareness of security. Scientific advisers help us use its results to determine the Security Awareness Index (S.A.I.). In 2017, the index was 78.4 (excluding T-Mobile US, prior year: 78.2) of a maximum of 100 points, higher than in any other company. The S.A.I. for Deutsche Telekom in Germany is currently 79.8. We also have our processes and management systems as well as products and services certified by external, independent organizations such as TÜV, DEKRA, and auditing firms. TÜV North has once again confirmed in 2017 that Telekom Deutschland's IT systems are secure.

Telecommunications companies are required to train their employees on issues related to data protection law when they begin their employment. Deutsche Telekom goes above and beyond these legal requirements: Every two years, we train all of our employees in Germany and commit them to data privacy and telecommunications secrecy. We have also implemented corresponding requirements in our international companies. In addition, we provide training in units where there is a higher risk that data may be misused – i.e., in the customer and HR units – in the form of online training designed for self-study, data privacy presentations, and classroom training on specialized topics such as data privacy in call centers. This helps to ensure that all employees have in-depth understanding of the relevant data privacy policies.

17 PARTNERSHIPS FOR THE GOALS

We launched the Telekom Security entity effective January 1, 2017 to focus on internal security issues and develop security solutions for consumers as well as business customers. This allows us to provide our customers with the perfect security solutions along the entire value chain, from product development and secure, high-performing networks through to high-security data centers, applications, and individual consulting. On top of this, we opened our new Cyber Defense and Security Operation Center in October 2017. It is one of the largest and most modern defense centers in Europe. Around 200 experts work there around the clock to monitor our and our customers' systems.

We react to new threats and continuously develop innovative processes to defend the systems against attacks. Since 2016, for instance, we have been offering a drone shield for business customers with critical infrastructure like data centers, stadiums, or official agencies as a solution for protecting against the growing danger posed by private drones. We worked with the German air traffic control service to raise awareness of this problem at the 2017 Drone Detection Day in the Hesse city of Langen. We also invited partners and customers to the Telekom Security Conference in Munich for the second time in June 2017. The conference centered on understanding new trends and solutions relevant to security.

We work with research institutes, industry partners, initiatives, standardization bodies, public institutions, and other online service providers worldwide with the goal of fighting cyber crime and increasing security on the Net. For instance, we collaborate with the German Federal Office for Information Security throughout Germany and with the European Union Agency for Network and Information Security at a European level. SDG

Data privacy and security have always played an important role in the development of our products and services. We review the security of our systems at every step of development using the Privacy and Security Assessment process both for new systems and for existing systems when the technology or method of data processing is modified. We use a standardized procedure to document the data privacy and data security status of our products throughout their entire life cycle.

Youth protection aspects are also taken into consideration in our product and service design. When we develop services that could be relevant in terms of youth protection in Germany, we consult our Youth Protection Officer for suggestions of restrictions or changes. In 2014, we appointed a Child Safety Officer (CSO) in each of our national companies in Europe. The CSO acts as a central contact for members of the community, and plays a key internal role in coordinating issues relevant to youth protection. Since protecting minors is a challenge across many different industries, we cooperate with different youth protection organizations and participate in alliances such as the "CEO alliance to better protect minors online," which tries to make the Internet a more secure place for children and young people. SDG

ASPECT 4: RESPECTING HUMAN RIGHTS

Compliance with human rights is highly important to our Group. This applies both internally within our Company and to our business partners and suppliers as well. To also ensure compliance with human rights outside of our Group, we expressly require our over 30,000 suppliers in more than 80 countries to assume this responsibility as well.

LABOR STANDARDS IN THE SUPPLY CHAIN AND IN THE GROUP

There are still places in the world where human rights are not a given. We may be exposed to country- and supplier-specific risks through our global procurement activities; these include, for instance, the use of child labor or poor local labor and safety conditions. Violations can cause severe damage to those affected, and can also result in reputational loss and negative financial consequences for companies.

As a responsible company, we have made an express commitment to the UN Guiding Principles on Business and Human Rights adopted by the United Nations Human Rights Council in 2011 (Ruggie Principles). The obligation to respect human rights is anchored in our basic policies – in our Guiding Principles and in the Deutsche Telekom Social Charter, which we updated during the reporting year and developed into the Code of Human Rights & Social Principles. The Board of Management adopted the amended version in November 2017. This update underscores our commitment to protecting human rights and to the goals of the German National Action Plan on Business and Human Rights adopted by the Federal Government in 2016. Additionally, the Code of Human Rights & Social Principles is our commitment to complying with the fundamental principles and standards set forth by the International Labour Organization (ILO) and the Organisation for Economic Co-operation and Development (OECD) as well as with the Universal Declaration of Human Rights and the UN Global Compact. We also require our suppliers to comply with all of our guidelines related to human rights. Within the Group, our primary focus is on safeguarding the right to conclude collective agreements and on guaranteeing diversity and equal opportunity. For further information, please refer to the passages entitled "Collaboration with employees' representatives/trade unions" and "Diversity and equal opportunity" in this section. SDG

The UN Guiding Principles on Business and Human Rights require businesses to systematically identify the impact their operations have on human rights, and to prevent, mitigate, or compensate these where necessary. In order to meet these requirements, we have developed an extensive program to implement the UN Guiding Principles throughout our Group and introduced an ongoing process comprising several interconnected measures and tools. The program includes promoting awareness, a mechanism for lodging complaints, a risk and impact analysis, and reporting.

We mainly use two instruments to review our Code of Human Rights & Social Principles: First, we prepare a Social Performance Report each year. In 2016, all 103 companies surveyed declared in the report that they are in compliance with the requirements of the Code of Human Rights & Social Principles and the report did not record any violations in 2016. The number of surveyed companies increased in 2017 to 122. In addition, in 2017 we also evolved the Social Performance Report into the Human Rights and Social Report, adding questions on the individual points of the Code of Human Rights & Social Principles. We will be publishing the 2017 report on our website in March 2018. We also maintain a central contact point for human rights issues, available at the e-mail address humanrights@telekom.de or through an anonymous whistleblower system. We have summarized all relevant contact information on our whistleblower portal Tell me!. We look into all tip-offs received and introduce countermeasures as soon as the information is identified as plausible. In 2017, seven tip-offs relating to human rights issues were received either directly via the portal or via the (anonymous) tip-off system. Not all of these tip-offs were deemed plausible. Whenever necessary, we carry out review processes at our national companies to assess employer-employee relationships. To do so, we collect five human rights-related key performance indicators, such as employee satisfaction, then assess these using a stop light system. We also formally review compliance with the Employee Relations Policy each year. The findings are discussed with the regional managers of the respective national companies; if necessary, we agree upon measures such as a Human Rights Impact Assessment, which is designed to assess the actual and potential consequences of corporate activities on human rights and the ability of the organization to prevent, mitigate, or compensate these consequences. We completed such an assessment at T-Systems do Brasil in 2017 and carried out Employee Relations Policy reviews at T-Systems Netherlands and IT Services Hungary in the same year. In addition, we created a special training module on human rights, available for all employees to complete as of January 2018.

For further information, please refer to the section "Risk and opportunity management," **page 111 et seq.**

For detailed information on employee satisfaction, please refer to the section "Employees," **page 96 et seq.**

More and more, the public expects companies to take responsibility over their entire supply chains and utilize the opportunities they have to influence specific issues. We have been working to improve sustainability throughout our supply chain for many years. We derive our sustainability strategy in procurement from our CR strategy; it is anchored in the purchasing processes used throughout our Group. The heads of the CR and Procurement units are responsible for implementing sustainable procurement practices. They report to the CHRO and the CFO, and an escalation process calls for decisions to be made at Board of Management level in severe cases. The Sustainable Procurement Working Group supports international procurement units in meeting sustainability requirements. Our sustainability principles for procurement are set forth in the Global Procurement Policy; associated Procurement Practices provide specific purchasing instructions for Germany and are considered recommendations for our national companies. We train our employees throughout the Group using an e-learning tool. In addition, a buyer handbook has been available since 2016 to provide an overview of which CR criteria must be considered at which point of the procurement process.

10 REDUCED INEQUALITIES

Basic ethical, social, and ecological principles are set forth in our Supplier Code of Conduct, updated in 2017, which is part of our General Terms and Conditions for Purchasing and which must be recognized by all of our suppliers. We give the topic of sustainability a 10 percent weighting in requests for tenders.

We cannot guarantee that all of our suppliers will conform to the principles of our Supplier Code of Conduct. However, we review this compliance regularly to minimize risks and further develop suppliers, working closely with them on these issues. We do so using a four-phase approach: The Supplier Code of Conduct is an integral part of all supplier agreements, and as such is binding for all of our suppliers (phase 1). As the business relationship proceeds, we ask strategically relevant or high-risk suppliers to enter extensive information about their practices in the E-TASC (Electronics Tool for Accountable Supply Chains powered by EcoVadis) information system. We take things a step further in our relationships to certain suppliers that exhibit a higher CR risk and conduct on-site social audits (phase 2). Our focus here is not only on our direct suppliers but also on downstream suppliers as far as possible. We also boost the effectiveness of our audits by collaborating with twelve other companies in the Joint Audit Cooperation (JAC). We completed a total of 89 social audits in 2017 – 26 of these with our direct and 63 with our indirect suppliers. As in previous years, we concentrated our auditing activities on suppliers in Asia, in particular in China and neighboring countries such as India, Malaysia, South Korea, and Thailand, as well as in Brazil, Mexico, and Eastern Europe. Audited suppliers included manufacturers in the areas of IT hardware, software and services as well as networks and devices. SDG

10 REDUCED INEQUALITIES

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

We use the information provided by the companies themselves and audit findings to classify and rate suppliers, primarily those that offer several material groups, according to CR criteria (phase 3). In our multi-award winning Supplier Development Program (phase 4) we work together to develop solutions on issues like environmental protection, work hours regulations, or health protection. The success of the program not only has social and ecological benefits, it can also be measured in business terms: For instance, one supplier reduced lost working days by 35 percent. However, better working conditions do not just have a positive impact on employee motivation and increase productivity, they also improve product quality, in turn reducing the number of complaints received about our products. Ecological improvements include, for instance, one supplier's 36 percent reduction in water consumption. Our suppliers also integrate their sub-contractors in our development program, expanding its impact along our value chain. We added three new suppliers to the program in 2017 to bring the total up to 14. In order to help make the global supply chain for ICT products more sustainable, we are developing our supplier program to become an industry standard; other ICT companies will be able to join the program and also involve their own suppliers. SDG

17 PARTNERSHIPS FOR THE GOALS

We use the Sustainable Procurement ESG KPI to measure and manage our sustainability performance in procurement. This KPI measures the ratio between the procurement volume we receive from suppliers whose compliance with social and environmental criteria has been verified through self-assessments, E-TASC, or social audits, and our total procurement volume. The share of the procurement volume that has been risk-assessed was 81 percent in 2017. Our goal is to cover at least 80 percent by 2020.

ASPECT 5: FIGHTING CORRUPTION

Corruption and unfair business practices violate national and international law. We reject every type of corruption, which is why we focus on corruption avoidance measures.

ETHICAL BUSINESS PRACTICES AND COMPLIANCE

We feel it is highly important that all staff and executive bodies in our Group act with integrity and comply with our values, rules of conduct, and applicable laws at all times. The goal of our compliance activities is to prevent violations and fraudulent business behavior and to integrate compliance into our business processes early on and on a long-term basis. Our customers need to be able to trust our actions meet the highest standards for compliance and integrity around the world. This is essential if we are to be seen as a reliable partner. SDG

We have expressed our commitment to complying with ethical principles and current legal standards. We have anchored this commitment in our Guiding Principles and Code of Conduct, revised in 2017, with the goal of focusing on issues of compliance and integrity and finding a positive way to raise employee awareness of, and motivation to tackle, these issues. The Code of Conduct is valid throughout the Group and will be introduced in all of our national companies.

Group Compliance Management, our central compliance organization, also plays a key role in establishing corporate governance structures and a corporate culture that focus on integrity. It promotes a compliance culture and establishes a set of values centering around the issue of compliance at our Company, and encourages managers and employees to internalize these values. Hence, our understanding of what compliance means far exceeds pure adherence of corporate action to legal requirements, i.e., laws and internal regulations, and focuses on the integrity of everyone in our Group.

We have introduced a comprehensive compliance management system: a way to reduce risks and make sure conduct throughout the Group complies with the existing regulations. All of our activities comply with legal and statutory requirements and with our own policies and internal data privacy regulations. Responsibility for the compliance management system lies with the Board of Management department for Data Privacy, Legal Affairs and Compliance. In addition, one person at management or managing board level in each Group company is in charge of compliance. Our Chief Compliance Officer is responsible for the Group-wide design, advancement and implementation of the compliance management system. Compliance officers implement the compliance management system and our compliance goals locally at the level of our operational segments and national companies.

We take many different actions and measures to prevent and fight corruption. Our compliance management system is based on the Compliance Risk Assessment (CRA), which we use to identify and assess compliance risks and introduce suitable preventative measures. We have established an annual process for this purpose throughout the Group that we use to identify responsibilities and define clear assessment criteria that are documented in a traceable manner. The companies that will take part in the CRA are selected on the basis of the level of maturity of their compliance management system (maturity-based model). In the reporting year, the CRA included 73 companies and covered around 98 percent of the workforce. The individual Group companies are responsible for implementing the CRA and receive support and advice from the central compliance organization. After the management/managing boards in the national companies have been informed of the CRA findings, these findings are used to outline the compliance program for the following year: Measures and responsibilities are defined and management approves the program. These activities are monitored closely to ensure that measures are completed. We have our compliance management system certified regularly, with a focus on anti-corruption measures. In 2016 and 2017, a total of 22 companies – 10 German and 12 international – were reviewed.

We regularly provide risk-oriented and target group-specific training on compliance and avoiding corruption. We have set up the “Ask me!” advice portal focused on the issue of compliance. The portal contains reliable information for employees on laws, internal policies, and behavioral standards relevant to their daily activities.

Despite the best preventive measures, we are not always able to prevent breaches of law or violations of regulations at the Company. The Tell me! whistleblower portal is used by employees and external parties for reporting breaches or suspected breaches of the law or of internal policies and regulations. In 2017, we received 146 compliance-related tip-offs through the Tell me! portal (108 tip-offs in the prior year). Of these, during the course of the year, 43 were confirmed to be cases of misconduct and dealt with accordingly. We systematically pursue all tip-offs, including those that reach us via other channels, within the scope of the legal framework available to us, and implement appropriate sanctions. We have introduced a Group-wide reporting process to control and monitor these activities. This primarily includes reporting on Group-wide compliance cases and the status of the compliance program.

Our suppliers sign our Supplier Code of Conduct, committing to refrain from any kind of corruption and any actions that could be interpreted as corrupt. We expect, and work to ensure, that our suppliers observe these obligations, principles, and values, and take all necessary measures to prevent and penalize active and passive corruption. We have been offering regular e-learning and classroom training on compliance to our suppliers since 2014, as well as providing them with a compliance guideline. We select our business partners based on compliance criteria and conduct risk-oriented compliance business assessments. SDG

17 PARTNERSHIPS FOR THE GOALS

INNOVATION AND PRODUCT DEVELOPMENT

WE FOCUS ON INNOVATION – FOR OUR CUSTOMERS

The digital transformation is progressing apace, bringing far-reaching change to virtually all areas of life on a social, economic, and political level. From intelligent robots and smart factories to self-driving cars, it is changing the world as we know it. Artificial intelligence is taking root in our daily lives, while real life and the virtual world are converging into the Internet of Things. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

As a leading telecommunications and information technology provider, we want to shape this digital world and find the answers to tomorrow’s questions, today. Our innovations give us leverage to set ourselves apart from the competition, both to safeguard the long-term success of our Company and to position ourselves as a premium provider for our consumers and business customers in the long term.

PRODUCT INNOVATION – THE CORE OF OUR INNOVATIVE ACTIVITIES

The Product Innovation unit is our lynchpin when it comes to developing innovative products and services. Formerly a part of Group Innovation+, this Group unit was set up on January 1, 2017, and is assigned to our newly established Board of Management department Technology and Innovation. Product Innovation coordinates and prioritizes innovation activities for consumers and business customers and looks after the continual development of the Group-wide product innovation strategy. It also generates disruptive ideas and works closely with Technology to ensure technology-driven innovations. Close working relationships between Product Innovation and further units across the entire Group encompass traditional product development projects for our operating segments. The aim of such projects is to expand our product portfolio to include more innovative products and solutions and to improve existing products. These projects have a development horizon of one to two years. However, the central focus of our new Group unit is on innovation topics. As a driver of innovations with a development horizon of three to five years, we are shaping the digital future for our customers.

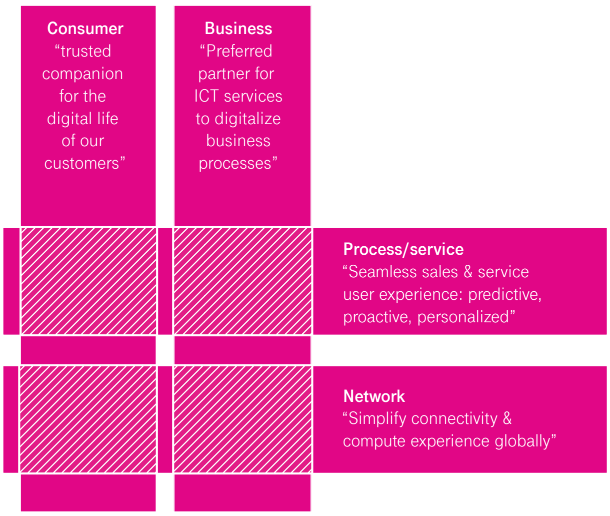
In the reporting year, Product Innovation pushed ahead with the process of transforming our innovation projects on the basis of three principles:

- Innovation focus: Pursue fewer – but all the more promising – areas of innovation at intra-Group level;
- Innovation management: Extend innovation project funding and introduce a more flexible funding approach;
- Collaboration and partnering: Ensure all innovation activities are developed and prioritized jointly by Product Innovation and the business segments and draw systematically on external experts and partners.

INNOVATION FOCUS
FOUR AREAS OF INNOVATION

Where does innovation come from? Everywhere. That's why it is important to ensure all of our innovation activities take place at an intra-Group level and are aligned strategically. Our four interrelated innovation areas – consumer products, business customer products, network/infrastructure, and processes/service – provide a consistent framework that can be applied across the Group.

Innovation areas



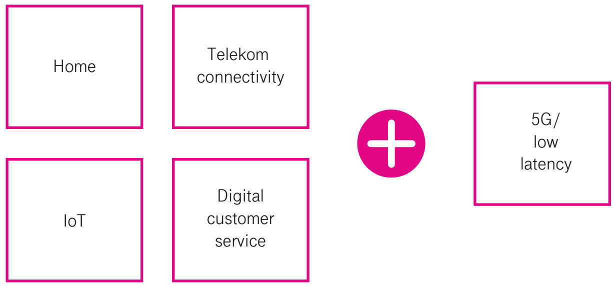
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

4+1 – OUR FORMULA FOR INNOVATION

In addition, for our innovations to be successful we must focus on just a handful of areas – but we have to choose the right ones. True to this approach, in the reporting year we reduced the number of major innovation areas from 64 to five. We parted ways with some projects (like the Tolino eReader), and put an end to work on others (such as payment).

The resulting formula for innovation is now 4+1: the Group's five prioritized areas of innovation.

4+1 – Our formula for innovation

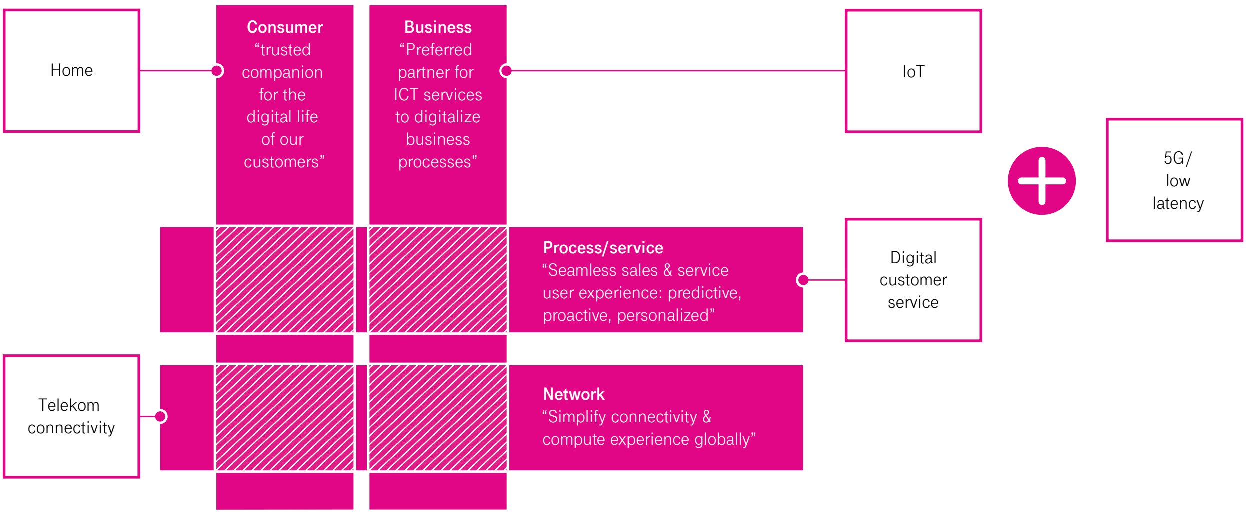


The 4+1 topics are handled on an intra-departmental basis and in close cooperation with the segments:

- **Home:** Customers see for themselves what the seamless convergence of next-generation products and services can offer in the connected home, for an outstanding customer experience. Fully integrated, user-friendly IPTV/Entertain, SmartHome, and Smart Voice Hub services and devices interplay automatically and seamlessly and are simple and intuitive to use.
- **Telekom connectivity:** We create a unique connectivity experience by managing different access technologies, from Wi-Fi to 5G, seamlessly to give our customers access to digital services and content everywhere – simply, securely, and in top quality.
- **Internet of Things (Narrowband IoT):** Narrowband IoT technology is a new type of narrowband communication between "things" in which small volumes of data are transmitted over extended periods of time. Narrowband opens up the door to countless new M2M and IoT applications for our business customers, while being more cost efficient, powerful, and resource-friendly than existing M2M solutions. SDG
- **Digital customer care (eCare & eSales):** By integrating artificial intelligence into customer service, we free up capacity to focus on further improving customer care and interaction.
- **5G/low latency:** This area of innovation stretches further into the future and forms the basis for the real-time communication that is key to innovative applications in the virtual and immersive Internet of the future – like self-driving cars, robotics, Industry 4.0, and ever-more realistic virtual reality.

The first four fields are directly related to our core business and the four innovation areas. They generate directly measurable added value in the form of additional revenues and improved customer satisfaction. In contrast, with 5G/low latency we are driving forward a disruptive innovation field for our Group that has the potential to radically and permanently transform existing markets and business models. The development timeframe in this context is substantially longer than for the first four innovation areas. All five are reviewed each year to ensure that we continue to concentrate on the right topics.

Innovation areas and 4+1 innovation priorities



In the reporting year, we already brought several promising product and service innovations to market under the 4+1 model:

In **home** innovations, we integrated the QIVICON Home Base functionalities directly into the router so that customers now only need one piece of equipment. The **Speedport Smart**, launched mid-May, features SmartHome functionalities. The **Magenta SmartHome app** for Apple and Android was updated in December 2017 to further improve the customer experience in terms of controlling and automating the connected home. The app can now be connected to more than 200 machines and devices for energy-efficient operation, including state-of-the-art equipment such as the smart smoke detector Nest Protect and the latest Osram lights. We also offer the ERGO emergency service to assist in situations where residents cannot be contacted. What is more, Volkswagen owners can now control their SmartHome solution directly via their on-board infotainment system.

In the **Telekom Connectivity** area of innovation, we developed the CONNECT app for the German market. CONNECT enables users to transition smoothly and smartly between networks and logs into HotSpots and Wi-Fi networks automatically while ensuring full control over costs and speed. This is just one of the ways in which we ensure customers benefit from the best connectivity and the best customer experience. SDG

We continued our pioneering role in the **Internet of Things (IoT)** innovation area in the reporting year. T-Mobile Netherlands celebrated a world premiere by being the first company to **roll out Narrowband IoT technology** nationwide. In Germany, too, we launched our first **Narrowband IoT service packages** and built out the availability of narrowband IoT networks in all of our footprint markets. Several pilot projects with corporate customers in the areas of smart metering, smart parking, and asset tracking are already up and running.

Our new **digital customer** care assistant at T-Mobile Austria, **Tinka**, helps customers online and via Facebook to use our products and services intuitively and can answer questions on products and services. Tinka started life as a text-based chatbot in 2016. We then incorporated artificial intelligence elements in 2017 to enable her to interpret and correctly respond to more complicated questions. Since mid-2017, a digital, artificial intelligence-equipped assistant has also been available around the clock to answer German customers' questions on technical problems. The assistant relieves the burden on service colleagues of responding to routine inquiries and frees up valuable time to deal with customer concerns in person.

As part of our long-term focus on innovation in the area of **5G/ low latency**, we are laying the groundwork for the digital world of tomorrow. Our showcase of 5G-enabled robotics demonstrated, for example, at Mobile World Congress 2017 how robots can interact efficiently and synchronously using 5G network technology and low latency.

INNOVATION MANAGEMENT

13 CLIMATE ACTION

Innovation cycles are getting shorter and shorter. As a result, we must be agile and flexible in how we manage and budget our innovation projects. We orient ourselves to best-practice approaches used by innovative startups and successful companies, and to the latest findings from research and academia.

PORTFOLIO AND INNOVATION BOARD

Established 2013, the Portfolio & Innovation Board (PIB) plays a central role in managing our innovations. It ensures that we prioritize correctly by identifying and selecting key areas of innovation for our Group and deciding on the method of implementation. Our efforts are guided primarily by the four innovation areas and we create full transparency across the Group regarding our investments in innovation.

CORPORATE INNOVATION FUND

Our Corporate Innovation Fund (CIF) is managed centrally by the PIB. Similar to a venture capital approach, the CIF offers all business and product ideas generated within the Group a flexible and results-oriented form of funding for a specific project phase. The provision of additional innovation budget allows us, for example, to fund new innovation projects at short notice and with little red tape. Such financing is granted independently of annual planning periods, and therefore intensifies our focus on market and customer requirements. Innovation can take place anywhere across Deutsche Telekom, as long as the proposed business and product ideas fit within our Group's central innovation focuses.

For example, in the reporting year, the Corporate Innovation Fund (CIF) funded the startup and financing phase of the Paketchef solution. Paketchef targets the last mile of parcel delivery services by giving the customer the freedom to choose when and where they receive their parcels. Our Group-internal entrepreneurs' platform UQBATE (www.uqbate.com) also supported this project. Paketchef is thus a good example of successful corporate entrepreneurship and was singled out as the second-best corporate startup at the Corporate Startup Summit & Award in November 2017. SDG

INVESTMENT COMMITTEE FOR THE 4+1 TOPICS

We established the Investment Committee to speed up investment decisions on our 4+1 areas of innovation. Its objective is to act like an (internal) venture capitalist. The Investment Committee allocates funding according to success, orienting itself to the start-up industry and the venture-capitalist approach of tying funding to the achievement of key milestones. This gives us the flexibility we need when developing innovation topics and focuses efforts on success. Funding is only made available for the next project phase when specific outcomes that are relevant to our customers are achieved.

The deciding factor for us is always that our ideas and innovations are developed closely in line with the demands of our customers from the very start. Projects that become less promising over time are stopped immediately.

COLLABORATION

Working closely with other departments throughout the entire Group is the key to successful innovation. We involve the segments with market responsibility in the development process right from the get-go. This joint effort ensures that we do not miss the mark during this phase.

Another important contributor to successful internal collaboration is the diversity that exists across our Company. Empirical studies confirm our experiences that diversity is positively correlated to innovativeness. SDG

CUSTOMER RESEARCH AND DESIGN THINKING

We want our Group to enjoy long-lasting market success, which is why we take a customer-centric approach to developing innovations. We investigate and analyze customers' wishes even before they are articulated, to design innovative solutions and products together with customers themselves. In doing so, we draw on a toolbox full of diverse, flexible – both intelligent and user-centric – methods. We have also defined a standard design-thinking approach across the Group and, with the Design Academy, set up one of the largest professional training programs in the history of our Company.

INNOVATION FORUM

Being able to work with customers rapidly, independently, and on an ongoing basis is essential, so we recruit customers via the innovation forum, a Group-internal customer panel comprising 1,600 households. These customers help us to develop products and services by contributing their ideas, experiences, and wishes.

CUSTOMER EXPERIENCE

What does it take to create an outstanding customer experience? And how can we do this? Product Innovation has defined the answers to these questions using what it calls the experience framework. The framework, or vision, links together the customer and business perspectives logically to describe specific action areas. This gives us a set of measures and methods that allow us to design a coherent customer experience. Our efforts in this area have received several accolades. For example, at IFA 2017 our virtual reality solution, Basketball, won a UXDesign Award presented by the International Design Center Berlin (IDZ). The solution uses virtual reality to turn a live-streamed basketball game into a real 360° experience.

THREE-PRONGED INNOVATION STRATEGY

To tap into even greater innovation capacity, we not only rely on our own developments but also successfully integrate new ideas from outside Deutsche Telekom. We take a three-pronged approach to innovation to set ourselves apart from the competition and generate growth:

- In-house developments,
- partnerships, and
- startup funding.

FEEL THE FUTURE – OUR PRODUCT AND SERVICE INNOVATIONS

Below are a few examples of developments in the reporting year:

- **Smart parking.** Searching for parking spaces wastes time, causes traffic jams, and pollutes the air. Summer 2017 brought relief to Hamburg in the form of the new digital parking service Park and Joy. The first parking spaces in the city were equipped with narrowband sensors transmitting over the mobile network. Over the next three years, numerous public parking spaces, parking garages, and private parking lots across the country are to be connected to the network. SDG

- Since February 2017, Slovak Telekom has offered its customers a SmartHome service based on the white-label portfolio from QIVICON. It combines the open, secure **QIVICON** platform, the new QIVICON Home Base, the White Label app, and other compatible devices from a range of manufacturers. Our SmartHome platform offers further benefits in the form of certification and security. QIVICON has been certified in accordance with the ISO 9001 quality management standard as well as being awarded the top mark by the AV-Test Independent IT-Security Institute.

- **immmr** is a one-stop service for voice and video calling and messaging. The app virtualizes the user's mobile telephone number allowing them to call any number from any device – even from multiple numbers. The first managed OTT service worldwide, immmr combines the best of Internet-based communication with the strengths of mobile technology. After introducing the app under the immmr brand in Slovakia at the end of 2016, we have been focusing in 2017 on relaunching it under the Telekom brand.

- The future belongs to the **eSIM** card. We support the GSMA's eSIM standard in Germany, which premieres in the Apple Watch Series 3, making us the only network operator in Germany to offer the Apple Watch with this new eSIM function.

- The use of voice assistants to operate services is becoming increasingly important. We designed our own **Smart Speaker** featuring our continually learning Magenta voice assistant. It can be used to control equipment connected to the device, such as EntertainTV, using voice commands. The assistant was developed together with researchers at the Fraunhofer Institute for Digital Media Technology (IDMT). In terms of data security too the Smart Speaker meets the most demanding requirements: commands are stored for only 30 days. The servers it uses are located exclusively in Germany, making them subject to Germany's strict data protection law. The Smart Speaker will be available in Germany in the first half of 2018.

With our central research unit, **Telekom Innovation Laboratories (T-Labs)**, we operate our own research and development facilities at locations in Berlin, Darmstadt and Bonn in Germany, Beer Sheva in Israel, and Mountain View in the United States. Some 300 experts and scientists in diverse fields work closely with our Technology and Innovation Board department and our operating segments. They foster open innovation by working with partners from industry, international universities, research institutions, and startups. SDG Based primarily in Berlin, the T-Labs have had close ties to Technische Universität Berlin since 2004. We also entered into further academic partnerships in the reporting year, including with TU Wien in Vienna and the Einstein Center Digital Future in Berlin. In 2017, T-Labs focused on a range of topics including the following:

- A Group-wide initiative was launched in 2017 focusing on a new research area at T-Labs – **blockchain** – to look into the technology and the possibilities it offers in terms of efficient, secure, environmentally friendly confidential data transfer between partners across a decentralized network. Together with a range of partners, we are working on numerous prototypes which, for example, utilize blockchain technology in the Internet of Things (IoT), including in cooperation with Telekom Deutschland and T-Systems.

- **New media experience** is all about improving the user experience, in particular at the user interface to new media formats. We look through the eyes of the customer to create solutions for at home and on the move, as well as for smart cities. The focus of our research is on cloud-based applications and integrating new formats such as virtual reality/augmented reality and 360°, which we already unveiled in several showcases (360° Basketball Bundesliga, Telekom Cup, Magenta VR Portal).

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

- We are working both on new services and to improve existing services for our customers using a range of methods that include machine learning and **artificial intelligence**. The FASAS project is developing mechanisms to detect cyber attacks on our networks at an early stage and trigger automated protection measures. FASAS, a partnership between Telekom Security, Ben-Gurion University in Israel, and T-Labs, represents the successful transfer of research findings and was awarded the Best Big Data Project at Deutsche Telekom 2017 prize. We are migrating the solutions into live operations on a step-by-step basis, with the next update due in the first quarter of 2018. SDG

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

11 SUSTAINABLE CITIES AND COMMUNITIES

- **Smart cities** as a strategic focal area has grown out of the many years of lab test results and research findings at T-Labs. Together with partners, we are testing innovative solutions for energy, mobility, and communication in our European flagship project mySmartLife in Hamburg. SDG

INNOVATIONS FROM PARTNERSHIPS

17 PARTNERSHIPS FOR THE GOALS

We draw on the expertise and abilities of our partners in order to implement the digital transformation successfully. SDG We rely on the tremendous innovative energy coming out of Silicon Valley, Israel, Germany, and other innovation hotspots across the globe.

Some examples of successful partnerships can be found below:

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

- After successfully launching StreamOn in Germany, Poland, and Croatia, we expanded our new zero-rating video platform to include Greece and Romania. Our customers in these countries can now stream big-name video services from partners such as **YouTube, Netflix,** and **Amazon Video** on their mobile devices without using up their inclusive data volume. We also launched a new StreamOn option in Croatia, Hungary, Albania, and Greece offering unlimited access to social media and chat services, including Facebook, Messenger, WhatsApp, and Instagram. We will roll out this service to additional countries in 2018 and bring extra partners on board.

13 CLIMATE ACTION

- At the end of 2017, Telekom Deutschland and T-Mobile Austria joined forces with our partner **Mojio** to bring a connected car service to market which transforms consumers' vehicles into smart cars, giving them an overview of car usage, handling, and condition, as well as Wi-Fi for passengers. Similar Mojio-based services in the form of SyncUp Drive and Chytré Auto are already on offer at T-Mobile US and T-Mobile in the Czech Republic. In addition, Digital Drive – another Mojio-based technical solution – from T-Systems is a manufacturer-neutral retrofit option for dealers, original equipment manufacturers (OEMs), insurance companies, and fleet operators. Digital Drive enables them to offer their customers own-branded digital connected car services.

- We formed a partnership with **Checkpoint** to deliver security solutions for business customers and consumers. Business customers benefit from secure e-mail transmission with the APT Protect Pro cloud solution, while Telekom Deutschland and Cosmote in Greece launched the Protect Mobile service for consumers in collaboration with Checkpoint. Protect Mobile is a convergent security product available as a simple add-on that protects mobile customers against viruses. An additional app offers protection when connected to Wi-Fi.

- We joined forces with **CyberX** and **Radiflow** to offer comprehensive protection for connected industrial systems. Industrial Threat Protect Pro (CyberX) identifies vulnerabilities and provides transparency, while Industrial Network Protect Pro (Radiflow) protects against the uncontrolled flow of data and unauthorized access to the network. SDG

STARTUP FUNDING

Our **hub:raum** incubator connects startups with the right contacts at our Group. In addition to seed financing, hub:raum offers the startups targeted programs that tie in with the strategic technologies at our Group. With its focus on our core areas, such as artificial intelligence and the smart home, hub:raum primarily deals with startups that fall within our 4+1 innovation areas. Since it was established in 2012, hub:raum has helped us to build up an investment portfolio of over 20 companies and 250 startups in Europe and Israel. In 2017 alone, almost 20 projects between startups and our Group business units were launched (www.hubraum.com). We would like to mention just some of these startups below: SDG

- **Twyla** has created a flexible piece of chatbot software designed to help large companies improve their digital customer experience and take on the diverse challenges of customer service. The solution is simple to integrate and frees up customer advisors' time to concentrate on more complicated customer inquiries (www.twylahelps.com).

- An app designed by **eParkomat** shows users vacant parking spaces in the vicinity and guides them there via smartphone quickly and easily. It uses an algorithm to forecast the availability of vacant parking spaces in real time by analyzing the number of mobile devices that are logged into a specific mobile network (www.eparkomat.com). SDG

- **Reparando** is a speedy mobile repair service that comes to the aid of faulty smartphones. Currently available to customers in 20 cities across Germany, the Stuttgart-based startup has carried out more than 10,000 repairs since it was established mid-2015 (www.reparando.com).

In 2017, hub:raum also launched or continued to pursue three programs dealing with the Group's strategic technologies: low latency/ edge computing, future communications (with our partner), and the narrowband IoT program launched in 2016. Program participants gain access to Group experts and support with developing their businesses.

DEUTSCHE TELEKOM CAPITAL PARTNERS

We have restructured our commitment in the areas of venture capital, private equity, and technology innovation with our Deutsche Telekom Capital Partners group (DTCP), which was established at the beginning of 2015, and are extending it considerably. DTCP is Deutsche Telekom's investment management group and is positioned at the center of our redesigned investment concept. DTCP offers growth capital for startups with a proven business model, investments in mature companies, and consulting in the technology, media, and telecommunications sectors. Its objective is to create value for the Group, investors, portfolio companies, and other stakeholders and it has access to some EUR 500 million in capital to pursue this goal. DTCP's investments have a strong financial motivation. The group aims to acquire shares in companies, to see these companies grow, and to sell the shareholdings again at a profit. Choosing the most successful startups and collaborating closely with them leads to strategically relevant cooperation options and business relationships with our Group.

DTCP also provides guidance to our strategic investment fund Telekom Innovation Pool (TIP) on investments that are primarily strategically motivated. TIP focuses its investment activities not only on external startups that are strategically relevant, but also supports and implements in-house ventures as spin-offs. For the latter, new business ideas from our Group are spun off as young companies, making greater entrepreneurial freedom and shorter decision paths possible. Additionally, DTCP advises DTVF (Deutsche Telekom Venture Funds GmbH) on its portfolio. The aim is to support the development of the around 55 existing investments (including through follow-up investments) and divest them at a profit.

DTCP was already conducting successful deals in its first two years in business. This involved the profitable sale of the startups Nexmo (to Vonage), Replay (to Intel), and Fireglass (to Symantec). In 2017, DTCP invested venture capital in several companies, including mobile marketing platform AppsFlyer, big data analytics company Fornova, machine learning-based personalization technology Dynamic Yield, and software-as-a-service enterprise-architecture specialist LeanIX. It also advised the Telekom Innovation Pool on matters such as investing in the IoT orchestration platform Axonize and our cloud computing spin-off mobiledgeX. In terms of mature businesses, DTCP invested in mobile infrastructure provider SwissTowers AG.

PATENTS/IPR PORTFOLIO

Patents are gaining more and more significance in the telecommunications industry. Market players and their areas of activity are changing, with a knock-on effect on our intellectual property rights (IPR) agenda. On the one hand, our Group's scope for action must be maintained. On the other hand and alongside our own research and development activities, we want to pave the way to open innovation through collaboration projects and partnerships. National and international IPRs are vital for these types of activity. We are strongly dedicated to generating our own property rights. In the reporting year, we filed 295 patent applications, taking the total number of IPRs held by the Group to around 8,300. We pursue our intense efforts to develop and structure our IPR portfolio. This secures the value of the rights we hold and ensures they are in line with our Group's strategic objectives. We have put in place a professional patent law management process to keep our IPR assets safe.

EXPENDITURE AND INVESTMENT IN RESEARCH AND DEVELOPMENT

Research and development (R&D) expenditure includes pre-production research and development, such as the search for alternative products, processes, systems, and services. By contrast, we do not class as research and development expenditure the costs of developing system and user software which is designed to improve productivity and make our business processes more effective. R&D expenditure in the Deutsche Telekom Group amounted to EUR 57.7 million in 2017. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure, the amount in this case being EUR 27 million (2016: EUR 58 million). However, this figure cannot be viewed in isolation from our three-pronged innovation strategy comprising in-house developments, partnerships, and startup funding.

Our Group's investments in internally generated intangible assets to be capitalized were also up year-on-year at EUR 235.7 million compared with EUR 129.5 million for the previous year. These investments predominantly relate to internally developed software, mainly in our Group Headquarters & Group Services segment and our Systems Solutions operating segment. About 3,000 employees worked in the Group's R&D areas in 2017 (2016: approx. 2,900).

Expenditure and investment in research and development
millions of €

	2017	2016	2015	2014	2013
Research and development expenditure	57.7	84.1	108.1	95.6	97.0
Investments in internally generated intangible assets to be capitalized	235.7	129.5	101.3	93.2	112.0

EMPLOYEES

- Opportunities and challenges of digitalization
- Our HR work based on the HR priorities
- HR awards in 2017
- Headcount development in 2017

OPPORTUNITIES AND CHALLENGES OF DIGITALIZATION

Digitalization will completely revolutionize our lives and the way we work. Even now, we are already beginning to see new forms of collaboration, unprecedented business models, and greater automation of activities. That's why it is vital that we equip our managers and employees with digital skills, because people are the keys to our success, both today and tomorrow. It's also why we need to be an attractive employer to talented individuals. We must create working environments and use technologies that enable us to network among ourselves. Leadership will change, too, to become more participative and virtual. Decision-making will become ever faster. Digitalization opens the door to a host of amazing opportunities for innovation and we intend to make the best possible use of them. SDG

The topics mentioned here guide our strategic priorities in HR. In 2017, we continued to work on the following key areas:

OUR HR PRIORITIES

1. Talent strategy and planning
2. Performance management and leadership
3. Working in the digital age
4. Skills management and innovative training opportunities

Below we describe details of example projects and initiatives designed with these priorities in mind.

OUR HR WORK BASED ON THE HR PRIORITIES

1. TALENT STRATEGY AND PLANNING

When it comes to transforming the Group, our workforce plays a crucial role. It is hugely important to us to have the right people in the right jobs and to further develop their individual skills.

Recruitment. We want to make our work even more global, digital, and efficient in the future, which is why we aim to attract the biggest talents to our Company worldwide. Conventional recruitment channels, such as employee recommendations, job advertisements, campaigns, trade fair presences, and active recruitment on social networks, are enhanced by the opportunities provided by digitalization. New channels, such as our Global Online Challenge Platform or Roberta the Robot – our virtual assistant at job fairs – connect us with candidates who have the future skills we need. Gamification is another attractive approach to this target group, as is our open workspace project, CMD+O. We have extended our Women's STEM Award to an international audience and now take applications from female students of STEM subjects not only in Germany, but from across all of Europe. SDG

Employer brand. We are already an attractive employer, but we want to get even better. In 2017, our global HR team created a new worldwide employer brand for the Group, known as the Employer Value Proposition (EVP): "We shape the digital world to bring people closer together." The new EVP is accompanied by a provocative campaign with the slogan: "If you can't think big – don't apply." This new employer brand gives us a consistent look and feel across all labor markets worldwide, yet is flexible enough for our different national companies to contribute their individual strengths.

Succession and talent management. We know that good employees are not only recruited from outside the Company. Many people with key skills and huge potential already work within our Group. In 2017, we imbued our succession planning activities with the necessary structure by taking a global approach. The new digital process allows us to plan and develop candidates on an ongoing basis, and we always have an overview of potential successors to management positions. Additionally, our Global Talent Pool is a platform and database that gives us complete transparency over our global talents and their respective profiles. Talents can use the Global Talent Pool group on YAM, our social network, to plan the next steps of their career, identify strategic project assignments, and find interesting job vacancies. We also exclusively offer a portfolio of digital development opportunities, including CV consulting, career meetings, e-training modules, and mentoring, to prepare our global talents for new positions. This system makes it easier to fill vacancies, improves the visibility of talented employees, and promotes rotation. We also organized two simultaneous Talent Summit conferences in Bonn and Athens to foster international networking, which were attended by over 300 talents.

2. PERFORMANCE MANAGEMENT AND LEADERSHIP

"Lead to win" leadership model. The working world is becoming increasingly dynamic, agile, and innovative. In order to keep pace with these changes, we updated our "Lead to win" leadership model in the reporting year. Essentially, "Lead to win" focuses on a continuous exchange about performance and development issues in line with the principles "Collaborate," "Innovate," and "Empower to perform," along with our Guiding Principles. The main changes in 2017 included uncoupling individual bonus payments, personal development using ongoing feedback, and a stronger focus on Group-wide collaboration.

levelUP! In the age of digitalization, managers must possess skills and methods that differ greatly from those needed by the analog world. That's why we launched a new professional development program for executives, levelUP! – an innovative digital further-training service for successful leadership in the digital age. levelUP! has a flexible modular structure that uses mainly interactive learning formats.

Practicing diversity. For over a decade now, we have sustainably and comprehensively practiced and promoted diversity throughout the Group. SDG In 2015, we launched a campaign on unconscious bias, which is now running at international level. The goal is to raise employee awareness of this issue and bring fresh stimulus for greater diversity within the Company. We once again took part in the German Diversity Day featuring the motto "Diversity makes the difference – cultural skills for business success." Gender equality remains a particular concern of ours. Back in 2010, Deutsche Telekom AG set itself the target of filling 30 percent of management positions across the Group with females. We aim to meet this target by 2020. Across the globe, the proportion of women in middle and upper management stood at 25.4 percent at the end of 2017. Following the introduction of the Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), we extended the target to include the Board, the two levels directly beneath the Board, and our internal supervisory boards in Germany. Since 2015, via our Supervisory Board Readiness Program, we have trained almost 60 women to take on national and international supervisory board mandates. The percentage of female members on our supervisory boards in Germany rose from 17.7 percent in 2010 to 37.3 percent in December 2017. In 2017 we also hosted the annual Chefsache Conference; a network of managers from industry, academia, the public sector, and the media dedicated to equal opportunities and patronized by Federal Chancellor Angela Merkel. SDG

Achieving a good work-life balance. Alongside offering traditional support in the form of childcare facilities and family care options, we are also moving increasingly to an HR policy oriented to different life phases that offers flexible working conditions for greater self-determination, and, in doing so, exploits the opportunities provided by digitalization. After concluding the general collective agreement with ver.di in 2017, we rolled out mobile working across the Group as a new way of working. This allows our employees to work from home or on the move, provided the nature of the task lends itself to this. In addition, flexible working hours, the opportunity to go part-time with a guaranteed option to return to full-time work, and the lifetime work accounts all give employees greater freedom to structure their day flexibly and achieve a better work-life balance. SDG

8 DECENT WORK AND ECONOMIC GROWTH

Employee satisfaction. In the most recent Group-wide employee survey of 2017 (excluding T-Mobile US), our commitment index score – our measure of employee satisfaction – already at a high level, remained at 4.1 (on a scale of 1.0 to 5.0). We also conduct regular pulse surveys to obtain feedback from our employees. 71 percent of employees took part in the pulse survey in November 2017, of which 72 percent stated they were satisfied with our Company; for comparison, this figure stood at 73 percent in the pulse survey of November 2016. Even though the feedback is already very positive, we have several initiatives in place to further improve the corporate culture and employee satisfaction. We expect to see employee satisfaction remain consistently high in the next employee survey due in 2019.

10 REDUCED INEQUALITIES

Employee satisfaction (commitment index) [a]

	2017	2015
GROUP (excluding T-Mobile US) [b]	4.1	4.1
Of which: Germany	4.1	4.1
Of which: international	4.1	4.0

[a] Commitment index according to the most recent employee surveys in 2017 and 2015.
[b] T-Mobile US conducts its own employee survey.

Employee health. Our health management strategy is designed to maintain our employees' health and performance. We view occupational health and safety legislation as minimum requirements. In addition, we practice a corporate culture that encourages employees to take personal responsibility for their health. Managers make an important contribution in this respect. Our commitment to this topic has won us numerous accolades. SDG

For further information on occupational health and safety, please refer to the section "Corporate responsibility and non-financial statement," page 77 et seq.

3 GOOD HEALTH AND WELL-BEING

3. WORKING IN THE DIGITAL AGE

What does the transformation of the working world mean for our employees? The innumerable opportunities inspire our HR work, culminating in a range of measures on "people," "places," and "technologies."

5 GENDER EQUALITY

People. The transformation of corporate organization and culture is accelerating, driven by the pace of digitalization. Transformation is not an end in itself, but an expression of the relentless demand for adapted, more flexible work forms and operating structures. The automation of transactional and repetitive activities creates new options for “human” value creation, while social media and digital platforms unlock new ways of working across hierarchical divides. The person and employee continues to be our focus. But who are our employees and how do they work in the digital age? To get to the bottom of these important questions, we asked our workforce about their experiences and wishes regarding the use of digital tools, and created “persona” from our findings. These allow us to develop tailor-made IT solutions and digital learning and further training offers. As in the previous year, in 2017 we once again set standards in the field of design thinking. We have now brought more than 10,000 employees into contact with this creative development method, thus establishing a broad basis on which this approach to innovation and transformation can be applied to daily work. Our Massive Open Online Course (MOOC) format has been up and running for several years now and is used to address current business challenges in global teams. The next Magenta MOOC initiative, with the slogan “Tap into design thinking,” will bring this method to an even larger user group. As of the 2017 year-end, 4,700 employees had already registered for this online course. SDG

Places. The workplace of the future will also undergo transformation. Our Future Work program offers modern, open office environments and shared work zones to promote flexible working, a trust-based leadership culture, and mobile working. As of the end of the reporting year, just under 18,000 employees in Germany were already working in line with our Future Work principles. The Group Headquarters underwent complete restructuring, along with sites in Düsseldorf, Essen, and Berlin. Our goal is to continue to pursue the transformation of our corporate culture from one based on being at the office to one based on results.

Technologies. Because we want to make the most of the opportunities brought about by digital transformation, we are testing out new technologies in fields such as professional training and development. Using virtual reality, for example, we can teach and hone presentation skills in front of a virtual audience. The internal automation of our HR processes is also progressing apace thanks to the use of chatbot prototypes. Our staff app, launched in December 2017, established a basis for bringing further HR processes, like the “punch clock,” to the smartphone. Mobile solutions not only make everyday work easier, they also promote modern and flexible working. We will be upgrading the mobile phones of up to 50,000 employees with latest-generation smartphones to give more people access to the latest services. We are aware that we must promote virtual collaboration if we are to maximize performance. A key part of this is our YAM, which is attracting new users continually. YAM had more than 123,000 users as of the end of 2017 and continues to establish itself firmly as a dialog-based communications platform and the central nervous system of our Company. We have also upgraded the direct communications channel with the Board of Management level via YAM, with many of our Board members and managers using blogs, vlogs, chats and discussion forums to communicate. In addition, most employees worldwide now have access to the following options for collaboration between departments and across national borders: video and web conferencing services, live broadcasts and chat/messaging services, and knowledge-sharing via secure data rooms.

4. SKILLS MANAGEMENT AND INNOVATIVE TRAINING OPPORTUNITIES

Skills management. One of our most important resources is the skills of our employees. In order to secure competitiveness and employment, together with the employee representatives we agreed to implement a strategic skills management pilot project at four business units. Alongside retraining opportunities and interdepartmental exchanges, the focus is on identifying skills gaps at an early stage and deriving long-term training programs to redress the balance. To date, some 5,000 employees have gone through this process, thus allowing us to identify potential for improvement and implement training measures together with the participating Group units and our employee representatives. SDG

The 80/20 model. The 80/20 model is yet another innovative program to improve employee motivation and collaboration across departments. It gives employees the freedom – on a voluntary basis and in agreement with the participating manager – to dedicate 20 percent of their working hours to internal Group projects. The model allows skills gaps to be closed, while giving employees the opportunity to apply their skills in other areas, irrespective of their department. Introducing this level of flexibility not only promotes the general success of the Company but also creates a new and innovative way of working in which employees’ skills are valued and managers receive targeted support.

Part-time training leave. The “German part-time training leave model” is another opportunity for employees to advance their skills and thus safeguard their employability. We presented this model together with Federal Minister of Labor Andrea Nahles in June 2017. The proposal is similar to the partial retirement model with the added bonus that the employee is given a job guarantee or protection against compulsory redundancy for a specific period of time. The part-time training leave model is an all-round win-win situation. Employees keep their jobs and social security, the costs for the state are substantially reduced compared to the costs of financing unemployment, and companies train up their employees for the future.

Major HR awards in 2017

Asia Best Employer Award: Managing Health at Work, T-Systems Singapore

Silicon Valley United States Pillar (HR) World Awards Gold: Time2Change – More work-life balance in a digital world

European HR Excellence Award: "Innovation of the year": Roberta recruiting robot

HR Awards 2017: Best Change Management Strategy & Initiative category, OTE

Best provider of training: in the area of training & cooperative study programs

Deutscher Unternehmenspreis Gesundheit 2017 (German corporate healthcare award)

Media and Migration Award in NRW 2017: Information portal for refugees; handbookgermany.de

Corporate Health Award: Health and Safety, Germany

The best employer in IT and telecommunications for 2016: T-Systems Slovakia

Outstanding contribution in the field of safety and health at work: Makedonski Telekom

Online Talent Communication Study 2017: Top spot for online applications, among other prizes

FOX & Communicator Awards Gold: for the #wünschteuchwas (make a wish) training campaign

Female Recruiting Award 2017

Malaysia Best Employer Brand Award 2017: T-Systems Malaysia

GLOMO Award 2017 for Outstanding Contribution to the Mobile Industry in supporting Syrian refugees

HEADCOUNT DEVELOPMENT

The Group's headcount fell by 0.5 percent compared with the end of the prior year. Development across the segments was varied. The number of employees in our Germany operating segment declined by 2.3 percent as a result of efficiency enhancement measures, fewer hires in the operating units, and the take-up of socially responsible instruments. The total number of employees in our United States operating segment increased by 2.4 percent at December 31, 2017 compared to December 31, 2016, due to an increase in customer support and network employees, partially offset by a decrease in customer acquisition employees. In our Europe operating segment, the workforce grew by 1.3 percent year-on-year, partly due to the extra employees needed at our national company in Poland to staff the new branches opened there. The headcount in our Systems Solutions operating segment increased by 1.2 percent, largely as a result of the integration of Telekom Security employees. In our Group Development operating segment, the number of employees declined by 23.5 percent, primarily as a result of the deconsolidation of Strato as of March 31, 2017. The headcount in the Group Headquarters & Group Services segment was down 4.7 percent compared with the end of 2016, mainly due to the ongoing staff restructuring at Vivento and the Group-wide bundling of the Telekom Security unit under our Systems Solutions operating segment. By contrast, the number of employees in our new Technology and Innovation Board department increased.

WORKFORCE STATISTICS

Headcount development

		Dec. 31, 2017	Dec. 31, 2016[a]	Dec. 31, 2015[a]	Dec. 31, 2014	Dec. 31, 2013
FTEs IN THE GROUP		**217,349**	**218,341**	**225,243**	**227,811**	**228,596**
Of which: Deutsche Telekom AG		21,428	22,571	26,205	28,569	29,577
Of which: civil servants (in Germany, active service relationship)		15,482	15,999	18,483	19,881	20,523
Germany operating segment[a]		63,928	65,452	67,927	68,754	66,725
United States operating segment		45,888	44,820	44,229	39,683	37,071
Europe operating segment[a]		47,421	46,808	48,920	53,499	53,265
Systems Solutions operating segment[a]		37,924	37,472	37,850	46,244	49,540
Group Development[a]		1,967	2,572	2,768	–	–
Group Headquarters & Group Services[a]		20,222	21,216	23,548	19,631	21,995
BREAKDOWN BY GEOGRAPHIC AREA						
Germany		101,901	104,662	110,354	114,749	116,643
International		115,448	113,679	114,888	113,061	111,953
Of which: other EU member states		59,952	59,456	60,710	63,032	63,939
Of which: rest of Europe		2,620	2,581	2,945	3,127	3,238
Of which: North America		46,332	45,364	44,803	40,346	37,856
Of which: rest of world		6,543	6,278	6,431	6,556	6,920
NATURAL ATTRITION	%	**4.7**	**4.0**	**4.4**	**4.2**	**4.2**
Of which: Germany	%	1.7	1.4	1.3	1.4	1.8
Of which: international	%	9.2	8.1	9.3	8.6	7.6
PRODUCTIVITY TREND[b]						
Net revenue per employee	thousands of €	346	331	306	275	262

[a] Since January 1, 2017, we have reported on the Group Development operating segment and within the Group Headquarters & Group Services segment on the Board of Management department Technology and Innovation. Comparative figures have been adjusted retrospectively.

[b] Based on average number of employees.

For more information, please refer to the section "Group organization" **page 31 et seq.**, and to the disclosures in Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

Personnel costs
billions of €

		2017	2016	2015	2014	2013
Personnel costs in the Group		15.5	16.4	15.8	14.7	15.1
Of which: Germany		8.5	9.8	9.4	9.1	9.4
Of which: international		7.0	6.6	6.4	5.6	5.7
Special factors[a]		0.6	1.6	1.2	0.9	1.4
Personnel costs in the Group (adjusted for special factors)		14.9	14.8	14.6	13.8	13.7
Net revenue		74.9	73.1	69.2	62.7	60.1
ADJUSTED PERSONNEL COST RATIO	%	**19.9**	**20.3**	**21.2**	**22.0**	**22.7**
PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP		**2.7**	**3.5**	**2.9**	**2.8**	**3.1**

[a] Expenses for staff-related measures.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

For information on events after the reporting period, please refer to Note 42 "Events after the reporting period" in the notes to the consolidated financial statements, page 247, and to the notes to the annual financial statements of Deutsche Telekom AG as of December 31, 2017.

FORECAST[1]

STATEMENT BY THE BOARD OF MANAGEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP

We successfully continued our growth course again in 2017. We already set ourselves apart by having the best and most modern networks and we want to continue building on this technology leadership. Over the coming years, we will also focus more on integrated offers, in line with the expectations of our customers. This goes hand in hand with our "Leading European Telco" strategy – with the aim of becoming Europe's leading telecommunications provider. This is closely related to our financial targets for the period up to 2018: As communicated at our Capital Markets Day in February 2015, we are aiming for the following compound annual growth rates (CAGR) for the period from 2014 to 2018:

- **Revenue:** 1 to 2 percent
- **Adjusted EBITDA:** 2 to 4 percent
- **Free cash flow:** approx. 10 percent

For 2018, we expect to post the following year-on-year growth trends, assuming a comparable consolidated group and constant exchange rates:

- **Revenue** is likely to increase again slightly in 2018.
- **Adjusted EBITDA** is expected to reach some EUR 23.2 billion in 2018, up from EUR 22.2 billion in the reporting period.
- **Free cash flow** is expected to grow to around EUR 6.2 billion in 2018, up from EUR 5.5 billion in the reporting period.

The new accounting standards IFRS 9 and IFRS 15 took effect as of January 1, 2018. This will have a net impact going forward on the revenue and EBITDA of our Germany, United States, and Europe operating segments, and hence on the Group. The planning for the coming years, and thus the statements made in this section, already take these new financial reporting standards into account. As the figures for the 2017 financial year have been prepared in accordance with IAS 18, while the forecasts for 2018 and beyond already take the new accounting standards into consideration, a direct comparison of the two years is only possible to a limited extent.

For more details on the new standards, please refer to the section "Summary of accounting policies" in the notes to the consolidated financial statements, page 153 et seq.

ECONOMIC OUTLOOK

In its economic forecast from January 2018, the International Monetary Fund (IMF) expects annual global economic growth of 3.9 percent in both 2018 and 2019. This faster growth is attributable to the economic upswing in emerging and developing economies as well as stable growth in industrialized nations. We expect the stable economic trend in our core markets to continue. The economies in Germany, the United States and the countries of our Europe operating segment are largely recording positive growth rates, driven by buoyant trends in both private consumer and investment spending. The situation on the labor markets is also likely to improve as a result.

[1] The forecasts contain forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want," and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of revenue, EBIT, EBITDA, adjusted EBITDA, ROCE, cash capex, and free cash flow. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives are described in the section "Risk and opportunity management," page 111 et seq. of the combined management report, and the "Disclaimer," page 264 at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the future structure of the Group, without regard to significant acquisitions, disposals, business combinations, or joint ventures that may arise at a later date. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

Forecast on the development of GDP and the unemployment rates in our core markets for 2018 and 2019
%

	GDP for 2018 compared with 2017	GDP for 2019 compared with 2018	Unemployment rate in 2018	Unemployment rate in 2019
Germany	2.3	1.9	5.4	5.3
United States	2.6	2.2	4.0	3.8
Greece	2.2	2.2	19.6	18.6
Romania	4.1	3.7	5.1	4.8
Hungary	3.5	3.2	4.0	4.0
Poland	3.8	3.4	6.1	6.2
Czech Republic	3.4	3.0	3.7	3.4
Croatia	2.8	2.8	11.0	10.0
Netherlands	2.2	2.0	4.4	4.6
Slovakia	3.6	3.8	7.1	6.8
Austria	2.2	1.8	5.2	5.0
United Kingdom	1.3	1.4	4.4	4.5

Source: Bloomberg Consensus; January 2018.

MARKET EXPECTATIONS

GERMANY

The market for telecommunications services in Germany, which declined by 0.3 percent in 2017 compared with the prior year, is expected to stabilize in 2018 (source: EITO, European Information Technology Observatory). There are a number of reasons for this: First of all, the regulation-induced decrease in revenue is likely to slow down. Second, the negative trends in traditional fixed-network telephony are expected to be offset by growing demand for mobile data volumes and faster connectivity in the consumer and business customer area. For the wider ICT market, which covers IT services as well as telecommunications, EITO forecasts growth of 1.7 percent for 2018. This forecast is primarily based on growth in the IT market, which is currently 3.0 percent and mainly driven by strong demand in two areas: services for business customers (e.g., outsourcing, project business, consulting) and software-based services (virtualization and cloud business, e.g., in the form of Software as a Service, Platform as a Service, or Infrastructure as a Service).

Innovative integrated products and attractive supplementary services – such as TV and music options, and smart home – are becoming increasingly important for our competitive position with consumers, while cloud services, security applications, and solutions for Industry 4.0 are gaining in significance with business customers. We are also setting ourselves apart from other providers with our download and upload bandwidths, the mobile data volumes we include in our rate plans, and innovations in our rate plans.

The mobile communications market in Germany is dominated by three providers, each with its own network infrastructure, who deploy 4G/LTE technology to ensure that the majority of the population has access to high-speed mobile Internet. By contrast, the fixed-network broadband market hosts a large number of players with differing infrastructures – from national through to regional providers. We are assuming that competition from cable network operators will remain intense and that the number of providers who have their own DSL and fiber-optic networks will increase.

UNITED STATES

The U.S. mobile market continues to be characterized by intense competition among the major mobile carriers. Competitive factors within the U.S. mobile market include dynamic changes in pricing, voice market saturation, service and product offerings, customer experience, network quality, development and deployment of technologies, availability of spectrum licenses, and regulatory changes. The mobile postpaid market in the United States is embracing device financing options, such as T-Mobile US' equipment installment plans and device leasing through JUMP! On Demand, allowing customers to subscribe for wireless services separately without the purchase of or payment for a bundled device. Additionally, data services and the availability of unlimited data plans, continue to be a growth driver despite the high level of competition, supporting further network investment by the major mobile carriers in the U.S. mobile market.

EUROPE

The positive trend seen in the traditional communications markets in our Europe operating segment in 2017 will continue over the next two years. Analysts have adjusted their forecasts accordingly: For example, Analysys Mason now expects the markets to remain stable overall in 2018 and 2019, with annual growth in fixed-network business of 2 percent in both the broadband and pay TV markets, while the significance of voice services will likely continue to diminish, shrinking by some 7 percent per year. In the mobile markets, data services are expected to grow by approximately 5 to 6 percent per year – driven by massive growth in data traffic, especially from the use of mobile video services. According to analyses by Ovum, by 2019, mobile video services will account for more than 60 percent of data traffic on mobile networks in Eastern Europe and for almost 80 percent in Western Europe. By contrast, the relevance of traditional voice services also continues to wane in mobile communications: analysts forecast a decline of around 5 percent per annum in this area. The trend towards convergent offers comprising fixed-network and mobile services (FMC) also continues unabated in our Europe operating segment. We expect more than 30 percent of all broadband lines to be part of an FMC offer by 2019.

According to Oxford Economics, real GDP will continue to rise in all our countries in 2018 and 2019 by between 2 and 4 percent per annum. This positive economic situation will have a particular impact on the IT markets in our Europe operating segment. EITO forecasts growth of 3 percent for the countries of Central and Eastern Europe for 2018.

SYSTEMS SOLUTIONS

The ICT market is expected to see further growth in the next two years in line with the ongoing improvement of the global economy, while cost pressure and strong competition are expected to persist. At the same time, we expect the digital transformation to stoke demand for solutions for cloud services, big data, smart network services such as Industry 4.0, the Internet of Things, and M2M as well as for the mobilization of business processes and ICT security (cyber security).

We estimate that the ICT markets will develop along divergent paths in the two main market segments:

- Telecommunications: The highly competitive fixed-network telecommunications market for large business customers remains challenging. Innovative change, intense competition, constant price erosion, and the interventions of national regulators are all likely to diminish total market revenues, even though both mobile data services business and the Internet of Things will continue to grow in the coming years.

- IT services: The clear growth in the market for IT services in the reporting year is likely to continue in 2018 and 2019. At the same time, this market is undergoing a radical transformation, e.g., due to ongoing standardization and automation, demand for smart services, and the changes being wrought by cloud services in outsourcing business. Further challenges have arisen in the shape of digitalization, the growing importance of ICT security (cyber security), big data, and increasing mobility. Traditional IT business is likely to decline due to price competition, while cloud services, mobility, and cyber security may reach double-digit growth. In view of this, we continue to plan to step up investments in growth markets – especially in digitalization, cloud services, cyber security, and smart network solutions for the healthcare sector, the public sector (smart city), and the automotive industry.

GROUP DEVELOPMENT

Our companies T-Mobile Netherlands and Deutsche Funkturm (DFMG) dominate the development of our Group Development operating segment.

- The high price and competitive pressure in the Dutch mobile market will continue to intensify over the coming years. One of the main trends contributing toward this is the growing bundling of fixed-network and mobile products into convergence offers (FMC). What is more, both the strong discount segment, comprising mobile providers' secondary brands, and MVNOs will continue to make for lively competition.

- With some 28,000 locations, DFMG is the biggest provider of passive wireless infrastructure for mobile communications and broadcasting in Germany. We expect demand for cell sites to rise steadily over the next few years, due to the fact that network operators plan on the one hand to close gaps in coverage, and on the other to increase the density of mobile networks to meet the growing demand for mobile data services.

EXPECTATIONS FOR THE GROUP

Expectations up to 2019. For the next two years, we expect profitable growth to continue. Revenue and adjusted EBITDA are expected to rise at Group level in 2018: a good basis to achieve our financial ambitions by 2018 as communicated at our Capital Markets Day in February 2015.

We expect our **financial performance indicators** to develop as follows in 2018 and 2019:

- **Revenue** should increase slightly year-on-year in 2018 and continue to rise in 2019. This forecast is based on the rigorous implementation of the Un-carrier strategy in our United States operating segment, which will bring with it sustained customer growth over the next two years. For 2019, we expect all operating segments to make a positive contribution to the revenue growth of our Group.

- **Adjusted EBITDA** is expected to come in at around EUR 23.2 billion in 2018 and to rise in 2019 due to the expected upward revenue trend over the same two-year period.

- **EBITDA** is expected to decline in 2018 compared with the prior year. EBIT is also expected to decrease in 2018 on account of multiple positive special factors recorded in 2017, such as the partial reversal of impairment losses on spectrum licenses previously acquired by T-Mobile US and to the sale of Strato and Scout24 AG. We expect to see slight growth in EBIT in 2019 and growth in EBITDA. This is in line with the expected positive trend for adjusted EBITDA.

- Return on capital employed (ROCE) is expected to decrease in 2018, since ROCE in 2017 was positively impacted by the aforementioned special factors. Despite this anticipated decline, we are well on track to achieve the expected weighted average cost of capital (WACC) and hence fulfill our promise made at the 2015 Capital Markets Day. In 2019, return on capital employed should remain stable year-on-year.

- Our investments – in terms of cash capex (before spectrum investments) – are expected to amount to around EUR 12.5 billion in 2018. Over the next two years, too, we want to continue investing heavily in building out our network infrastructure in Germany, the United States, and Europe in order to safeguard our technology leadership in the long term. Capital expenditure is expected to fall slightly year-on-year in 2019.

- Free cash flow (before dividend payments and spectrum investment) is expected to reach around EUR 6.2 billion in 2018 and rise sharply again in 2019. It is to thus make a crucial contribution toward keeping our relative debt – measured as the ratio of net debt to adjusted EBITDA – within the target corridor of 2 to 2.5x in 2018 and 2019.

- At the end of 2017, the rating agencies Standard & Poor's, Fitch, and Moody's gave us ratings of BBB+, BBB+, and Baa1 respectively, thus placing us in the group of solid investment grade companies. The outlook from all three rating agencies was "stable." Maintaining a solid investment grade rating within the A– to BBB range will enable us to retain unrestricted access to the international financial markets and is thus a key component of our finance strategy.

Our debt issuance program puts us in a position to place issues on the international capital markets at short notice, while our commercial paper program enables us to issue short-term papers on the money market. Our finance strategy continues to include a liquidity reserve that, at any given time, covers at least our capital market maturities over the next 24 months.

Repayments of bonds and loans in the amount of EUR 2.9 billion and EUR 4.8 billion will fall due in 2018 and 2019, respectively. In order to refinance our maturities and maintain the liquidity reserve, we plan to issue new bonds in various currencies. The bond issue in November 2017 already covers part of the refinancing needs for 2018. In January 2018, T-Mobile US also placed bonds with a total volume of USD 2.5 billion on the market. The exact execution of further transactions depends on developments in the international finance markets. We will also cover part of our liquidity requirements by issuing commercial paper.

We intend to continue leveraging economies of scale and synergies through suitable partnerships or appropriate acquisitions in our footprint markets. There are no plans, however, for major acquisitions or expansion in emerging markets. We will continue to subject our existing partnerships and equity investments to regular strategic reassessments with a view to maximizing the value of our Company.

Our expectations for the period until 2019 for the Group and the operating segments as regards our financial and non-financial performance indicators are shown in the following tables. They assume a comparable consolidated group and constant exchange rates. The forecast statements made already take into account the new accounting standards IFRS 9 and IFRS 15, which took effect as of January 1, 2018. If the economic situation should deteriorate or any unforeseen state or regulatory interventions arise, the expectations expressed here may change accordingly. All trends denote year-on-year changes. To indicate the intensity and trends of our forecasts, we apply the following assessment matrix: strong decrease, decrease, slight decrease, stable trend, slight increase, increase, strong increase.

Financial performance indicators

		Results in 2017	Pro forma for 2017[a, b]	Expectations for 2018[c, d, e]	Expectations for 2019[c, d, e]
NET REVENUE					
Group	billions of €	74.9	74.9	slight increase	increase
Germany	billions of €	21.9	21.9	stable trend	slight increase
United States (in local currency)	billions of $	40.3	40.3	increase	increase
Europe	billions of €	11.6	11.6	stable trend	slight increase
Systems Solutions	billions of €	6.9	6.9	decrease	increase
Group Development	billions of €	2.3	2.2	slight decrease	increase
PROFIT (LOSS) FROM OPERATIONS (EBIT)	billions of €	9.4	9.4	decrease	slight increase
EBITDA	billions of €	24.0	23.9	decrease	increase
EBITDA (ADJUSTED FOR SPECIAL FACTORS)					
Group	billions of €	22.2	22.2	23.2	increase
Germany	billions of €	8.5	8.4	8.6	increase
United States (in local currency)	billions of $	10.5	10.5	11.3	increase
Europe	billions of €	3.7	3.7	3.8	slight increase
Systems Solutions	billions of €	0.5	0.5	0.4	slight increase
Group Development	billions of €	0.9	0.9	0.9	increase
ROCE	%	5.8		decrease	stable trend
CASH CAPEX[f]					
Group	billions of €	12.1	12.1	12.5	slight decrease
Germany	billions of €	4.2	4.2	stable trend	stable trend
United States (in local currency)	billions of $	5.2	5.2	stable trend	stable trend
Europe	billions of €	1.8	1.8	stable trend	slight decrease
Systems Solutions	billions of €	0.4	0.4	strong increase	decrease
Group Development	billions of €	0.3	0.3	increase	increase
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)	billions of €	5.5		6.2	strong increase
RATING					
Standard & Poor's, Fitch		BBB+		from A- to BBB	from A- to BBB
Moody's		Baa1		from A3 to Baa2	from A3 to Baa2
OTHER					
Dividend per share[g, h]	€	0.65		Dividend follows free cash flow growth Minimum € 0.50	Dependent on the finance strategy for the years following 2018[i]
EPS (adjusted for special factors)	€	1.28		decrease	slight increase
Equity ratio	%	30.0		25 to 35	25 to 35
Relative debt		2.3x		2 to 2.5x	2 to 2.5x

[a] Significant changes in the organizational structure and in the composition of the consolidated Group included up to the date of preparation of the consolidated financial statements and the combined management report (e.g., the integration of Vivento Customer Services GmbH into our Germany operating segment; Vivento was previously assigned to our Group Headquarters & Group Services segment).
[b] Based on the International Financial Reporting Standards (IFRSs) applicable in 2017, i.e., without taking account of the changes in IFRS 9 and IFRS 15, in particular.
[c] On a comparable basis.
[d] Tele2 Netherlands and UPC Austria are not included in the expectations.
[e] The expectations are based on the currently applicable International Financial Reporting Standards (IFRSs), i.e., taking into account IFRS 9 and IFRS 15 (see also footnote i), but not taking into account the changes resulting primarily from IFRS 16, which has not yet been applied.
[f] Before spectrum investment.
[g] The indicated expectation regarding the dividend per share refers to the respective financial year indicated.
[h] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.
[i] We will provide information about the further development of our finance strategy for the years following 2018 at our Capital Markets Day, which is planned for the end of May 2018.

For information on standards, interpretations, and amendments issued, but not yet to be applied, please refer to the section "Summary of accounting policies" in the notes to the consolidated financial statements, **page 153 et seq.**

Non-financial performance indicators

		Results in 2017	Pro forma for 2017[a]	Expectations for 2018	Expectations for 2019
GROUP					
Customer satisfaction (TRI*M index)		68.6		slight increase	slight increase
Employment satisfaction (commitment index)[b]		4.1		stable trend	stable trend
FIXED-NETWORK AND MOBILE CUSTOMERS					
GERMANY					
Mobile customers	millions	43.1	43.1	increase	increase
Fixed-network lines	millions	19.2	19.2	decrease	decrease
Of which: retail IP-based	millions	12.0	12.0	strong increase	strong increase
Broadband lines	millions	13.2	13.2	increase	increase
Television (IPTV, satellite)	millions	3.1	3.1	strong increase	strong increase
UNITED STATES					
Branded postpaid	millions	38.0	38.0	increase	increase
Branded prepay	millions	20.7	20.7	increase	increase
EUROPE					
Mobile customers	millions	48.8	48.8	increase	slight increase
Fixed-network lines	millions	8.4	8.4	slight decrease	slight decrease
Of which: IP-based	millions	5.7	5.7	strong increase	strong increase
Retail broadband lines	millions	5.6	5.6	increase	increase
Television (IPTV, satellite, cable)	millions	4.2	4.2	increase	increase
SYSTEMS SOLUTIONS					
Order entry	billions of €	5.2	5.2	increase	increase
ESG KPIs					
Energy Intensity ESG KPI[c]	MWh/terabyte	146		strong decrease	strong decrease
Carbon Intensity ESG KPI[c]	tons of CO_2/terabyte	61		strong decrease	strong decrease
Sustainable Procurement ESG KPI	%	81		stable trend	stable trend

[a] Significant changes in the organizational structure and in the composition of the consolidated Group included up to the date of preparation of the consolidated financial statements and the combined management report.
[b] Commitment index as per the 2017 employee survey.
[c] Figures for the Deutsche Telekom Group in Germany for 2016.

For further information on the development of the non-financial performance indicators of our operating segments, please refer to "Expectations for the operating segments" in this section.

In both 2018 and 2019, we intend to achieve a moderate improvement in **customer loyalty/satisfaction** – which is measured using the **TRI*M index** performance indicator.

Having already achieved a high level of 4.1 – on a scale of 1.0 to 5.0 – on the **commitment index** in the 2017 employee survey, and in view of the results of the pulse surveys conducted in 2017, we expect the positive response of our employees regarding our Company to remain stable in the next employee survey, which is scheduled for 2019.

For detailed information on our ESG KPIs and our expectations, please refer to the section "Corporate responsibility and non-financial statement," **page 77 et seq.**

Our planning is based on the exchange rates in the following table.

Exchange rates

Croatian kuna	HRK	7.46
Polish zloty	PLN	4.26
Czech koruna	CZK	26.33
Hungarian forint	HUF	309.19
U.S. dollar	USD	1.13

The following table contains a summary of our model calculations and analyses of the key external factors that may have an effect:

Factors that may affect results

Premises	Current trend	Impact on results
ECONOMY		
Macroeconomic trends in Europe (incl. Germany)	steady	○
Macroeconomic trends in the United States	increasing	○
Inflation in Europe (incl. Germany)	increasing	○
Inflation in the United States	increasing	○
Development of the U.S. dollar exchange rate	steady	○
Development of exchange rates of European currencies	steady	○
REGULATORY/STATE INTERVENTION		
Regulation of mobile communications in Europe (incl. Germany)	steady	○
Regulation of the fixed network in Europe (incl. Germany)	steady	○
Taxes (in Europe/the United States)	increasing	✔
MARKET DEVELOPMENT		
Intensity of competition in the telecommunications sector in Europe (incl. Germany) and the United States	steady	○
Intensity of competition in the telecommunications sector in the United States	steady	○
Price pressure in telecommunications markets	steady	○
ICT market	increasing	○
Data traffic	increasing	○

✔ positive ○ unchanged ✖ negative

Expectations for Deutsche Telekom AG. The development of business at Deutsche Telekom AG as the parent company of the Group is reflected particularly in its service relationships with our subsidiaries, the results from our subsidiaries' domestic reporting units, and other income from subsidiaries, associated, and related companies. In other words, our subsidiaries' results from operations and the opportunities and challenges they face are key factors shaping the future development of Deutsche Telekom AG's figures. Accordingly, in addition to our expectations for the Group, the expectations described on the following pages concerning the operating segments' revenue and earnings – such as strong competition, regulatory intervention, market and economic expectations, etc. – have an impact on our expectations concerning the development of Deutsche Telekom AG's future income after taxes.

Based on the aforementioned expectations for our operating segments and the resulting effects, and taking existing retained earnings into account, Deutsche Telekom AG also expects to distribute a dividend of at least EUR 0.50 per dividend-bearing share for the 2018 financial year, subject to approval by the relevant bodies and the fulfillment of other legal requirements. Relative growth in free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial year.

EXPECTATIONS FOR THE OPERATING SEGMENTS

GERMANY

In our Germany operating segment, we continue to work on our comprehensive transformation program: We want to continue driving forward the IP migration, reduce the complexity of products and processes, use new technologies, and increase the use of automation. In this context, it is important to us that the transformation process is customer-friendly while also being technologically efficient. Our aim is to secure our market position as the leading integrated telecommunications provider in Germany by providing innovative and competitive products and services. In mid-2017, we pooled our customer and technical service so as to offer the best customer experience with the best service.

In the fixed network, we want to offer the best customer experience with fiber-optic products. We are paving the way for this with our integrated network strategy. We are building an IP-based network with high transmission bandwidths so that, in the future, we can offer our customers competitive high-speed lines, e.g., by migrating our VDSL network to vectoring technology. In addition, we are investing heavily to offer greater coverage and even higher speeds in rural areas as well. We are using innovative products for this purpose – like our hybrid router, which combines the bandwidths of fixed-network and mobile communications, thus enabling much higher transmission speeds. SDG Furthermore, we are working towards further partnerships to provide even more customers with high bit-rate Internet access.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

In 2014, we were the first provider in Germany to market a comprehensive and integrated fixed-network/mobile (FMC) product: MagentaEins. We have gradually added new products to this range, such as an FMC offering specifically for our business customers. When designing our products, we pay particular attention to high quality and a simple rate plan structure. In addition, our multiple-brand strategy in mobile communications allows us to address the entire customer spectrum – from smart shoppers through to premium customers. The new Magenta Business program addresses business customers.

We want to secure an ever-larger share of the growing TV market by stepping up marketing activities in the housing sector with a focus on entertainment and content offers. To this end, we are investing in our IPTV platform and winning new customers with attractive content and services.

We want to remain the market leader in Germany in terms of revenue in both mobile communications and the fixed network and extend our market lead in service revenues. As our customers' demand for bandwidth is constantly growing, we intend to continue investing extensively in broadband networks, innovative products, and customer service. Our success in this area has proven us right: Our broadband revenues are constantly growing and customer satisfaction levels, too, are on a positive trajectory. We now want to cement these two trends, with "progress through digitalization" being one of the drivers of this positive development in customer satisfaction. One example of this is the further development of mobile services (e.g., Magenta apps) for customers.

Overall, revenue in our Germany operating segment should stabilize in 2018 – despite intense competition and the strong impact of regulation on our core business. In addition, we expect broadband and TV revenues as well as the number of IP offerings to rise, as well as further growth in business with business customers. The positive trend in IT and cloud business is set to continue. We want to continue expanding our fiber-optic services, both by means of business models with wholesale products (such as the contingent model) and through further partnerships, e.g., in the housing sector. In addition, we are working with our partners to expand offers such as SmartHome or content and security services for our customers.

We expect growth initiatives in Germany to generate revenue growth and offset the volume-driven decline in revenue from traditional fixed-network business. We want to continue consolidating our position as market leader in mobile and fixed-network communications. Thanks to the outstanding quality of our network and the progress being made in fiber-optic roll-out, we anticipate greater demand for mobile and broadband products as well as growth in the number of broadband, TV, IP, high-speed, and hybrid lines. We would like to continue offering best customer experience with integrated services (e.g., MagentaEins), digital products, and service experiences. Our IT and technical service revenues should help feed this trend. In addition, we want to make advances with the smart home business and offer further M2M and security services. We expect growth in cloud services to continue. Wholesale sales volumes should continue to develop very positively thanks to strong demand for our contingent model. The revenue trend is only expected to be stable year-on-year due to the transition to the IFRS 15 accounting standard in 2018.

We expect adjusted EBITDA to increase year-on-year for the next two years in our Germany operating segment. In 2018, we expect adjusted EBITDA of around EUR 8.6 billion and a steady improvement in our margin. Growing revenues as well as savings in indirect costs – primarily from a reduction in redundancies and from increased productivity – will be the main factors in this trend. We forecast an adjusted EBITDA margin of some 39 percent in both 2018 and 2019.

Our course is set for innovation and growth: While we will continue to promote investments in new technologies with even greater intensity in the future, we are reducing investments in legacy systems. The focus of our capital expenditures in the coming years will thus fall on our network infrastructure and our mobile network (e.g., FTTC, super vectoring, FTTH, 4x4 MIMO, 5G). At the same time, we want to further build out our fiber-optic network and close gaps in the network in rural areas. One focus here is business parks and we are driving forward the FTTH build-out accordingly. We want to continue this roll-out efficiently and participate in development programs. We expect our investments in new technologies (cash capex) to remain stable at a high level for the next two years.

UNITED STATES

In 2018, T-Mobile US will continue to execute on its Un-carrier promise to deliver the best value experience in the U.S. wireless industry. Key elements of the Un-carrier promise include delivering distinctive value for consumers in all customer segments by eliminating customer pain points and providing excellent 4G/LTE services through a strong mid-band spectrum position supplemented by low-band spectrum in key metropolitan areas and a nationwide fourth-generation LTE network. Additionally, the Un-carrier initiatives focus on attracting and retaining a loyal customer base by offering devices when and how customers want them, and plans that are simple, affordable and without unnecessary restrictions to deliver the best value in wireless.

T-Mobile US expects continued increases in branded postpaid and branded prepay customers in 2018 and a further increase in 2019. However, competitive pressures and unforeseen changes in the wireless communications industry in the United States may significantly affect the expected ability to attract and retain branded postpaid and prepay customers.

T-Mobile US expects an increase in total revenues in U.S. dollars in 2018 and a further increase in 2019 as a result of continued customer growth momentum.

For 2018 and 2019, T-Mobile US expects a sustained increase – in U.S. dollars – in adjusted EBITDA. As a result of the significant growth in customers over the past year, revenue growth is expected to outpace increases in expense as T-Mobile US is able to take advantage of improved scale effects.

However, continued investment in the network and increased spending for marketing of the T-Mobile US brand will likely influence adjusted EBITDA. Competitive pressures may also significantly affect expected revenues and adjusted EBITDA in U.S. dollars. Exchange rate fluctuations may significantly affect revenues and adjusted EBITDA in euros in 2018 and 2019.

Excluding expenditures relating to spectrum, T-Mobile US expects cash capex in U.S. dollars to be generally in line with 2017 as it continues to expand its 4G/LTE network.

EUROPE

For the coming two years we have set ourselves the target of establishing seamless connectivity at home and on the go. We are thus focusing on convergent fixed-network and mobile products (FMC), on ICT solutions for business customers, and on digitalization.

On the road to becoming the leading European telecommunications provider, we need our already integrated national companies to further strengthen their market position. We want to systematically transform our mobile-centric companies into integrated enterprises. In the coming year, we will turn our national company in Austria into a strong convergent telecommunications provider through the agreed acquisition of the cable operator UPC Austria (subject to approval by the relevant competition authorities). Since the transaction was not yet closed as at the date of preparing the consolidated financial statements and the combined management report, the value contributions from the agreed acquisition in Austria are not included in our outlook.

In terms of the strategic growth area of FMC, our convergent product portfolios MagentaOne and MagentaOne Business provide strong offerings with which we can successfully help to shape developments in the European markets. On the one hand, we want to win new customers with our innovative portfolio, on the other hand, we want to offer our existing customers the full MagentaOne product range. We believe that, in this way, we can also increase household coverage in the markets of our Europe operating segment. The advance of digitalization helps with the seamless provision of a wide range of products and services. We support our business customers and consumers in Europe on their journey into the digital world. For example, we want to establish an app for consumers that will act as a central, online communications channel which will give our customers simple and seamless access to their products and services with us. We have already successfully marketed this app in a number of our national companies; in the short to medium term, we plan to introduce it in all of our national companies so as to offer our customers the best experience.

Another focus in the consumer area is the seamless enjoyment of TV and entertainment services, with a particular focus on high-quality and exclusive content. In the future, we will negotiate to acquire rights to broadcast soccer matches, such as the Champions League, or the rights to TV movies/series, as well as to relevant local content. We are also working in partnership with OTT players such as Netflix. We will continue to participate in the production of our own content and channels, as in Greece, for example, with the OTE History channel. In order to make TV content an even better experience for our customers, we have developed interactive services for the new TV platform in Croatia, among other things. We also want to offer customers of our mobile-only companies access to the broad spectrum of TV services. Overall, we expect to further increase our revenues from TV business over the next two years.

For business customers, we want to become the preferred partner for the digital transformation and a pioneer of innovation in industry over the coming years. We set the course for this in 2017. B2B/ICT revenues are also expected to see further growth. Above all, the core business in the area of small and medium-sized enterprises (SMEs) performed well, primarily thanks to our attractive product range of convergent solutions (fixed network, mobile communications, and cloud from a single source). We concluded contracts for ICT and cloud services with numerous corporate customers in the reporting year, thereby strengthening our market position. In order to derive additional benefit from this, we have not only pushed digitalization with SMEs, but are also focusing on supporting cities and municipalities in Europe on their path to becoming efficient smart cities, for instance, through fast, intelligent solutions in the areas of lighting, parking, and air quality. We have further decided, together with the countries of the Europe operating segment, to establish a competence center in Hungary to focus on the topic of smart cities.

Our state-of-the-art network infrastructure supports digitalization. With the aim of becoming the leading European telecommunications provider, we will continue to focus on technology leadership over the next two years: For example, we plan to take part in further spectrum auctions. Our investments in mobile communications are focused on two areas: expanding LTE reach and implementing LTE Advanced technology in order to increase network capacity. This will make transmission rates of over 300 Mbit/s possible. In 2017, we already covered 94 percent of the population on average in the countries of our Europe operating segment with LTE and are thus well on track: Ultimately, we aim to achieve network coverage of between 89 and 99 percent in our footprint countries in 2018. The next-generation mobile communications standard, 5G, is just around the corner with the first tests underway and pilot projects being readied for launch. We have already successfully launched Narrowband IoT as 5G technology in six national companies. One aim of our integrated network strategy is to make further advances in the fiber-optic roll-out. Our strategy in Greece has been to focus on fiber-optic roll-out up to the street cabinets using vectoring technology. In the other integrated companies, we have been investing in the FTTH roll-out for a number of years now, and plan to continue doing so in combination with vectoring. In addition, we will launch the FTTH roll-out in the Czech Republic in 2018.

In our Europe operating segment, we expect to win more customers over the next two years, mainly thanks to the good performance of our convergence brand MagentaOne. Consequently, we expect the number of TV and broadband lines to increase in 2018 and 2019. The number of mobile customers is also set to grow. We expect fixed-network voice telephony to be replaced more and more by mobile communications, hence we forecast a slight decline in fixed-network lines for 2018 and 2019.

Changes in legislation, for example regarding taxes and duties, and national austerity programs may have a negative impact on our revenue and earnings in the next two years. Changes in exchange rates could also affect our earnings on a euro basis.

Based on these assumptions and parameters, we expect revenue in our Europe operating segment to remain stable in 2018 on a comparable basis, i.e., based on the pro-forma figures for 2017; this is assuming constant exchange rates and based on assumptions about regulation, new market players, spectrum auctions, and unchanged organizational structure. 2019 should then see a return to moderate revenue growth.

Vigorous competition in the markets of our operating segment could potentially put pressure on our margins. To be ready for such an eventuality, we want to increase our productivity and exploit the benefits of digitalization, for instance by automating processes, with the aim of realizing cost-cutting potential. We expect adjusted EBITDA to increase year-on-year in 2018 to around EUR 3.8 billion, and to continue to increase slightly in 2019.

In order to expand our technology leadership, we continue to invest in our integrated networks and plan to maintain our high level of investment over the next year. As such, cash capex will remain stable against the prior year.

SYSTEMS SOLUTIONS

In line with our Group strategy, we want to offer our business customers secure ICT solutions and to be strong in the Internet of Things. To this end, we have divided our organization into four operational units: the IT Division and the TC Division, which are responsible for traditional IT and telecommunications services, the Digital Division with a clear focus on the new growth areas, such as digital transformation and the Internet of Things, and Telekom Security, with which we work towards becoming the European market leader for cyber security.

We are among the top providers in the European IT market. Our very high levels of customer satisfaction are a key element in maintaining this position in the long term and in taking us a step closer to our goal of also playing a leading role in digitalization.

Our market is undergoing a radical transformation: from traditional IT business with big deals to flexible cloud computing and digitalization. Following a decline in order entry in 2017, in addition to traditional IT services, systems integration, and outsourcing, we are now placing additional emphasis on platform business and scalability. Partnerships are a core element of our growth strategy. By building out our networks, we can offer international, integrated connectivity and shape the digital transformation of key industries with new business models – as new cloud services and our comprehensive cloud portfolio underscore. Together with our partners we have created a cloud ecosystem, which brings together state-of-the-art technical products from global market leaders and specialist providers on our energy-efficient platforms. We have also expanded our portfolio of dynamic services: Customers can book infrastructure, SAP applications and much more as needed and pay only for what they use. The corresponding services are made available from our high-security twin-core data centers, like the one in Magdeburg/Biere – one of the few data centers in the world from which competing cloud providers offer their services. Our innovative products for the Internet of Things, such as smart parking, also contribute to achieving our sustainability targets. SDG These measures address the changes in the market and we expect them to turn around our IT business.

13 CLIMATE ACTION

We want to grow our telecommunications business, for example, by increasing our international reach with the support of the Next Generation Enterprise Network Alliance. On our way to becoming the leading European telecommunications provider, we are concentrating on customers in Germany and in selected Western European countries. The TC Division is gradually building up sales and expanding our offering with innovative services such as managed LAN, Unified Communications, and IP VPN. We also want to win over customers internationally with consistent offerings, new products, and competitive prices – and all-IP migration and cloud services offer the best opportunities to achieve this.

As the previous technology and development partner for toll collection business in Germany, we already have a strong competitive position. There are further opportunities for growth from existing European toll collection projects in Belgium and Austria and the planned launch of a Europe-wide toll collection system (Toll4Europe).

Overall, we forecast growth in order entry for the Systems Solutions operating segment in 2018 and a decline in revenue on account of the sharp decrease in order entry in 2017. Adjusted EBITDA is expected to amount to around EUR 0.4 billion. For 2019, we expect further year-on-year growth in order entry, revenue growth, and a slight increase in adjusted EBITDA. We expect cash capex to increase strongly in 2018 due to non-recurring effects from investment in infrastructure, in particular for Toll4Europe. These non-recurring effects will have a reverse effect in 2019 and thus result in a decrease.

GROUP DEVELOPMENT

For 2018, we expect revenue to decrease slightly in our Group Development operating segment due to the accounting change at T-Mobile Netherlands. By contrast, revenue should increase in 2019. Adjusted EBITDA is set to remain stable in 2018 at around EUR 0.9 billion; for 2019 we expect it to increase.

We will continue to deal with the intense competition in the Netherlands through our strategy, which should take effect in 2018, following the stabilization of EBITDA in 2017. The main elements of this strategy are a repositioning of the core brand T-Mobile, expansion of the products and services on offer through T-Mobile Thuis (fixed network) and efficient management of costs. Furthermore, the acquisition of Tele2 Netherlands agreed in December 2017 marked an important component of our long-term strategy. This business combination, which is still subject to approval by the merger control authorities, will create a sustainable provider of convergent offers combining fixed-network and mobile communications on the Dutch market, which will be better positioned to challenge the FMC duopoly of KPN and Vodafone-Ziggo. Since the transaction was not yet complete at the date of preparing the consolidated financial statements and the combined management report, the value contributions from the agreed acquisition in the Netherlands are not included in our outlook.

Network investments, which remain at a high level, will help to safeguard the strategy of T-Mobile Netherlands over the coming years. We expect investments at DFMG to grow in 2018 and 2019, mainly due to the further build out of cell sites in Germany.

GROUP HEADQUARTERS & GROUP SERVICES

We will resolutely continue our efficiency management measures at Group Headquarters & Group Services over the next two years by further optimizing our structures, in particular at Group Services, and continuing to focus on implementing our cost-cutting measures. This will lead to cost savings which will both help to improve our earnings and enable us to offer our services to the operating segments at lower cost.

Our Technology and Innovation Board department will again step up investments in technology development in Germany and in expanding centralized production platforms as part of the Pan-IP program in 2018 and 2019. This will impact on the cost structure in a number of ways: On the one hand, we expect IT operating costs to decrease; on the other, the establishment of the centralized production platforms will incur rising costs in the Technology and Innovation Board department. Overall, we expect the cost level to improve over the next two years as a result of additional cost-cutting programs.

RISK AND OPPORTUNITY MANAGEMENT

- We have an effective early-warning system for risks in place
- We identify our opportunities and specify them during the planning process

BOARD OF MANAGEMENT'S ASSESSMENT OF THE AGGREGATE RISK AND OPPORTUNITY POSITION

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material risk categories or individual risks. The aggregate risk position did not change fundamentally in 2017 compared with the previous year. Our major challenges particularly include the regulatory factors, intense competition, and strong price erosion in the telecommunications business. As it stands today, Deutsche Telekom's Board of Management sees no risk to the Group's continued existence as a going concern. As of the reporting date and the time of preparing the statement of financial position, there were no risks that jeopardize Deutsche Telekom AG's and key Group companies' continued existence as a going concern.

We are convinced that we will also be able to master challenges and exploit opportunities in the future without having to take on any unacceptably high risks. We strive to achieve a good overall balance between opportunities and risks, with the aim of increasing added value for our Company and our shareholders by analyzing and seizing new market opportunities.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

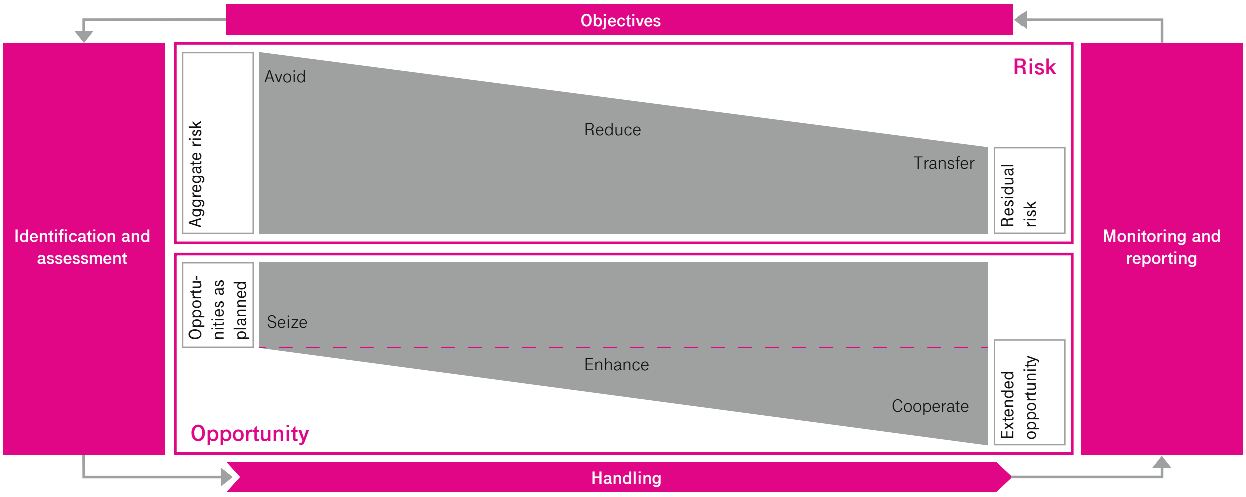
As one of the world's leading providers in the telecommunications and information technology industry, we are subject to all kinds of uncertainties and change. In order to operate successfully in this ongoing volatile environment, we need to anticipate any developments at an early stage and systematically identify, assess and manage the resulting risks. It is equally important that we recognize and exploit opportunities. We therefore consider a functioning risk and opportunity management system to be a central element of value-oriented corporate governance.

A risk and opportunity management system of this kind is not only necessary from a business point of view; it is also required by laws and regulations, in particular § 91 (2) of the German Stock Corporation Act (Aktiengesetz – AktG). The Audit Committee monitors the effectiveness of the internal control system and the risk management system as required by § 107 (3) sentence 2 AktG.

Our Group-wide risk and opportunity management system covers all strategic, operational, financial, and reputational risks as well as the corresponding opportunities for our fully consolidated entities. The aim is to identify these risks and opportunities early on, monitor them, and manage them in accordance with the desired risk profile.

We base our system on an established standard process (see the following graphic). Once risks and opportunities have been identified, we move on to analyze and assess them in more detail; the effects of risks and opportunities are not offset against each other. We then decide on the specific course of action to be taken, for example, in order to reduce risks or seize opportunities. The respective risk owner implements, monitors, and evaluates the associated measures. All steps are repeatedly traversed and modified to reflect the latest developments and decisions.

The risk and opportunity management system



Our risk and opportunity management system is based on the globally applicable risk management standard of the International Standards Organization (ISO). ISO standard 31 000 “Risk management – Principles and guidelines” is regarded as a guideline for internationally recognized risk management systems.

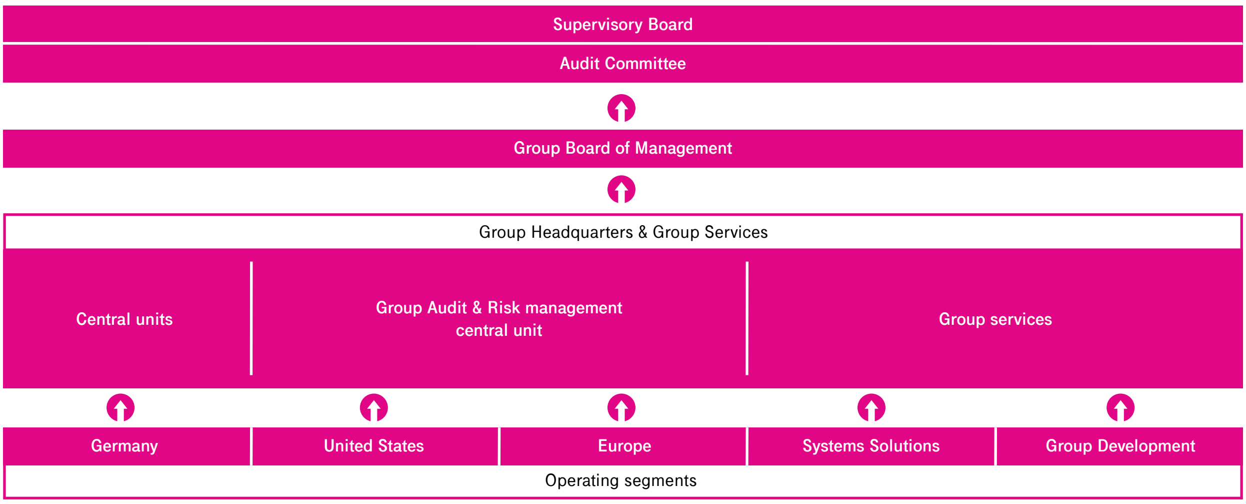
Our Internal Audit unit reviews the functionality and effectiveness of our risk management system at regular intervals. The external auditor mandated by law to audit the Company’s annual financial statements and consolidated financial statements in accordance with § 317 (4) of the German Commercial Code (Handelsgesetzbuch – HGB) examines whether the risk early-warning system is able to identify at an early stage risks and developments that could jeopardize the Company’s future. Our system complies with the statutory requirements for risk early warning systems and conforms to the German Corporate Governance Code.

In addition, our Group Controlling unit specifies a series of Group guidelines and processes for the planning, budgeting, financial management, and reporting of investments and projects. These guidelines and processes guarantee both the necessary transparency during the investment process and the consistency of investment planning and decisions in our Group and operating segments. They also provide the Board of Management and the Board of Management Assets Committee with support in reaching their decisions. This process also includes the systematic identification of strategic risks and opportunities.

ORGANIZATION OF THE RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The Group Risk Management unit defines the methods for the risk and opportunity management system that is applied Group-wide and for the associated reporting system. Our Germany, United States, Europe, Systems Solutions, and Group Development operating segments are connected to the central risk and opportunity management system via their own risk and opportunity management systems. The relevant risk owners in the operating segments and central Group units are responsible for managing and reducing risks. Management takes potential opportunities into account in the annual planning process and continuously develops them further during business operations.

Risk and opportunity management



RISK IDENTIFICATION AND REPORTING

Each operating segment produces a quarterly risk report in accordance with the standards laid down by the central Risk Management unit and based on specific materiality thresholds. These reports assess risks, taking into account their extent in terms of impact on results of operations or financial position, as well as their probability of occurrence, and they identify action to be taken and suggest or initiate measures. The assessment additionally includes qualitative factors that could be important for our strategic positioning and reputation, and that also determine the aggregate risk. We base our assessment of risks on a period of two years. This is also the length of our forecast period.

The Group risk report, which presents the main risks, is prepared for the Board of Management on the basis of this information. The Board of Management informs the Supervisory Board. The Audit Committee of the Supervisory Board also examines this report at its meetings. If any unforeseen risks arise outside regular reporting of key risks, they are reported ad hoc.

In addition to the quarterly risk report, we use additional tools for monitoring and analyzing risks, in which we collect a large number of early-warning and economic indicators, e.g., on macroeconomic, political, and legal developments in our markets.

IDENTIFICATION AND ASSESSMENT OF OPPORTUNITIES IN THE ANNUAL PLANNING PROCESS

The systematic management of risks is one side of the coin; securing the Company's long-term success by means of integrated opportunities management is the other. That is why identifying opportunities and subjecting them to a strategic and financial assessment is an essential part of our annual planning process. It allows us to factor those opportunities into our forecasts for financial and non-financial performance indicators.

The short-term monitoring of results and the medium-term planning process help our operating segments and Group Headquarters identify and seize the opportunities in our business throughout the year. While short-term monitoring of results mainly targets opportunities for the current financial year, the medium-term planning process focuses on opportunities that are strategically important for our Group. In this context we distinguish between two types of opportunity:

- External opportunities, i.e., those with causes over which we have no influence, for example, the revocation of additional taxes in Europe.

- Internal opportunities, i.e., those that arise within the Company, for example by focusing our organizational structure on innovation and growth areas and products, or through business partnerships and collaborations from which we expect to reap synergies.

We are constantly enhancing the efficiency of our planning process so as to gain greater scope for action. This puts the organization in a position to identify and seize new opportunities and generate new business. The preliminary plans of our operating segments form the basis for a concentrated planning phase during which members of the Board of Management, business leaders, senior executives, and experts from all business areas intensively discuss the strategic and financial focus of our Group and our operating segments, and from all of which they ultimately produce an overall picture. The identification of opportunities from innovation and their strategic and financial assessment play a major role throughout this process. This "brainstorming" may result in opportunities being rejected, passed back to the respective working groups for revision, or adopted and transferred to the organization.

RISK ASSESSMENT AND RISK CONTAINMENT

ASSESSMENT METHOD

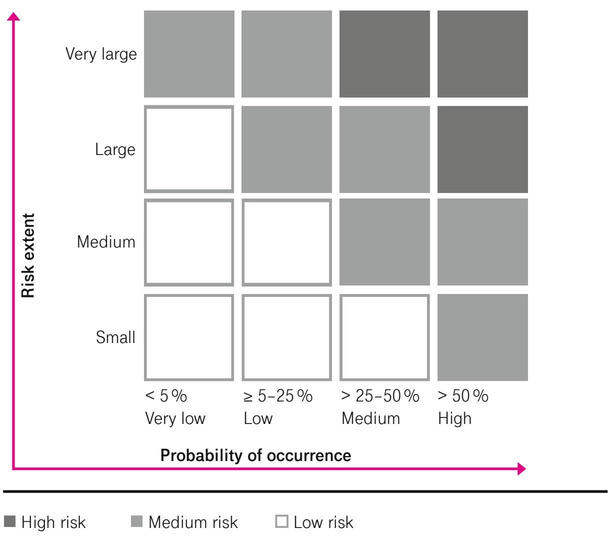
Risks are assessed on the basis of “probability of occurrence” and “risk extent.” The following assessment yardsticks apply:

Probability of occurrence	Description
< 5 %	very low
≥ 5 to 25 %	low
> 25 to 50 %	medium
> 50 %	high

Risk extent	Description
Small	Limited negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk < € 100 million
Medium	Certain negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 100 million
Large	Significant effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 250 million, and/or affects more than one Group entity
Very large	Damaging negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 500 million, and/or affects more than one Group entity

By assessing risks according to the aspects of probability of occurrence and risk extent, we classify them as low, medium and high risks, as shown in the graphic below.

Risk significance



We report all risks classified as “high” and “medium.” Exceptions are possible, for example, risks from prior years that we can continue to list for the sake of reporting continuity although they are classified as “low” in the current reporting period.

It should be noted that risks with an extent currently assessed as being small may in the future have a stronger impact than risks currently assessed as having a larger extent. This may be due to uncertainties that cannot be assessed at present and over which we have no influence. Uncertainties of this kind also give rise to risks that are currently unknown to us or that we presently consider to be insignificant and that may affect our business activities in the future.

RISK CONTAINMENT MEASURES

Risk management and insurance. To the extent possible and economically viable, we take out adequate Group-wide insurance cover for insurable risks. DeTeAssekuranz – a subsidiary of Deutsche Telekom AG – acts as an insurance broker for Group Insurance Management (part of Group Headquarters & Group Services). It develops and implements solutions for the Group’s operational risks using insurance and insurance-related tools and places them on the national and international insurance markets.

Taking out insurance cover is an essential option for our external risk transfer. The coverage of risks in our Group insurance programs requires the transfer of risk for the purpose of protecting the Group’s financial position. That means that the possible extent of the risk must have reached a volume “relevant for the Group” or the risks have to be bundled and managed at Group level to protect the Group’s interests (opportune reasons/cost optimization/risk reduction).

Business Continuity Management (BCM). BCM is a process within operational security and risk management that helps protect business processes from the consequences of damaging incidents and disruptions. It ensures the continuation of business processes through ongoing analysis, assessment, and management of relevant risks for people, technology, infrastructure, supply and service relationships, and information. The aim is to identify potential threats at an early stage and to keep the impact and duration of a disruption of critical business processes to an acceptable minimum by ensuring appropriate resilience in the organization plus the ability to effectively cope with threats. SDG

To this end, BCM identifies critical business processes and business processes requiring protection, including any supporting processes, process steps, and assets (people, technology, infrastructure, information, and supply and service relationships). Appropriate precautionary measures are also defined. In particular, Security Management works in coordination with the relevant units and process owners to analyze the possible consequences of external and internal threats with relevance for security, such as natural disasters, vandalism, or sabotage. Once the extent of potential losses and probability of occurrence have been assessed, preventive measures can be put in place and contingency plans developed.

The risk owners initiate and execute further measures to contain the risks. A wide range of measures are available, depending on the risk type. A few examples of these measures are:

- We tackle market risks with comprehensive sales controlling and intensive customer management.
- We manage interest and currency risks by means of systematic risk management and hedge them using derivative and non-derivative financial instruments.
- We also take a whole array of measures to deal with operational risks: For example, we constantly implement operational and infrastructural measures in order to improve our networks; continually enhance our quality management system, the associated controls, and quality assurance; and offer our employees systematic training and development programs.
- We deal with risks from the political and regulatory environment through an intensive, constructive dialog with policymakers and the authorities.
- We minimize risks in connection with legal proceedings by ensuring suitable support for those proceedings and by designing contracts appropriately in the first place.
- The Group Tax unit identifies potential tax-related risks at an early stage and systematically records, assesses and monitors them. It takes any measures necessary to minimize tax-related risks and coordinates them with the Group companies affected. The unit also draws up and communicates policies for avoiding tax risks.

RISKS AND OPPORTUNITIES

In the following section, we present all risks and opportunities of significance to the Group that, as things currently stand, could affect the results of operations, financial position, and/or reputation of Deutsche Telekom and, via the subsidiaries' results, the results of operations, financial position and/or reputation of Deutsche Telekom AG. We describe the majority of the risks before the measures for risk containment are taken. If any remaining risks have been identified despite such measures for risk containment, they are labeled as such. If risks and opportunities can be clearly allocated to an operating segment, this is presented accordingly in the following.

In order to make it easier to understand and see their effects, we have allocated the individually assessed risks to the following categories:

Corporate risks

	Probability of occurrence	Risk extent	Risk significance	Change against prior year
INDUSTRY, COMPETITION, AND STRATEGY				
Economic risks, Germany	low	small	low	➔
Economic risks, United States	low	medium	low	➔
Economic risks, Europe	low	medium	low	➔
Risks relating to the market and environment, Germany	medium	small	low	➔
Risks relating to the market and environment, United States	low	large	medium	➔
Risks relating to the market and environment, Europe	medium	medium	medium	➔
Risks relating to innovations (substitution)	medium	medium	medium	➔
Risks relating to strategic transformation and integration	medium	medium	medium	➔
REGULATION	see pages 118 and 119			
OPERATIONAL RISKS				
Personnel, Germany and Systems Solutions	medium	small	low	➔
Risks relating to IT/NT network operations, Germany	low	large	medium	➔
Risks relating to IT/NT network operations, United States	very low	very large	medium	➔
Risks relating to IT/NT network operations, Europe	very low	large	low	➔
Risks relating to existing IT architecture, United States	medium	medium	medium	➔
Future viability of the IT architecture, United States	medium	large	medium	➔
Procurement	low	small	low	➔
Data privacy and data security	high	medium	medium	➔
BRAND, COMMUNICATION, AND REPUTATION				
Brand and reputation (reporting in the media)	low	small	low	➔
Sustainability risks	very low	small	low	➔
Health and environment	low	medium	low	➔
LITIGATION AND ANTI-TRUST PROCEEDINGS	see page 123 et seq.			➔
FINANCIAL RISKS				
Liquidity, credit, currency, interest rate risks	low	small	low	➔
Tax risks	see page 126			
Other financial risks	see pages 126 and 127			

improved ➔ unchanged deteriorated

RISKS AND OPPORTUNITIES FROM INDUSTRY, COMPETITION, AND STRATEGY

Risks and opportunities relating to the macroeconomic environment. It is clear from the positive economic and political developments of the last few months that economic uncertainties have decreased both worldwide and in our footprint countries. The leading institutes and organizations have revised their economic forecasts upward and are expecting most economies to post very positive rates of growth. At the same time, the continuing economic uncertainty since the Brexit vote in June 2016 shows that the UK economy, and especially the pound, have been weakened. This political situation harbors uncertainties as regards development of the UK market – a market in which we are involved through our financial stake in BT.

The main risks to future economic growth in the countries are posed by political uncertainties in Europe and the United States, more intense protectionism in global trade, investments, and regarding factors influencing exchange rate fluctuations, the danger of an unexpected decline in growth in China, geopolitical crises, and, in the medium term, an unexpectedly sharp increase in interest rates worldwide that could weigh on the otherwise positive economic trend. These risks are counterbalanced by opportunities in particular from stronger-than-expected investment activity coupled with continued moderate inflation and wage growth, as well as positive growth effects from the U.S. tax reform, which can have an impact both on the U.S. economy and on the export-oriented economies. Risks to economic development could manifest themselves in different ways in some of our markets. Consumers and business customers could rein in their consumption if the economy slows substantially again and uncertainty continues to rise. Government austerity measures could also have negative effects on demand for telecommunications services, for example due to reduced public-sector demand or lower disposable incomes in the private sector.

Risks relating to the market and environment. The main market risks we face include the steadily falling price level for voice and data services in the fixed network and in mobile communications. In addition to price reductions imposed by regulatory authorities, this is primarily attributable to intensive competition in the telecommunications industry, cannibalization effects due to new products and services, and technological progress.

Competitive pressure is expected to continue, especially in the fixed network in Germany and Europe. In the broadband market, we are observing disproportionate growth in the market shares of regional network operators, particularly in Germany. They build out their own infrastructure and thus increase their market coverage. In certain regions, our competitors are extending their own fiber-optic network to the home so that they are independent of our network in the local loop, too. There is also strong competition to gain new customers by cutting prices and offering introductory discounts.

We also expect prices for mobile voice telephony and mobile data services to decrease further, which could adversely affect our mobile services revenue. Among the main reasons for the decrease in prices are providers that are pursuing aggressive pricing policies (MVNOs) and expanding in Germany and other European markets. Pure eSIM smartphone offerings could put even more pressure on prices for mobile voice telephony and mobile data services. In addition, the risk remains that smaller competitors will take unforeseen, aggressive pricing measures.

Another competitive risk lies in the fact that, both in the fixed network and in mobile communications, we are increasingly faced with competitors who are not part of the telecommunications sector as such, but are increasingly moving into the traditional telecommunications markets. This mainly relates to major players in the Internet and consumer electronics industries. We continue to be exposed to the risk of a further loss of market share and falling margins and of increasingly losing direct customer contact.

T-Mobile US operates in a very competitive wireless industry where customer attrition may increase as the wireless industry shifts away from service contracts and market saturation leads to increased competition for customers. The growing appetite for data services will increase demand on its network capacity. Furthermore, industries are converging as video, mobile, and broadband companies compete to deliver content. Joint ventures, mergers, acquisitions and strategic alliances are resulting in larger competitors who could enter into exclusive handset, device, or content arrangements or refuse to provide T-Mobile US with roaming services on reasonable terms. This may adversely affect T-Mobile US' competitive position and ability to grow. The scarcity and cost of additional wireless spectrum, and regulations relating to spectrum use, may also affect its business strategy, including plans to improve its network.

Our Systems Solutions operating segment also faces challenges. Continued strong competition and persistent price erosion are adversely affecting traditional ICT business. In addition, the technological shift toward cloud solutions and digitalization in the IT sector is prompting new, strongly capitalized, competitors to enter the market. The introduction of IP technology in telecommunications business is enabling price reductions, which poses a risk of revenue losses and declining margins at T-Systems.

The Group Development operating segment reported on risks and opportunities for the first time in the reporting year. T-Mobile Netherlands, Deutsche Funkturm (DFMG), and Deutsche Telekom Capital Partners (DTCP) and our equity investments in BT and Ströer SE & Co. KGaA are assigned to this segment. Our approach of integrated, value-driven management aims to give our subsidiaries and equity investments the level of entrepreneurial freedom they need and thus to promote their strategic further development. The Group functions of Mergers & Acquisitions and Strategic Portfolio Management have also been assigned to Group Development. The economic future of the units assigned to the Group Development segment harbors both operational opportunities and risks.

New consumer credit regulations in the Netherlands. The Supreme Court of the Netherlands (Hoge Raad der Nederlanden) found in the final instance that mobile contracts that are bundled with a free or discounted device such that the price of the device is not apparent for the customer, are to be treated as consumer credit or installment purchases. Accordingly, such contracts are subject to Dutch consumer credit law. Contracts that do not comply with these specific consumer credit regulations can thus be rescinded. As a result, two individual cases against T-Mobile Netherlands and its competitor KPN were decided in the plaintiffs' favor; adequate provisions for this risk have been recognized at T-Mobile Netherlands. To ensure it complies with the legal situation in future, T-Mobile Netherlands applied for a license for 2017 to issue consumer credit. This license it received is valid with effect from January 1, 2017.

Opportunities relating to the market and environment. The telecommunications and IT market is extremely dynamic and highly competitive. The economic conditions affect our actions and impact on our Company indicators. We generally expect the situation to develop as described in the section "Market expectations".

See the section "Forecast," page 101 et seq.

In the following section, we present the risks and opportunities that we believe will allow us to achieve market growth and that could be significant for us in terms of our future financial position and results.

Risks relating to innovations (substitution). Innovation cycles are getting shorter and shorter. This confronts the telecommunications sector with the challenge of bringing out new products and services at shorter and shorter intervals. New technologies are superseding existing technologies, products, or services in part, in some cases even completely. This could lead to lower prices and revenues in both voice and data traffic. These substitution risks could impact our revenue and earnings, in particular in the Europe and United States operating segments. We deal with the impact of substitution risks by offering package rates, for example: We offer new and existing customers integrated solutions from our product portfolio.

Opportunities relating to innovations. In addition to the risks described, ever shorter innovation cycles enable us to drive the digital transformation of our society and to provide consumers and business customers with our own innovations – thus answering the questions of tomorrow today. That is why our innovation and product development activities are decisive when it comes to identifying opportunities and making the most of them in an increasingly competitive environment. In order to guarantee this, and do justice to the growing convergence of networks and IT, we combined the technology, innovation and IT functions in our new Board of Management department Technology and Innovation.

For more information on our innovation activities, please refer to the section "Innovation and product development," page 89 et seq.

Risks relating to strategic transformation and integration. We are in a continuous process of strategic adjustments and cost cutting initiatives. If we are unable to implement these projects as planned, we will be exposed to certain risks. In other words, the benefit of the measures could be less than originally estimated, take effect later than expected, or not at all. Each of these factors, individually or in combination, could have a negative impact on our business situation, financial position and results of operations.

RISKS AND OPPORTUNITIES RELATING TO REGULATION

In the following section, we describe the main regulatory risks and opportunities that, as things currently stand, could affect our results of operations and financial position, and our reputation.

Regulatory risks arise from telecommunications-specific statutory regulations at the European and national level, and from the consequent powers of national authorities to regulate or intervene in the market and limit our freedom as regards product design and pricing. Deregulation can give rise to regulatory opportunities. Regulatory intervention, which we can only anticipate to a limited extent, may exacerbate existing price and competitive pressure. There are concerns that regulation in Germany and other European countries may also impact revenue and earnings trends in the medium-to-long term.

Areas in which national regulators may intervene

European and national laws and regulations grant national regulators extensive powers of intervention. A case in point at the European level is the EU Regulation concerning the single market for electronic communications, which was enacted on October 27, 2015. It comprises regulations on international roaming, net neutrality, and disclosure obligations and restricts our product-design options, mainly as regards retail products. The Body of European Regulators for Electronic Communications (BEREC) has published guidelines for implementing this regulation. Risks arise from how the national regulators interpret both the regulation and these guidelines. In Germany, for example, the Federal Network Agency has wide-ranging powers under law to require products to be adjusted in order to enforce the regulation and to impose fines in cases of non-compliance.

Our Group companies in Germany and abroad continue to be subject to comprehensive regulation of wholesale products, obligating us to make our network and services available to our competitors. The national regulators regularly check and determine the corresponding terms, conditions and prices of these wholesale offerings. The key wholesale products subject to regulation are unbundled local loop line, bitstream products, leased lines, termination rates and the associated services. In addition, European and national consumer protection regulations apply. In Germany, for instance, the Transparency Regulation came into force on June 1, 2017, the main objective of which is to enhance transparency and cost control with telecommunications services. In this context, the Federal Network Agency introduced a system that enables consumers to measure the bandwidths available on their fixed-network and mobile lines.

In addition to the requirements of telecommunications law, our media products are also subject to special European and national regulations under media law. The latter include, in the broader sense, copyright law, regulations concerning the responsibility for published content, and requirements in relation to the content and user interfaces of media distribution platforms. Barring any changes to its shareholder structure (the Federal Republic and KfW being its major shareholders), to the legal situation or to the prevailing opinions of media regulators, it is unlikely that Telekom Deutschland will be granted a license to broadcast radio and television programs.

Changes in regulatory policy and legislation

EU legal framework for telecommunications. On September 14, 2016, the European Commission published legislative proposals for a revision of the EU legal framework for telecommunications. These proposals are currently the subject of discussions between the Parliament and the Council. The legal framework comprises the central EU rules for the telecommunications sector, in particular price and access regulation, the spectrum policy, sector-specific consumer protection rules, the provisions on universal service, and the institutional framework. We expect the new rules to be enacted in mid-2018. The corresponding provisions will then have to be transposed into national law, a process that will take at least a year. At the moment, it is difficult to predict the outcome of this extensive legislative process in many areas. The drafts currently being discussed provide for less regulation of "networks with very high capacity" in cases where competitors invest jointly, as is the case with open co-investment models. Fiber-to-the-building/home (FTTB/H) networks, in particular, could benefit from this. The terms and conditions of this lighter form of regulation are not yet clear, as is the question of whether other commercial access agreements would benefit from it as well. On the other hand, the new legal framework could result in additional obligations in accessing all networks, regardless of whether a company has significant market power (symmetrical regulation). In the area of spectrum policy, the new EU legal framework may create more harmonization, for example, a minimum license term, more legal certainty in the awarding of spectrum. However, these improvements have so far been rejected by the EU Member States. As for consumer protection, there are opportunities for a complete harmonization of obligations at the European level – thus negating the need for additional national regulations – but also a risk of more stringent obligations in individual areas. In particular, regulations for international calls within the EU are being discussed: This could result in a ban on surcharges for such calls above and beyond the price of national calls.

The revision of the EU legal framework for telecommunications forms part of a bouquet of new EU legislation on the single market for electronic communications that provides for amendments to the regulations governing media services – mainly due to the growing importance of Internet offerings – which are competing with the radio and TV services previously focused on (for example, under copyright law and laws for the protection of minors from harmful media). At the national level, too, specific amendments (e.g., to the German Interstate Treaty on Broadcasting) are being discussed in response to the phenomena of digitalization and convergence.

Awarding of spectrum

Risks could arise from the fact that inappropriate auction rules and frequency usage requirements, excessive reserve prices, or disproportionately high annual spectrum fees could jeopardize our planned acquisition of spectrum. By contrast, we see an opportunity in particular in the fact that such spectrum award procedures enable mobile network operators to obtain the optimum amount of spectrum for their future business. We would thus be equipped for further growth and innovation. The upcoming award procedures mainly relate to the auctioning of additional spectrum in the 0.7 GHz, 1.5 GHz and 3.5 GHz/3.7 GHz ranges. In addition, spectrum licenses, especially in the 2.1 GHz range, will expire between 2019 and 2021 in some countries and need to be renewed. Allocations of spectrum are currently in preparation in Albania, Austria, the Czech Republic, Germany, Hungary, Macedonia, Poland, and Romania, with most of them likely to take place between mid-2018 and mid-2019.

For information on spectrum auctions that were completed in 2017 or are still ongoing, please refer to the section "The economic environment," page 42 et seq.

OPERATIONAL RISKS AND OPPORTUNITIES

Personnel. In 2017, we once again used socially responsible measures to restructure the workforce in the Group, mainly by means of severance payments, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento Customer Services/Telekom Placement Services, especially in the public sector. We will continue this restructuring in the coming year. If it is not possible to implement the corresponding measures as planned or at all (for example, due to limited interest in severance payments) this may have negative effects on our financial targets. To avoid the risk of high potentials leaving the Group as a result of the staff reduction instruments, we make sure that the arrangement is voluntary on both sides in each individual case.

The right of civil servants to return to Deutsche Telekom also carries risks: When Group entities that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group entity to be sold, provided the civil servant agrees or submits an application to be employed at the respective unit in future. However, there is a risk that they may return to us from a sold entity, for instance after the end of their temporary leave from civil servant status, without the Company being able to offer them jobs. Currently around 1,658 civil servants are entitled to return from outside the Group to Deutsche Telekom in this way (as of December 31, 2017).

Risks relating to IT/NT network operations. We have an increasingly complex information/network technology (IT/NT) infrastructure, which we constantly expand and upgrade to ensure the best customer experience and consolidate our technology leadership. Outages in the current and also future technical infrastructure cannot be completely ruled out and could in individual cases result in revenue losses or increased costs. After all, our IT/NT resources and structures are the key organizational and technical platform for our operations. The ongoing convergence of IT and NT harbors risks. In order to counter these, we have combined our network, innovation, and IT activities under the new Board department Technology and Innovation.

Risks could arise in this area relating to all IT/NT systems and products that require Internet access. For instance, faults between newly developed and existing IT/NT systems could cause interruptions to business processes, products and services, such as smartphones and Entertain. In order to avoid the risk of failures, e.g., due to natural disasters or fires, we use technical early-warning systems and duplicate IT/NT systems. The Computer Emergency Response Team (CERT) at T-Systems is in charge of protecting our corporate customers' servers. In cloud computing, all data and applications are stored at a data center. Our data centers have security certification and meet strict data protection provisions and the EU regulations. All data relating to companies and private persons is protected from external access. Constant maintenance and automatic updates keep the security precautions up to date at all times. On the basis of a standardized Group-wide Business Continuity Management process, we also take organizational and technical measures to prevent damage from occurring or, if we cannot, to mitigate the subsequent effects. We also have insurance cover for insurable risks. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Opportunities relating to IT/NT network operations. The IP transformation (all IP) offers many opportunities. A logical network is being created that speaks a single language and, in technical terms, functions largely independently of the services transmitted. This will enable efficiency gains, e.g., by reducing the complexity of maintenance and operation, switching off service-specific legacy platforms, and saving energy. In addition, all IP will generate growth potential in the short-to-medium term by improving existing services (e.g., better voice quality, more customer self-service, greater configuration flexibility) and, in the medium-to-long term, by providing an indispensable basis for convergence products and the Internet of Things (IoT) and by shortening the time to market for new products. SDG

13 CLIMATE ACTION

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

But the all-IP network can do more. It is the network infrastructure cloud underpinning not only the virtualization of functions and services, but also joint production across borders (Pan-Net). This will also create opportunities for enhancing efficiency and for growth. The idea of developing services only once and then marketing them in different countries simultaneously promises more than just synergies – it is a chance to get those services to market faster and more cost-effectively.

5G is the next-generation telecommunication network. Not only are we involved in a large number of different organizations and forums, we are also working intensively in collaboration with research institutions and industry to develop this future standard, which will address a whole array of challenges facing telecommunication networks. These include purely technical requirements, such as achieving a substantial increase in capacity, bandwidth, availability, and lower latency. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

In addition, there are fundamental issues, such as machine-to-machine communication on a large scale in the Internet of Things (IoT) and the growing need for reliability, security, and guaranteed resource allocation in industrial applications. 5G thus offers not only the immediate opportunity of cost-effectively managing rapidly increasing demands in existing business models going forward, but also opportunities for further business models by marketing network capabilities (e.g., network access, security, identity, storage location, temporary storage, real-time processing) to relevant partners. We are already working on implementing the first use cases for mobile edge computing, in which data is processed in a decentralized manner (at the edges of the network). Together with other technologies like the Narrowband Internet of Things (NB-IoT) and artificial intelligence (AI), 5G and edge computing provide the underpinnings for the further digital transformation of society. SDG

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

The utilization of large data volumes (big data) can improve and speed up decision-making processes by enhancing transparency. It does so by shifting the basis for decisions from hypotheses to facts and, for example, enabling correlations to be recognized.

Our Systems Solutions operating segment covers innovative business areas in the digital transformation of business processes, such as the Internet of Things and cyber security. These business areas could develop faster than expected. As a pioneer of the digital transformation, we have an opportunity not only to participate in, but also actively shape, the market trend through a variety of projects in the fields of healthcare and mobility solutions. In the ramp-up phase of these new business models based on M2M communication and big data, our partner-oriented approach is a highly promising way of contributing our core competencies – in data communication, big data, cloud computing, and cyber security – to various projects. What is more, we already have initial references in areas of the Internet of Things market, e.g., predictive maintenance. SDG

As the previous technology and development partner for toll collection business in Germany, we already have a strong competitive position. What is more, we have earned valuable references – in other European toll collection projects in Belgium and Austria and through the planned launch of a Europe-wide toll collection system (Toll4Europe) – that will help to give us an edge over our competitors.

Risks relating to the existing IT architecture in the United States. T-Mobile US relies upon its systems and networks, and the systems and networks of other providers and suppliers, to provide and support services and, in some cases, to protect their customers' information. Failure of T-Mobile US' or others' systems, networks and infrastructure may prevent them from providing reliable service, or may allow for the unauthorized use of or interference with their networks and other systems. T-Mobile US' reputation and financial condition could be materially adversely affected by such system failures, business disruptions, due to natural disasters or other technical reasons and unauthorized use of or interference with its network and other systems. Remediation costs could include liability for information loss as well as recovering or repairing infrastructure and systems.

Future viability of the IT architecture in the United States. In order to grow and remain competitive with new and evolving technologies in its industry, T-Mobile US will need to adapt to future changes in technology, continually invest in its network, enhance its existing offerings, and introduce new offerings to address current and potential customers' changing demands. If T-Mobile US is unable to take advantage of technological developments on a timely basis, then it may experience a decline in demand for its services or face challenges in implementing or evolving its business strategy. T-Mobile US is in the process of implementing a new billing system, which will support a portion of its subscribers, while maintaining its legacy billing system. The implementation may cause major system or business disruptions or the company may fail to implement the new billing system in a timely or effective manner.

Opportunities relating to the IT architecture in the United States. T-Mobile US is making significant investments in its IT infrastructure. If this results in a significant improvement in processes, then the savings made could be higher than previously assumed.

Procurement. As a service provider and an operator and provider of telecommunications and IT products, we cooperate with a variety of suppliers of technical components, such as software, hardware, transmission systems, switching systems, outside plant, and terminal equipment.

Supply risks cannot be entirely ruled out. Delivery bottlenecks, price increases, changes in the prevailing economic conditions, or suppliers' product strategies may have a negative impact on our business processes and our results. Risks may result from the dependence on individual suppliers or from individual vendors defaulting. We employ organizational, contractual, and procurement strategy measures to counteract such risks.

Data privacy and data security. The General Data Protection Regulation – which introduces more stringent data privacy requirements across the EU – will come into force on May 25, 2018. For our Company, the new regulation will not entail any fundamental changes, given that new procedures such as the Privacy Impact Assessment – for evaluating and documenting the risks posed by data processing – are already well established in our organization. Still, we used the introduction of the General Data Protection Regulation as an opportunity to thoroughly re-assess data privacy in a three-phase project. In the first phase (2016), we specified the legal framework, setting it down in binding interpretations for our Group. The second phase was completed in 2017: We launched implementation projects in all our European Group companies and evaluated our IT systems and processes in relation to the General Data Protection Regulation. In the third phase (2018), we will carry out readiness checks. In this way, we will ensure that data privacy is implemented in a consistent manner across the Group using common requirements and processes. That will enhance efficiency, promote data privacy in Group-wide projects and improve international collaboration.

The General Data Protection Regulation is a milestone on the way to a true single European market in which the same rules apply to all players. The newly adopted rules assure Europe a high level of data protection and, at the same time, will pave the way for new digital business models. The fundamental demand for a level playing field for all market players in the EU has thus been met. In addition, the new data protection legislation closes a major regulatory gap when it comes to service providers outside of the EU. The General Data Protection Regulation will also apply to non-European market players (e.g., Google, Facebook, and Apple) targeting customers in the EU, and will thus enhance the overall competitive situation. In order to preserve the level playing field achieved by the General Data Protection Regulation, it is particularly important that the EU member states do not make excessive use of the freedom granted them to implement additional dedicated regulations at the national level; instead, they should do so only where absolutely necessary. In the revised version of the Federal Data Protection Act, which will come into force on May 25, 2018, German legislators have responded to some of the criticisms leveled at their initial drafts and reduced the number of special regulations for the non-public sector. SDG

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Regrettably, lawmakers also missed some opportunities: For instance, until such time as the E-Privacy Directive has been revised, data stored by telecommunications providers will remain subject to stricter, dedicated regulations. Telecommunications providers in Europe thus still have a competitive disadvantage in some areas – one that the new regulations that have thus far been made public will only partially alleviate. As telecommunications providers' data processing options are substantially restricted compared with what is possible under the General Data Protection Regulation, it is unlikely that big-data applications in the field of telecommunications will be able to realize their full potential. According to the current draft of the planned E-Privacy Regulation, it will be possible to process metadata only with the customer's approval. The General Data Protection Regulation does not contain compatible options for processing such data using pseudonyms. That will rule out various service models that may be useful to consumers, but cannot be implemented with anonymized data, such as services for finding parking spaces and avoiding accidents, tailored TV programming, or telemonitoring services in the healthcare field.

With regard to IT security, we are faced with numerous new challenges. In recent years, the focus has shifted from prevention to analysis. This is where our early warning system comes in: It detects new sources and types of cyber-attack, analyzes the behavior of the attackers while maintaining strict data privacy, and identifies new trends in the field of security. Along with the honeypot systems, which simulate weaknesses in IT systems, our early warning system includes alerts and analytical tools for spam mails, viruses, and Trojans. We exchange the information we obtain from all these systems with public and private bodies to detect new attack patterns and develop new protection systems. SDG

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Cyber crime and industrial espionage are on the rise. We are addressing these risks with comprehensive security concepts. In order to create greater transparency and thus be in a stronger position to tackle these threats, we are relying more and more on partnerships, e.g., with public and private organizations. By means of the Security by Design principle we have made security an integral part of our development process for new products and information systems. In addition, we carry out intensive and mandatory digital security tests. SDG

17 PARTNERSHIPS FOR THE GOALS

For an overview of the Magenta Security portfolio along with the latest information on products and upcoming events – such as Deutsche Telekom's annual Magenta Security Convention – please refer to https://security.telekom.com

We provide regular updates on the latest developments in data protection and data security on our website at www.telekom.com/en/corporate-responsibility/data-protection-data-security

For information on how we will continue to shape this strategic area of operation, please refer to the section "Group strategy," page 34 et seq.

13 CLIMATE ACTION

17 PARTNERSHIPS FOR THE GOALS

We are continually striving to accelerate our growth through IT security solutions. To this end, we have combined all our security units within T-Systems. We want to leverage this end-to-end security portfolio to secure market shares and score points with security concepts on the back of megatrends like the Internet of Things and Industry 4.0. We are also continuing to expand our partner ecosystem in the area of cyber security.

RISKS AND OPPORTUNITIES ARISING FROM BRAND, COMMUNICATION, AND REPUTATION

Negative media reports. An unforeseeable negative media report on our products and services or our corporate activities and responsibilities can have a huge impact on the reputation of our Company and our brand image. Social networks have made it possible that such information and opinions can spread much faster and more widely. Ultimately, negative reports can impact on our revenue and our brand value. In order to avoid this, we engage in a constant, intensive and constructive dialog, in particular with our customers, the media, and the financial world. For us, the top priority is to take as balanced a view as possible of the interests of all stakeholders and thereby uphold our reputation as a reliable partner.

Sustainability challenges and opportunities. For us, comprehensive risk and opportunities management also means considering the opportunities and risks arising from ecological or social aspects or from the management of our Company. To this end, we actively and systematically involve all relevant stakeholders in the process of identifying current and potential risks and opportunities. We also participate in a number of working groups and committees. In parallel with our ongoing monitoring of ecological, social and governance issues, we systematically determine our stakeholders' positions on these issues. The key tools we use here are: our year-round open online materiality survey for all stakeholders; our bi-monthly NGO report, which systematically analyzes press publications of the NGOs relevant for us; our involvement in working groups and committees, countless national and international business associations, and social organizations, e.g., GeSI, BID, Bitkom, Econsense, and BAGSO; stakeholder dialog formats organized by us, such as this year's ICT and Climate Stakeholder Day under the motto "The Impact of ICT on climate change – curse or blessing"; and our various publications, such as the press review and newsletters. SDG

We have identified the following as our main sustainability management issues:

- Reputation. How we deal with sustainability issues also entails both opportunities and risks for our reputation. A high level of service quality is one of the most important factors for improving customer perception. Customer satisfaction has been embedded in our Group management as a non-financial performance indicator to underline the importance of this issue. Transparency and reporting help to promote the trust of other external stakeholders in our Group. Our annual and CR reports also serve this purpose. However, issues such as business practices, data privacy, and work standards in the supply chain and conduct in relation to human rights also entail reputational risks: If our brands, products, or services are connected with such issues in negative media reports, this can cause substantial damage to our reputation. As part of our sustainability management activities, we continuously review such potential risks and take measures to minimize them. We also ascertain how our products and services make a positive contribution to sustainability in order to enhance our reputation.

- Climate protection. We pursue an integrated climate strategy, which means focusing not only on the risks that climate change poses for us and our stakeholders, but also on the opportunities it presents. By 2030, ICT products and services will have the potential to save up to ten times as much in CO_2 emissions in other industries as the ICT sector itself generates (according to the GeSI SMARTer2030 study). This creates an opportunity to save 20 percent of global CO_2 emissions in 2030 and to keep worldwide emissions at 2015 levels with simultaneous economic growth. The additional revenue potential here amounts to USD 6.5 trillion, USD 2.0 trillion of which is for the ICT industry alone. Further, ICT solutions can save a total of USD 4.9 trillion in costs. To give a specific example: The broadband roll-out in Germany has the potential to save an aggregate amount of 19 million metric tons of CO_2 between 2012 and 2020. What is more, the economic momentum triggered by rolling out broadband can create an aggregate number of 162,000 new jobs and increase GDP by EUR 47 billion between 2015 and 2020. We are supporting this trend by evaluating our product portfolio to identify sustainability benefits. In addition, we want to continuously improve the ratio of the emissions that our products and services save to those generated by our own value chain. In 2016, for example, we saved 33 percent more emissions in Germany than we produced. Further information can be found in our 2017 CR report, published in April 2018. SDG

  Climate change risks are already visible in the form of increasingly extreme weather conditions. This is having a direct effect on our stakeholders, e.g., our customers, suppliers, and employees. We can take preventive action in this area by reducing our own CO_2 emissions, which is one of the reasons we set ourselves the goal of achieving a 20 percent reduction in our Group-wide emissions – leaving aside our United States operating segment – by 2020 (baseline: 2008). Climate protection also carries financial risks, whether from the introduction of a levy on CO_2 emissions or an increase in energy costs. The measures we are taking to counter these risks include measuring our own energy efficiency and finding ways to improve it. Further, in 2016 four of our subsidiaries (Magyar Telekom in Hungary, OTE in Greece, T-Mobile Netherlands, and Hrvatski Telekom in Croatia) covered 100 percent of their electricity requirements with renewable energy, while a further two (T-Mobile Austria and T-Systems Netherlands) almost met this target, thus reducing climate risks.

- Suppliers. We see more sustainability in our supply chain as an opportunity – for our reputation and our business success. Apart from the general risks associated with our global procurement activities, we can be exposed to country- and supplier-specific risks. These include, for example, the use of child labor, the conscious acceptance of environmental damage or inadequate local working and safety conditions. We reduce these risks by systematically reviewing our suppliers. Our partnerships with suppliers that comply with international sustainability standards ensure a high level of product quality and reliable procurement. We have a special development program in place to help strategic suppliers introduce business practices that are both socially and ecologically acceptable while remaining economically efficient. This program showed measurable successes again in the reporting period and has three major advantages: It has a positive impact on our suppliers' working conditions, enhances their profitability, and makes the economic relevance of sustainability clear for both sides, i.e., for our suppliers and for the Group alike. For instance, better working conditions at our suppliers reduces the number of work-related accidents as well as the personnel turnover rate. That, in turn, ensures high product quality and increases productivity, while at the same time lowering costs for recruitment and training. Thus, not only are we strengthening our suppliers' profitability and CR performance, we are also significantly reducing identified risks. SDG

Health and environment. Mobile communications, or the electromagnetic fields used in mobile communications, regularly give rise to concerns among the general population about potential health risks. This issue continues to be the subject of public, political, and scientific debate. Acceptance problems among the general public concern both mobile communications networks and the use of mobile terminals such as smartphones, tablets, and laptops. The discussion also has repercussions for the build-out of mobile communications infrastructure and the use of mobile devices. In the fixed network, it affects sales of traditional IP and DECT (digital cordless) phones and devices that use Wi-Fi technology. There is a risk of regulatory interventions, such as reduced thresholds for electromagnetic fields or the implementation of precautionary measures in mobile communications, e.g., amendments to building law or labeling requirements for handsets.

Over the past few years, recognized expert organizations such as the World Health Organization (WHO) and the International Commission on Non-Ionizing Radiation Protection (ICNIRP) have repeatedly reviewed the current thresholds for mobile communications and confirmed that – if these values are complied with – the use of mobile technology is safe based on current scientific knowledge. The expert organizations, currently the ICNIRP, regularly review the recommended thresholds on the basis of the latest scientific findings.

We are convinced that mobile communications technology is safe if specific threshold values are complied with. We are supported in this conviction by the assessment of the recognized bodies. Our responsible approach to this issue finds expression in our Group-wide EMF Policy, with which we commit ourselves to more transparency, information, participation, and financial support of independent mobile communications research, far beyond that which is stipulated by legal requirements. We aim to overcome uncertainty among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. We thus continue to see it as our duty to maintain our close and successful dialog with local authorities, over and above the statutory requirements. This also applies since our longstanding collaboration with municipalities to build out the mobile network was enshrined in law in 2013; previously, this collaboration was based on voluntary self-commitments by the network operators.

LITIGATION

Major ongoing legal proceedings. Deutsche Telekom is party to proceedings both in and out of court with government agencies, competitors, and other parties. The proceedings listed below are of particular importance from our perspective. If, in extremely rare cases, required disclosures on the significance of individual litigation and anti-trust proceedings are not made, we concluded that these disclosures may seriously undermine the outcome of the relevant proceedings.

Major ongoing legal proceedings

Toll Collect arbitration proceedings
Prospectus liability proceedings
Claims by partnering publishers of telephone directories
Claims relating to charges for the shared use of cable ducts
Claim for damages in Malaysia despite an earlier, contrary, legally binding arbitration ruling
Patents and licenses

8 DECENT WORK AND ECONOMIC GROWTH

Please refer to the section "Corporate responsibility and non-financial statement," page 77 et seq.

- **Toll Collect arbitration proceedings.** In the arbitration proceedings between the principal shareholders of Toll Collect (Daimler Financial Services AG and Deutsche Telekom AG) and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. The Federal Republic is claiming some EUR 3.33 billion in lost toll revenues plus interest due to the delayed commencement of operations as well as contractual penalties in the amount of around EUR 1.65 billion plus interest. The Federal Republic's main claims – including contractual penalty claims – thus total about EUR 4.98 billion plus interest. In spring 2017, the principal shareholders asserted counterclaims based on breaches of duty by the Federal Republic of Germany in relation to the delay in the start of toll collection. After hearings in 2014, we reassessed the proceedings, updated Deutsche Telekom's share of the amount at risk, and recognized adequate provisions for the risk in the statement of financial position. Further hearings were held in the following years, none of which prompted us to change the provisions recognized in 2014.

- **Prospectus liability proceedings (third public offering or DT3).** There are around 2,600 ongoing lawsuits from some 16,000 alleged buyers of T-Shares sold on the basis of the prospectus published on May 26, 2000. The plaintiffs assert that individual figures given in this prospectus were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million plus interest. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court had issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled that there were no errors in Deutsche Telekom AG's prospectus. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. On November 30, 2016, the Frankfurt/Main Higher Regional Court ruled that the mistake in the prospectus identified by the Federal Court of Justice could result in liability on the part of Deutsche Telekom AG, although the details of that liability would have to be established in the initial proceedings. Both Deutsche Telekom AG and some of the individual plaintiffs in the model proceedings have brought an appeal before the Federal Court of Justice against this decision. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages. An adequate contingent liability has been recognized and is shown in the notes to the consolidated financial statements. Adequate provisions for this risk were recognized in the annual financial statements of Deutsche Telekom AG, which are prepared in accordance with German GAAP.

- Claims by partnering publishers of telephone directories. Several publishers that had set up joint ventures with the then DeTeMedien GmbH – formerly a wholly owned subsidiary of Deutsche Telekom AG and now named Deutsche Tele Medien GmbH – to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The plaintiffs are claiming damages or a refund from Deutsche Tele Medien GmbH and, to a certain extent, from Deutsche Telekom AG as joint and several debtor alongside Deutsche Tele Medien GmbH. The plaintiffs base their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. The amounts claimed by the 81 original plaintiffs totaled around EUR 470 million plus interest at the end of 2014. After an agreement was reached with the majority of the publishers in October 2015 to settle the disputes and a number of claims were since dismissed conclusively, 13 actions are still pending for a remaining amount in dispute of around EUR 99 million plus interest. In ten of these proceedings, the plaintiffs lodged appeals with the Federal Court of Justice after their claims were dismissed by the court of appeal. The remaining three claims have been suspended. Five publishers whose civil actions are still pending have been pursuing their claims in parallel since June 2016 through administrative court actions against the Federal Network Agency. Two of these actions were dismissed by the court of first instance.

- Claims relating to charges for the shared use of cable ducts. In 2012, Kabel Deutschland Vertrieb und Service GmbH – now Vodafone Kabel Deutschland GmbH (VKDG) – filed a claim against Telekom Deutschland GmbH to reduce the annual charge for the rights to use cable duct capacities in the future and gain a partial refund of the payments made in this connection since 2004. According to its latest estimates, VKDG's claims amounted to around EUR 540 million along with around EUR 11 million for the alleged benefit from additional interest, plus interest in each case. Claims prior to 2009 are no longer being asserted by VKDG. After the Frankfurt/Main Regional Court had dismissed the complaint in 2013, the Frankfurt/Main Higher Regional Court also rejected the appeal in December 2014. In the ruling dated January 24, 2017, the Federal Court of Justice reversed the appeal ruling and referred the case back to the Frankfurt/Main Higher Regional Court for further consideration. In similar proceedings, Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH and Kabel BW GmbH demanded in January 2013 that Telekom Deutschland GmbH cease charging the plaintiffs more than a specific and precisely stated amount for the shared use of cable ducts. The plaintiffs are now demanding a refund of around EUR 570 million plus interest. The claim was dismissed in the first instance by the Cologne Regional Court on October 11, 2016. The plaintiffs have appealed against this decision. At present the financial impact of both these proceedings cannot be assessed with sufficient certainty.

- Claim for damages in Malaysia despite an earlier, contrary, legally binding arbitration ruling. Celcom Malaysia Berhad (Celcom) and Technology Resources Industries Berhad are pursuing actions with the state courts in Kuala Lumpur, Malaysia, against eleven defendants in total, including DeTeAsia Holding GmbH, a subsidiary of Deutsche Telekom AG. The plaintiffs are demanding damages and compensation of USD 232 million plus interest. DeTeAsia Holding GmbH had enforced this amount against Celcom in 2005 on the basis of a final ruling in its favor. The main proceedings in the court of first instance began in January 2018. At present, we cannot assess their financial impact with sufficient certainty.

- Patents and licenses. Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that we may have to pay license fees and/or compensation; we are also exposed to a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

Further, Deutsche Telekom intends to defend itself and/or pursue its claims resolutely in each of these proceedings.

Proceedings concluded

- **Reduction of the Company's contribution to the Civil Service Pension Fund.** Deutsche Telekom complies with its obligation to pay contributions to the Civil Service Pension Fund in accordance with the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz) and previously filed an application with the responsible Federal Ministry of Finance to have its contribution obligations reduced. After this application was rejected, Deutsche Telekom filed a suit with the competent administrative court in Cologne. This suit was dismissed, as was the appeal lodged against the dismissal. As Deutsche Telekom AG has refrained from further litigation in this matter, the proceedings have been terminated and the judgment is now final.

ANTI-TRUST PROCEEDINGS

Like all companies, our Group is subject to the regulations of anti-trust law. Given this, we have in recent years significantly expanded our compliance activities in this area too. Most recently, independent auditors certified our anti-trust compliance management system as being effective in accordance with IDW AuS 980 in 2015. Nevertheless, Deutsche Telekom and its subsidiaries, joint ventures, and associates are from time to time subject to proceedings under competition law or civil follow-on actions. In the following, we describe major anti-trust proceedings and the resulting claims for damages.

Claims for damages against Slovak Telekom following the European Commission's decision to impose fines. The European Commission decided on October 15, 2014 that Slovak Telekom had abused its market power on the Slovak broadband market and as a result imposed fines on Slovak Telekom and Deutsche Telekom. The fines were paid in January 2015. Slovak Telekom and Deutsche Telekom challenged the European Commission's decision on December 29, 2014 before the Court of the European Union. Following the decision of the European Commission, competitors filed damage actions against Slovak Telekom with the civil court in Bratislava. These claims seek compensation for alleged damages due to Slovak Telekom's abuse of a dominant market position, as determined by the European Commission. At present, three claims totaling EUR 174 million plus interest are still pending. At present, we cannot assess the financial impact with sufficient certainty.

FINANCIAL RISKS

Liquidity, credit, currency, interest rate risks

With regard to its assets, liabilities and planned transactions, our Group is particularly exposed to liquidity risks, credit risks, and the risk of changes in exchange rates and interest rates. To contain these risks, we use selected derivative and non-derivative hedging instruments (hedges), depending on the risk assessment. As only risks with an impact on cash flows are hedged, derivative financial instruments are used solely for hedging and never for speculative purposes. The following risk areas – liquidity, credit, currency, and interest rate risks – are evaluated after implementation of risk containment measures.

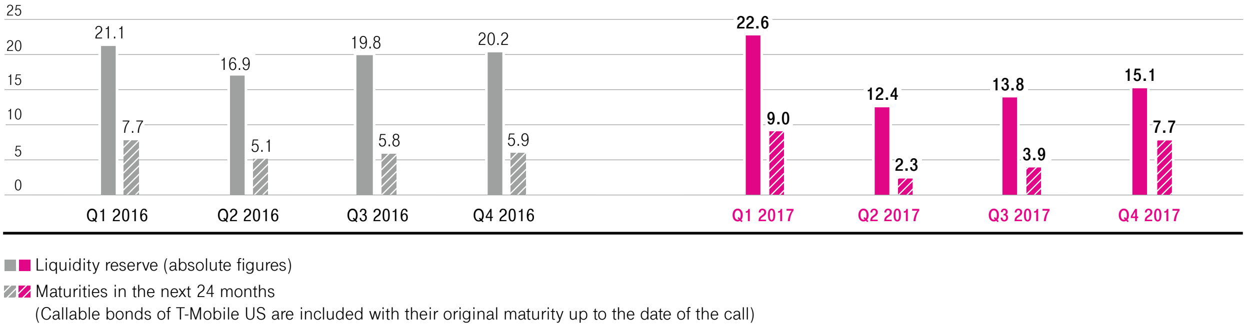
For the evaluation, please refer to the table on **page 116.**

Liquidity risk. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, our system of liquidity management includes a liquidity reserve, in the form of credit lines and cash, that is sufficient to cover bonds falling due and long-term loans for at least the next 24 months. For medium- to long-term financing, we primarily use bonds issued in a variety of currencies and jurisdictions. These instruments are generally issued via Deutsche Telekom International Finance B. V. and are forwarded within the Group as internal loans.

The graphic on the next page shows the development of the liquidity reserve in relation to maturity dates. As of the end of 2017 and in the preceding quarters, we clearly met our targets for the liquidity reserve to cover at least the maturities due in the next 24 months.

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 22 banks for a total of EUR 12.9 billion as of December 31, 2017. As of December 31, 2017, EUR 0.2 billion of these credit lines had been utilized. According to the credit agreements, the terms and conditions depend on our rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, our access to the international debt capital markets is not jeopardized.

Liquidity reserve and maturities in 2017 compared with 2016
billions of €



Credit risk. In our operating business and certain financing activities, we are exposed to a credit risk, i.e., the risk that a counterparty will not fulfill its contractual obligations. To keep this credit risk to a minimum, we conclude transactions with regard to financing activities only with counterparties that have at least a credit rating of BBB+/Baa1; this is linked to an operational credit management system. In addition, we have concluded collateral agreements for our derivative transactions. These ensure that, on a daily basis, we receive compensation payments in the amount of the receivables due from contract banks and that we make compensatory payments in the case of liabilities due. In cases of insolvency, the collateral agreements stipulate that all contracts in force are offset against each other, leaving a net receivable or liability. We continuously monitor accounts receivable in operations in a decentralized manner, i.e., at the individual units. Our business with corporate customers, especially with international carriers, is subject to special solvency monitoring.

Currency risks. The currency risks result from investments, financing measures, and operations. Risks from foreign-currency fluctuations are hedged if they affect the Group's cash flows. However, foreign-currency risks that do not influence the Group's cash flows (e.g., risks resulting from the translation of assets and liabilities of foreign operations into the Group's reporting currency) are not hedged.

Interest rate risks. Our interest rate risks mainly result from interest-bearing liabilities, primarily in the eurozone and the United States. Interest risks are managed as part of our interest rate management activities, in the course of which the maximum permissible negative deviation from the planned finance costs is determined – this is termed the risk budget. To ensure compliance with the risk budget, we manage the composition of the liabilities portfolio (ratio of fixed- to variable-interest debt instruments and average fixed-interest period) by issuing primary (non-derivative) financial instruments and, where necessary, also deploying derivative financial instruments. Regular reports are submitted to the Board of Management and Supervisory Board.

For additional explanations, please refer to Note 36 "Financial instruments and risk management" in the notes to the consolidated financial statements, **page 230 et seq.**

Tax risks
We are subject to the applicable tax laws in many different countries. Risks can arise from changes in local taxation laws or case law and different interpretations of existing provisions. These risks can impact both our tax expense and benefit as well as tax receivables and liabilities.

Other financial risks
This section contains information on other financial risks that we consider to be immaterial at present or cannot evaluate based on current knowledge.

Rating risk. As of December 31, 2017, Deutsche Telekom's credit rating with Moody's was Baa1, while Fitch and Standard & Poor's rated us BBB+. All three agencies gave us a "stable" outlook. A lower rating would result in interest rate rises for some of the bonds issued by us.

Sales of shares by the Federal Republic or KfW Bankengruppe. As of December 31, 2017, the Federal Republic and KfW Bankengruppe jointly held approximately 31.9 percent in Deutsche Telekom AG. It is possible that the Federal Republic will continue its policy of privatization and sell further equity interests in a manner designed not to disrupt the capital markets and with the involvement of KfW Bankengruppe. There is a risk that the sale of a significant volume of shares by the Federal Republic or KfW Bankengruppe, or any speculation to this effect, could have a negative impact on the price of the T-Share.

Our **CR strategy** enhances the value of our Company in the long term, which also has a positive effect of reducing business risks. Investors with a long-term horizon acknowledge this approach. In the capital markets, this is evident, for example, in the proportion of T-shares held by investors that base their investment decisions, at least in part, on sustainability criteria. As of September 30, 2017, around 18 percent of all T-Shares were held by SRI (socially responsible investment) investors, and almost 3 percent were held by investors who manage their funds primarily in accordance with SRI aspects.

Impairment of Deutsche Telekom AG's assets. The value of the assets of Deutsche Telekom AG and its subsidiaries is reviewed periodically. In addition to the regular annual measurements, specific impairment tests may be carried out, for example where changes in the economic, regulatory, business or political environment suggest that the value of goodwill, intangible assets, property, plant and equipment, investments accounted for using the equity method, or other financial assets might have decreased. These tests may lead to the recognition of impairment losses that do not, however, result in cash outflows. This could impact to a considerable extent on our results, which in turn may negatively affect the T-Share price.

For a detailed explanation, please refer to the section "Summary of accounting policies – Judgments and estimates" in the notes to the consolidated financial statements, **pages 168 and 169.**

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework, COSO I, as amended on May 14, 2013.

The Audit Committee of the Supervisory Board of Deutsche Telekom AG monitors the effectiveness of the ICS as required by § 107 (3) sentence 2 AktG. The Board of Management is responsible for defining the scope and structure of the ICS at its discretion. Internal Audit is responsible for independently reviewing the functionality and effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit, and inspection rights.

The accounting-related ICS comprises the principles, methods, and measures used to ensure appropriate accounting. It is continuously being refined and aims to ensure the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as with the regulations under commercial law as set forth in § 315e (1) HGB. Another objective of the accounting-related ICS is the preparation of the annual financial statements of Deutsche Telekom AG and the combined management report in accordance with German GAAP.

It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Therefore, as regards the accounting-related ICS, there can only ever be relative, but no absolute, certainty that material accounting misstatements can be prevented or detected.

Group Accounting manages the processes of Group accounting and management reporting. Laws, accounting standards, and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, form the basis of the financial reporting process. In addition, supplementary process directives such as the Intercompany Policy, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, to measure pension obligations. Group Accounting ensures that these requirements are complied with consistently throughout the Group. The staff involved in the accounting process receive regular training. Deutsche Telekom AG and the Group companies are responsible for ensuring that Group-wide policies and procedures are complied with. The Group companies ensure the compliance and timeliness of their accounting-related processes and systems and, in doing so, are supported and monitored by Group Accounting.

Operational accounting processes at the national and international level are increasingly managed by our shared service centers. Harmonizing the processes enhances their efficiency and quality and in turn, improves the reliability of the internal ICS. The ICS thus safeguards both the quality of internal processes at the shared service centers and the interfaces to the Group companies by means of adequate controls and an internal certification process.

Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include:

- IT-based and manual matching
- The segregation of functions
- The dual checking principle
- Monitoring controls
- General IT checks such as access management in IT systems, and change management

We have implemented a standardized process throughout the Group for monitoring the effectiveness of the accounting-related ICS. This process systematically focuses on risks of possible misstatements in the consolidated financial statements. At the beginning of the year, specific accounts and accounting-related process steps are selected based on risk factors. They are then reviewed for effectiveness in the course of the year. If control weaknesses are found, they are analyzed and assessed, particularly in terms of their impact on the consolidated financial statements and the combined management report. Material control weaknesses, the action plans for eradicating them, and ongoing progress are reported to the Board of Management and additionally to the Audit Committee of the Supervisory Board of Deutsche Telekom AG. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289f AND § 315d HGB

The Corporate Governance Statement in accordance with § 289f and § 315d HGB forms part of the combined management report.

The statement can be found on the Deutsche Telekom website **www. telekom.com** under Investor Relations in the Management & Corporate Governance section.

CLOSING STATEMENT BY THE BOARD OF MANAGEMENT ON THE DEPENDENT COMPANY REPORT

Since the Federal Republic of Germany, as minority shareholder of Deutsche Telekom AG, has represented a solid majority at most shareholders' meetings in the past due to its level of attendance, Deutsche Telekom is a dependent company of the Federal Republic of Germany in accordance with § 17 (1) AktG.

Deutsche Telekom is not subject to any control or profit and loss transfer agreement with the Federal Republic of Germany. Under § 312 AktG, the Board of Management of Deutsche Telekom AG has therefore prepared a dependent company report describing relations between the controlling entity and dependent companies. The Board of Management issued the following statement at the end of the report: “The Board of Management hereby declares that, under the circumstances known to the Board of Management at the time the corporate transactions were performed, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions in the interests of, or on the instructions of, the controlling company or any affiliated companies of the Federal Republic.”

LEGAL STRUCTURE OF THE DEUTSCHE TELEKOM GROUP

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its shares are traded on the Frankfurt/Main Stock Exchange as well as on other stock exchanges.

For information on the composition of capital stock in accordance with § 289a (1) HGB and § 315a HGB of direct and indirect equity investments, please refer to Note 15 “Shareholders' equity” in the notes to the consolidated financial statements, **page 206 et seq.**, and to the notes to the annual financial statements of Deutsche Telekom AG as of December 31, 2017.

SHAREHOLDERS' EQUITY

Each share entitles the holder to one vote. These voting rights are restricted, however, in relation to treasury shares (at December 31, 2017: around 19 million in total).

Capital increase. The resolution on the dividend of EUR 0.60 per share for the 2016 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.4 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2017 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2017. This increased capital reserves by EUR 1,143 million, and under IFRS, by EUR 1,175 million. The number of shares rose by 84,556,563.

Treasury shares. The shareholders' meeting resolved on May 25, 2016 to authorize the Board of Management to purchase shares in the Company by May 24, 2021, with the amount of share capital accounted for by these shares totaling up to EUR 1,179,302,878.72, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 25, 2016 under item 6 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 25, 2016, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

For information on the treasury shares in accordance with § 160 (1) No. 2 AktG, please refer to the notes to the annual financial statements of Deutsche Telekom AG as of December 31, 2017.

On the basis of the authorization by the shareholders' meeting on May 25, 2016 described above and corresponding authorizations by the shareholders' meeting on May 12, 2011 and May 24, 2012, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively. Further, 90 thousand shares and 860 thousand shares were acquired in September and October 2015, respectively, for an aggregate amount of EUR 14,787 thousand (excluding transaction costs); these acquisitions increased the number of treasury shares by 950 thousand.

No treasury shares were acquired in the reporting period.

As part of the Share Matching Plan, a total of 2 thousand treasury shares were transferred free of charge to the custody accounts of eligible participants in 2012 and 2013 respectively. A further 90 thousand treasury shares were transferred free of charge in the 2014 financial year. An additional 140 thousand treasury shares were transferred in 2015. In the 2016 financial year, 232 thousand treasury shares were transferred. Transfers of treasury shares to the custody accounts of employees of Deutsche Telekom AG are free of charge. In cases where treasury shares are transferred to the custody accounts of employees of other Group companies, the costs have been transferred at fair value to the respective Group company since the 2016 financial year.

A total of 300 thousand treasury shares were reallocated in January, March, April, May, June, July, August, September, October, and December 2017 and transferred to the custody accounts of eligible participants of the Share Matching Plan. As of December 31, 2017, disposals of treasury shares resulting from the transfers in the reporting period accounted for less than 0.01 percent, or EUR 769 thousand, of share capital. Gains on disposal arising from transfers of treasury shares amounted to EUR 2,986 thousand. In the reporting year, 107 thousand treasury shares with a fair value of EUR 1,763 thousand were billed to other Group companies. Transfers of treasury shares increased retained earnings by EUR 511 thousand and capital reserves by EUR 310 thousand.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001, Deutsche Telekom AG issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights expired in full in the 2013 financial year. As a result, the trustee no longer had any obligation to fulfill any claims in accordance with the purpose of the deposit. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred free of charge to a custody account of Deutsche Telekom AG. The 18,517 thousand previously deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1a) HGB. This equates to 0.4 percent, or EUR 48 million, of Deutsche Telekom's capital stock. On the basis of authorization by the shareholders' meeting on May 25, 2016, the treasury shares acquired free of charge may be used for the same purposes as the treasury shares acquired for a consideration.

Authorized capital and contingent capital. The shareholders' meeting on May 16, 2013 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 15, 2018. The Board of Management was permitted to exercise the authorization in full or on one or more occasions in partial amounts. The Board of Management was authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management was authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or for acquisitions of companies, parts thereof, or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. Further, the Board of Management was authorized, subject to the approval of the Supervisory Board, to determine the further content of share rights and the conditions under which shares are issued **(2013 authorized capital)**. The shareholders' meeting resolved on May 31, 2017 to cancel the 2013 authorized capital to the extent that it still existed, effective the date of entry of the 2017 authorized capital described below. Following the increase in issued capital against contribution of dividend entitlements, 2013 authorized capital amounted to EUR 1,381,674,257.92. The cancellation of the remaining 2013 authorized capital was entered in the commercial register on July 11, 2017.

The shareholders' meeting on May 31, 2017 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 3,600,000,000 by issuing up to 1,406,250,000 no par value registered shares against cash and/ or non-cash contributions in the period ending May 30, 2022. This authorization may be exercised in full or on one or more occasions in partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or acquisitions of companies, parts thereof, or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. However, the value of the new shares for which shareholders' subscription rights have been disapplied on the basis of this authorization – together with the value of the shares or conversion and/or option rights or obligations under bonds issued or sold since May 31, 2017 subject to the disapplication of subscription rights – must not exceed 20 percent of the total share capital; the latter is defined as the amount existing as of May 31, 2017, upon entry of the authorization, or upon the issue of the new shares, whichever amount is lowest. If the issue or sale is carried out in analogous or mutatis mutandis application of § 186 (3) sentence 4 AktG, this shall also constitute the disapplication of subscription rights. Further, the Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the further content of share rights and the conditions under which shares are issued **(2017 authorized capital)**. The shareholders' meeting on May 31, 2017 instructed the Board of Management to enter the 2017 authorized capital described above in the commercial register only when (i) the existing 2013 authorized capital (in the necessary partial amount) has been utilized to grant the shareholders the possibility described under item 2 of the agenda of the shareholders' meeting on May 31, 2017 to opt for shares (dividend in kind) instead of a cash dividend payment and the related capital increase has been entered, or (ii) the dividend has been paid out in full in cash. 2017 authorized capital was entered in the commercial register on July 11, 2017 after the condition specified under (i) had been met.

As of December 31, 2017, the share capital was contingently increased by up to EUR 1,100,000,000, comprising up to 429,687,500 no par value shares **(2014 contingent capital)**. The contingent capital increase will be implemented only to the extent that

1. the holders or creditors of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, make use of their option and/or conversion rights or

2. those obligated as a result of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments), which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, fulfill their option or conversion obligations

and other forms of fulfillment are not used. The new shares shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (3) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

MAIN AGREEMENTS INCLUDING A CHANGE OF CONTROL CLAUSE

The main agreements entered into by Deutsche Telekom AG, which include a clause in the event of a change of control, principally relate to bilateral credit lines and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A change of control is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute S.A.) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium.

On November 2, 2016, Deutsche Telekom AG signed a change agreement to the shareholder agreement with the Greek government from May 14, 2008 on Hellenic Telecommunications Organization S.A., Athens, Greece (OTE); the change agreement concerned the accession of the Hellenic Republic Asset Development Fund (HRADF) as a party to the contract. Under this agreement, the Greek government, together with HRADF, is, under certain circumstances, entitled to acquire all shares in OTE from Deutsche Telekom AG as soon as one (or more) person(s), with the exception of the Federal Republic of Germany, either directly or indirectly acquire(s) 35 percent of the voting rights of Deutsche Telekom AG.

In the master agreement establishing the procurement joint venture BuyIn in Belgium, Deutsche Telekom AG and Orange S.A. (formerly France Télécom S.A.)/Atlas Services Belgium S.A. (a subsidiary of Orange S.A.) agreed that if Deutsche Telekom or Orange comes under the controlling influence of a third party or if a third party that is not wholly owned by the Orange group of companies acquires shares in Atlas Services Belgium S.A., the respective other party (Orange and Atlas Services Belgium S.A. only jointly) may terminate the master agreement with immediate effect.

CHANGES IN THE CONSOLIDATED GROUP

60 German and 186 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2016: 61 and 188). 9 associates (December 31, 2016: 13) and 7 joint ventures (December 31, 2016: 7) are also included using the equity method.

BUSINESS COMBINATIONS

Deutsche Telekom did not affect any material business combinations in the 2017 financial year.

COMPENSATION REPORT

The "Compensation report" details the compensation system underlying Board of Management compensation as well as the specific remuneration received by the individual members of the Board of Management. It takes into consideration the requirements of the German Commercial Code taking account of the provisions of German Accounting Standard No. 17 (GAS 17), the recommendations of the German Corporate Governance Code (GCGC), and the International Financial Reporting Standards (IFRS).

Changes in the composition of the Board of Management and contract extensions. Claudia Nemat has been responsible for the new Board department Technology and Innovation since January 1, 2017. Srini Gopalan succeeded her as member of the Board of Management responsible for Europe on the same date. On May 30, 2017, the Supervisory Board resolved to extend Dr. Christian P. Illek's position as the Board member responsible for Human Resources by five years effective April 1, 2018. At its meeting on July 18, 2017, the Supervisory Board resolved to accept Niek Jan van Damme's resignation as the Board of Management member responsible for Germany with effect from midnight on December 31, 2017, and to replace him in that position with Dr. Dirk Wössner for a period of three years beginning January 1, 2018. Also as of December 31, 2017, Reinhard Clemens resigned from his position as Board member responsible for T-Systems. The Supervisory Board accepted his resignation at its meeting on September 13, 2017. At the same meeting, Adel Al-Saleh was appointed Board member responsible for T-Systems for a period of three years beginning January 1, 2018.

COMPENSATION OF THE BOARD OF MANAGEMENT

Basis of Board of Management compensation. On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this system. The compensation of Board of Management members comprises various components. Under the terms of their service contracts, members of the Board of Management are entitled to an annual fixed remuneration and annual variable performance-based remuneration (Variable I), a long-term variable remuneration component (Variable II), as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of compensation at regular intervals.

The fixed annual remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law. It is ensured that Board of Management compensation is oriented toward the sustained development of the Company and that there is a multi-year measurement base for the variable components.

The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section "Summary of accounting policies" under "Principal subsidiaries," page 173 et seq.

At its discretion and after due consideration, the Supervisory Board may also reward extraordinary performance by individual or all Board of Management members in the form of a special bonus.

In accordance with market-oriented and corporate standards, the Company grants all members of the Board of Management additional benefits under the terms of their service contracts, some of which are viewed as non-cash benefits and taxed accordingly. This mainly includes being furnished with a company car and accident and liability insurance, and reimbursements in connection with maintaining a second household.

Sideline employment generally requires prior approval. Generally, no additional compensation is paid for being a member of the management or supervisory board of other Group entities.

In the event of temporary incapacity for work caused by illness, accident, or any other reason for which the respective Board of Management member is not responsible, the fixed basic remuneration continues to be paid; in the event of an uninterrupted period of absence due to illness of more than one month, claims to variable remuneration are reduced pro rata in line with the uninterrupted period of absence. The continued payment of remuneration ends at the latest after an uninterrupted period of absence of six months, or for a maximum of three months following the end of the month in which the Board of Management member's permanent incapacity for work is established.

Variable performance-based remuneration

The variable remuneration of the members of the Board of Management is divided into Variables I and II. Variable I contains both short-term and long-term components consisting of the realization of budget figures for specific performance indicators, the implementation of the strategy and adherence to the Group's Guiding Principles. Variable II is oriented solely toward the long term. This ensures that the variable remuneration is oriented toward the sustained development of the Company and that there is a predominantly long-term incentive effect. The variable compensation elements include clear upper limits, while the amount of compensation is capped overall.

Variable I. The annual variable remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management at the beginning of the financial year. The set of targets is composed of corporate targets (50 percent) related to unadjusted revenue, unadjusted EBITDA and free cash flow, as well as personal targets for the individual members of the Board of Management. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of the strategy (30 percent) and value adherence (adherence to Guiding Principles), which accounts for 20 percent. The agreement on targets and the level of target achievement for the respective financial year are determined by the plenary session of the Supervisory Board. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. Any higher levels of target achievement will not be taken into consideration. To ensure the long-term incentive effect and orientation toward the sustained development of the Company, a third of the variable remuneration set by the plenary session of the Supervisory Board must be invested in shares of Deutsche Telekom AG; these shares must be held by the respective Board member for a period of at least four years.

Variable II. The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted performance parameters (return on capital employed (ROCE), adjusted earnings per share, customer satisfaction, and employee satisfaction). Each parameter determines a quarter of the award amount. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. The assessment period is four years, with the assessment being based on average target achievement across the four years planned at the time the tranche was determined. The award amount is decoupled from other remuneration components and is set for each member of the Board of Management individually.

In the 2017 financial year, the following absolute nominal amounts were pledged to the Board of Management members in the event of 100 percent target achievement.

€

	2017 tranche	2016 tranche
Reinhard Clemens	650,000	650,000
Niek Jan van Damme	644,000	644,000
Thomas Dannenfeldt	670,000	670,000
Srini Gopalan (since January 1, 2017)	550,000	–
Timotheus Höttges	1,342,000	1,342,000
Dr. Christian P. Illek	550,000	550,000
Dr. Thomas Kremer	550,000	550,000
Claudia Nemat	675,000	675,000

Information on the Share Matching Plan. In the 2017 financial year, the Board of Management members, as described above, were contractually obliged to invest a third of Variable I in shares of Deutsche Telekom AG. Deutsche Telekom AG will grant one additional share for every share acquired as part of this Board of Management member's aforementioned personal investment (Share Matching Plan) on expiration of the four-year lock-up period, provided they are still a member of the Board of Management.

GAS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2017 financial year and the fair value of the matched shares at their grant date, but also of the number of entitlements to matching shares and their development in the current financial year.

The fair value of the matching shares at grant date shown in the following table does not represent a component of remuneration for the Board of Management members in 2017. It is an imputed value of the entitlements to matching shares determined on the basis of relevant accounting policies. Here, the fair value equates to the share price at grant date less an expected dividend markdown. The following table is based on expected target achievement for the 2017 financial year and thus on the estimated amount of the personal investment to be made by the respective Board of Management member to establish his or her entitlements to matching shares. The final number of entitlements to matching shares identified for the 2017 financial year may be higher or lower than the amounts estimated here.

The total share-based payment expense for entitlements to matching shares from 2012 to 2017 to be recognized for the financial years 2016 and 2017 pursuant to IFRS 2 is included in the two last columns of the table.

	Number of entitlements granted to matching shares since 2010 at the beginning of the financial year	Number of new entitlements to matching shares granted in 2017	Number of shares transferred in 2017 as part of the Share Matching Plan	Fair value of the entitlements to matching shares at grant date €	Cumulative total share-based payment expense in 2017 for matching shares for the years 2013 through 2017 €	Cumulative total share-based payment expense in 2016 for matching shares for the years 2012 through 2016 €
Reinhard Clemens	159,248	13,484	24,934	184,994	50,429	184,443
Niek Jan van Damme	150,748	13,359	26,279	183,286	241,645	188,132
Thomas Dannenfeldt	44,138	13,898	0	190,686	153,021	120,267
Srini Gopalan (since January 1, 2017)	0	11,409	0	156,533	26,231	–
Timotheus Höttges	239,544	27,838	25,974	381,941	379,393	353,485
Dr. Christian P. Illek	25,181	11,409	0	156,533	99,980	60,164
Dr. Thomas Kremer	72,183	11,409	13,057	156,533	163,949	143,105
Claudia Nemat	105,021	14,002	28,251	192,109	193,826	193,228

By December 31, 2017, Deutsche Telekom had acquired 565,596 shares for the purpose of awarding matching shares to Board of Management members as part of the Share Matching Plan. In 2017, matching shares were again transferred to individual members of the Board of Management. A total of 118,495 shares were transferred to Board of Management members in 2017 (2016: 88,792).

Arrangements in the event of termination of a position on the Board of Management. Service contracts for members of the Board of Management concluded since the 2009 financial year include a severance cap in case of premature termination without good cause allowing a compensation payment that, in line with the recommendations of the German Corporate Governance Code, is limited to a maximum of two years' remuneration (severance cap) and may not exceed the remuneration due for the remaining term of the service contract.

The service contracts for members of the Board of Management at Deutsche Telekom AG do not include any benefits in the event of the termination of a position on the Board of Management as a result of a change of control.

Board of Management member service contracts generally stipulate a post-contractual prohibition of competition. Pursuant to these provisions, members of the Board of Management are prohibited from rendering services to or on behalf of a competitor for the duration of one year following their departure. As compensation for this restricted period, they receive either a payment of 50 percent of the last fixed annual remuneration and 50 percent of the most recent Variable I on the basis of 100 percent target achievement, or 100 percent of the last fixed annual remuneration.

Company pension plan

Company pension plan (existing entitlement). The members of the Board of Management are entitled to a company pension. Benefits from the company pension plan are in direct relation to the beneficiary's annual salary. The Board of Management members receive company pension benefits based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The pension payments may be in the form of a life-long retirement pension upon reaching the age of 62 or in the form of an early retirement pension upon reaching the age of 60. Opting for the early retirement pension scheme is connected with actuarial deductions, however. The company pension is calculated by multiplying a basic percentage rate of 5 percent by the number of years of service as a member of the Board of Management. After ten years of service, the maximum pension level of 50 percent of the last fixed annual remuneration will be attained.

The pension payments to be made increase dynamically, at a rate of 1 percent. In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is excluded. The standard criteria for eligibility in the pension arrangements are in line with market conditions. In the event of a permanent incapacity for work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension.

Company pension plan (new entitlement). A plan with a contribution-based promise in the form of a one-time capital payment upon retirement is set up for all Board of Management members with a new entitlement to a company pension. A contribution is paid into the Board member's pension account for each year of service at an interest rate corresponding to market levels. Annual additions to the pension account have no effect on cash or cash equivalents. The cash outflow is only effective upon the Board member's retirement. As a rule, the date of retirement is the beneficiary's 62nd birthday. For pension agreements signed before December 31, 2011, Board of Management members can also opt to draw early retirement benefits from their 60th birthday, subject to corresponding actuarial deductions. The amount to be provided annually is individualized and decoupled from other remuneration components. The exact definition of the contribution is based on a comparison with peer companies that are suitable for benchmarking and also offer plans with contribution-based promises.

In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In the event of a permanent incapacity for work (invalidity), the beneficiary is also entitled to the pension fund.

Service cost and defined benefit obligations for each member of the Board of Management are shown in the following table:

€

	Service cost 2017	Defined benefit obligation (DBO) Dec. 31, 2017	Service cost 2016	Defined benefit obligation (DBO) Dec. 31, 2016
Reinhard Clemens	797,142	7,803,566	737,710	7,132,977
Niek Jan van Damme	302,706	3,225,063	303,289	2,874,190
Thomas Dannenfeldt	281,578	1,200,998	276,804	903,460
Srini Gopalan (since January 1, 2017)	305,625	306,749	–	–
Timotheus Höttges	1,129,225	12,183,195	1,030,510	11,203,561
Dr. Christian P. Illek	272,566	778,582	269,168	496,574
Dr. Thomas Kremer	247,956	1,525,513	250,534	1,253,693
Claudia Nemat	291,092	2,077,262	213,170	1,756,131

An annual contribution of EUR 290,000 was allocated to Niek Jan van Damme in accordance with the provisions of the new company pension plan. The contributions for Thomas Dannenfeldt, Srini Gopalan, Dr. Christian P. Illek, Dr. Thomas Kremer, and Claudia Nemat amount to EUR 250,000 each for each year of service rendered.

The pension expense resulting from the company pension plan is shown as service cost.

Board of Management compensation for the 2017 financial year. In reliance on legal requirements and other guidelines, a total of EUR 21.3 million (2016: EUR 16.7 million) is reported in the following table as total compensation for the 2017 financial year for the members of the Board of Management. The Board of Management compensation comprises the fixed annual remuneration as well as other benefits, non-cash benefits and remuneration in kind, short-term variable remuneration (Variable I), fully earned tranches of long-term variable remuneration (Variable II), and the fair value of the matching shares. This was calculated on the basis of the estimated amount of Variable I at the grant date and the resulting number of entitlements to matching shares.

The fixed annual remuneration and other remuneration are totally unrelated to performance.

Total compensation. The compensation of the Board of Management is shown in detail in the following table:

€

		Non-performance-based compensation		Performance-based compensation			Total compensation
		Fixed annual remuneration	Other remuneration	Short-term variable remuneration	Long-term variable performance-based remuneration (Variable II)	Long-term variable performance-based remuneration (fair value of matching shares)	
Reinhard Clemens	2017	840,000	20,387	709,800	676,000	184,994	**2,431,181**
	2016	840,000	25,221	733,850	468,000	185,899	**2,252,970**
Niek Jan van Damme	2017	850,000	27,040	821,744	665,687	183,286	**2,547,757**
	2016	850,000	28,913	781,172	396,000	184,183	**2,240,268**
Thomas Dannenfeldt	2017	860,000	24,631	835,490	572,000	190,686	**2,482,807**
	2016	860,000	26,711	858,270	–	191,619	**1,936,600**
Srini Gopalan (since January 1, 2017)	2017	700,000	1,139,610 [a]	654,500	–	156,533	**2,650,643**
	2016	–	–	–	–	–	**-**
Timotheus Höttges	2017	1,450,000	29,061	1,749,968	1,135,680	381,941	**4,746,650**
	2016	1,450,000	156,742	1,760,704	547,560	383,809	**4,298,815**
Dr. Christian P. Illek	2017	700,000	35,741	685,850	–	156,533	**1,578,124**
	2016	700,000	37,585	674,850	–	157,299	**1,569,734**
Dr. Thomas Kremer	2017	700,000	63,620	654,500	572,000	156,533	**2,146,653**
	2016	700,000	65,910	666,600	396,000	157,299	**1,985,809**
Claudia Nemat	2017	900,000	78,567	804,600	702,000	192,109	**2,677,276**
	2016	900,000	75,616	807,975	486,000	193,049	**2,462,640**
	2017	**7,000,000**	**1,418,657**	**6,916,452**	**4,323,367**	**1,602,615**	**21,261,091**
	2016	**6,300,000**	**416,698**	**6,283,421**	**2,293,560**	**1,453,157**	**16,746,836**

[a] This amount includes a one-time sign-on bonus of EUR 500,000 and a payment of EUR 620,000 to compensate for the loss of share-based compensation he would have been entitled to at the previous employer. Srini Gopalan was obligated to invest the net amount paid out from the compensation payment in shares of Deutsche Telekom AG. Upon expiry of lock-up period, he can freely dispose of these shares.

The amounts shown in the “Long-term variable performance-based remuneration (Variable II)” column had been pledged to the eligible Board of Management members in the 2014 financial year.

Niek Jan van Damme resigned from his position as member of the Board of Management effective midnight on December 31, 2017. The termination agreement between Niek Jan van Damme and the Company contains the components described below. The Company will pay Niek Jan van Damme a final settlement of EUR 2.3 million for early termination of his service contract. For his participation in Deutsche Telekom AG’s Share Matching Plan, Niek Jan van Damme was awarded a total of 51,300 matching shares in January 2018, but has no other entitlements to matching shares. Niek Jan van Damme will participate on a pro rata basis in the tranches of long-term variable remuneration (Variable II) granted to him. Potential payments of long-term variable remuneration will not take place until after expiry of the term of the plan and will be calculated on the basis of the final level of target achievement as determined by the Supervisory Board. Niek Jan van Damme has vested rights to a Board of Management pension; this entitlement remains in place for the amount in the pension account as of December 31, 2017 until such time as he retires.

Reinhard Clemens also resigned from the Board of Management effective midnight, December 31, 2017. The termination agreement between Reinhard Clemens and the Company contains the components described below. Reinhard Clemens will receive a final settlement of EUR 2.0 million for early termination of his service contract. For his participation in Deutsche Telekom AG’s Share Matching Plan, Reinhard Clemens was awarded 36,312 matching shares in January 2018, but has no other entitlements to the transfer of matching shares. In accordance with his completed period of service, Reinhard Clemens will participate on a pro rata basis in the tranches of long-term variable remuneration (Variable II) granted to him. Potential payments of long-term variable remuneration will not take place until after expiry of the term of the plan for each tranche and will be calculated on the basis of the final level of target achievement as determined by the Supervisory Board. Reinhard Clemens has vested rights to a Board of Management pension; this entitlement will remain in place for the amount earned as of December 31, 2017 until such time as he retires.

As of December 31, 2017, sufficient provisions were recognized to cover the existing obligations from both termination agreements. No member of the Board of Management received benefits or corresponding commitments from a third party for his or her activity as a Board of Management member during the past financial year.

Former members of the Board of Management. A total of EUR 11.3 million (2016: EUR 7.2 million) was included for payments to and entitlements for former members of the Board of Management and those who left in the reporting year as well as any surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 195.4 million (December 31, 2016: EUR 201.6 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

Other. The Company has not granted any advances or loans to current or former Board of Management members, nor were any other financial obligations to the benefit of this group of people entered into.

Table view in accordance with the requirements of the German Corporate Governance Code

The following tables are based on model tables 1 and 2 recommended by the German Corporate Governance Code, which present the total compensation granted for the reporting year and the remuneration components allocated.

Benefits granted for the reporting year

Compensation of the Board of Management
€

	Timotheus Höttges Function: Chairman of the Board of Management (CEO) since Jan. 1, 2014			
	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	1,450,000	1,450,000	1,450,000	1,450,000
Fringe benefits	156,742	29,061	29,061	29,061
Total fixed annual remuneration	**1,606,742**	**1,479,061**	**1,479,061**	**1,479,061**
One-year variable remuneration	1,342,000	1,342,000	0	2,013,000
Multi-year variable remuneration	**1,725,809**	**1,723,941**	**0**	**4,026,000**
Of which: 2016 Variable II (4-year term)	1,342,000			
Of which: 2017 Variable II (4-year term)		1,342,000	0	2,013,000
Of which: 2016 Share Matching Plan (4-year term)	383,809			
Of which: 2017 Share Matching Plan (4-year term)		381,941	0	2,013,000
Total	**4,674,551**	**4,545,002**	**1,479,061**	**7,518,061**
Service cost	1,030,510	1,129,225	1,129,225	1,129,225
TOTAL COMPENSATION	**5,705,061**	**5,674,227**	**2,608,286**	**8,647,286**

	Srini Gopalan Function: Europe since Jan. 1, 2017			
	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration		700,000	700,000	700,000
Fringe benefits		1,139,610 [a]	1,139,610 [a]	1,139,610 [a]
Total fixed annual remuneration	**–**	**1,839,610**	**1,839,610**	**1,839,610**
One-year variable remuneration		550,000	0	825,000
Multi-year variable remuneration	**–**	**706,533**	**0**	**1,650,000**
Of which: 2016 Variable II (4-year term)				
Of which: 2017 Variable II (4-year term)		550,000	0	825,000
Of which: 2016 Share Matching Plan (4-year term)				
Of which: 2017 Share Matching Plan (4-year term)		156,533	0	825,000
Total	**–**	**3,096,143**	**1,839,610**	**4,314,610**
Service cost		305,625	305,625	305,625
TOTAL COMPENSATION	**–**	**3,401,768**	**2,145,235**	**4,620,235**

[a] This amount includes a one-time sign-on bonus of EUR 500,000 and a payment of EUR 620,000 to compensate for the loss of share-based compensation he would have been entitled to at the previous employer. Srini Gopalan was obligated to invest the net amount paid out from the compensation payment in shares of Deutsche Telekom AG. Upon expiry of lock-up period, he can freely dispose of these shares.

	Reinhard Clemens				Niek Jan van Damme				Thomas Dannenfeldt			
	Function: T-Systems				Function: Germany				Function: Finance (CFO)			
	until Dec. 31, 2017				until Dec. 31, 2017				since Jan. 1, 2014			
	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)
	840,000	840,000	840,000	840,000	850,000	850,000	850,000	850,000	860,000	860,000	860,000	860,000
	25,221	20,387	20,387	20,387	28,913	27,040	27,040	27,040	26,711	24,631	24,631	24,631
	865,221	**860,387**	**860,387**	**860,387**	**878,913**	**877,040**	**877,040**	**877,040**	**886,711**	**884,631**	**884,631**	**884,631**
	650,000	650,000	0	975,000	644,000	644,000	0	966,000	670,000	670,000	0	1,005,000
	835,899	**834,994**	**0**	**1,950,000**	**828,183**	**827,286**	**0**	**1,932,000**	**861,619**	**860,686**	**0**	**2,010,000**
	650,000				644,000				670,000			
		650,000	0	975,000		644,000	0	966,000		670,000	0	1,005,000
	185,899				184,183				191,619			
		184,994	0	975,000		183,286	0	966,000		190,686	0	1,005,000
	2,351,120	**2,345,381**	**860,387**	**3,785,387**	**2,351,096**	**2,348,326**	**877,040**	**3,775,040**	**2,418,330**	**2,415,317**	**884,631**	**3,899,631**
	737,710	797,142	797,142	797,142	303,289	302,706	302,706	302,706	276,804	281,578	281,578	281,578
	3,088,830	**3,142,523**	**1,657,529**	**4,582,529**	**2,654,385**	**2,651,032**	**1,179,746**	**4,077,746**	**2,695,134**	**2,696,895**	**1,166,209**	**4,181,209**

	Dr. Christian P. Illek				Dr. Thomas Kremer				Claudia Nemat			
	Function: Human Resources				Function: Data Privacy, Legal Affairs and Compliance				Function: Technology and Innovation			
	since Apr. 1, 2015				since June 1, 2012				since Oct. 1, 2011			
	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)
	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	900,000	900,000	900,000	900,000
	37,585	35,741	35,741	35,741	65,910	63,620	63,620	63,620	75,616	78,567	78,567	78,567
	737,585	**735,741**	**735,741**	**735,741**	**765,910**	**763,620**	**763,620**	**763,620**	**975,616**	**978,567**	**978,567**	**978,567**
	550,000	550,000	0	825,000	550,000	550,000	0	825,000	675,000	675,000	0	1,012,500
	707,299	**706,533**	**0**	**1,650,000**	**707,299**	**706,533**	**0**	**1,650,000**	**868,049**	**867,109**	**0**	**2,025,000**
	550,000				550,000				675,000			
		550,000	0	825,000		550,000	0	825,000		675,000	0	1,012,500
	157,299				157,299				193,049			
		156,533	0	825,000		156,533	0	825,000		192,109	0	1,012,500
	1,994,884	**1,992,274**	**735,741**	**3,210,741**	**2,023,209**	**2,020,153**	**763,620**	**3,238,620**	**2,518,665**	**2,520,676**	**978,567**	**4,016,067**
	269,168	272,566	272,566	272,566	250,534	247,956	247,956	247,956	213,170	291,092	291,092	291,092
	2,264,052	**2,264,840**	**1,008,307**	**3,483,307**	**2,273,743**	**2,268,109**	**1,011,576**	**3,486,576**	**2,731,835**	**2,811,768**	**1,269,659**	**4,307,159**

Benefits allocated for the reporting year

Unlike the table of benefits granted shown on the previous page, the table below contains not the target values for short- and long-term variable remuneration components, but rather the actual benefits allocated for 2017. There is another difference between the following table and the table of benefits granted with regard to the presentation of the Share Matching Plan. The figures for the Share Matching Plan disclosed in the following table show the value of the benefits allocated applicable under German tax law at the time of transfer of the matching shares, whereas the table of benefits granted on the previous pages shows the fair values of remuneration at the grant date.

Compensation of the Board of Management
€

	Timotheus Höttges		Reinhard Clemens	
	Function: Chairman of the Board of Management (CEO)		Function: T-Systems	
	since Jan. 1, 2014		until Dec. 31, 2017	
	2016	2017	2016	2017
Fixed remuneration	1,450,000	1,450,000	840,000	840,000
Fringe benefits	156,742	29,061	25,221	20,387
Total fixed annual remuneration	**1,606,742**	**1,479,061**	**865,221**	**860,387**
One-year variable remuneration	1,760,704	1,749,968	733,850	709,800
Multi-year variable remuneration	**1,099,526**	**1,585,809**	**839,525**	**1,118,579**
Of which: Variable II (4-year term) [a]	547,560	1,135,680	468,000	676,000
Of which: Share Matching Plan (4-year term) [b]	551,966	450,129	371,525	442,579
Other	0	0	0	0
Total	**4,466,972**	**4,814,838**	**2,438,596**	**2,688,766**
Service cost	1,030,510	1,129,225	737,710	797,142
TOTAL COMPENSATION	**5,497,482**	**5,944,063**	**3,176,306**	**3,485,908**

	Dr. Thomas Kremer		Claudia Nemat	
	Function: Data Privacy, Legal Affairs and Compliance		Function: Technology and Innovation	
	since June 1, 2012		since Oct. 1, 2011	
	2016	2017	2016	2017
Fixed remuneration	700,000	700,000	900,000	900,000
Fringe benefits	65,910	63,620	75,616	78,567
Total fixed annual remuneration	**765,910**	**763,620**	**975,616**	**978,567**
One-year variable remuneration	666,600	654,500	807,975	804,600
Multi-year variable remuneration	**396,000**	**795,928**	**596,283**	**1,178,312**
Of which: Variable II (4-year term) [a]	396,000	572,000	486,000	702,000
Of which: Share Matching Plan (4-year term) [b]	0	223,928	110,283	476,312
Other	0	0	0	0
Total	**1,828,510**	**2,214,048**	**2,379,874**	**2,961,479**
Service cost	250,534	247,956	213,170	291,092
TOTAL COMPENSATION	**2,079,044**	**2,462,004**	**2,593,044**	**3,252,571**

[a] Variable II as shown in the column for 2017 relates to the payment of the 2014 tranche; the figure in the column for 2016 relates to the payment of the 2013 tranche.

[b] The Share Matching Plan relates to the non-cash benefit arising from the inflow of the matching shares, with the corresponding personal investment having been made in 2012 or 2013.

[c] This amount includes a one-time sign-on bonus of EUR 500,000 and a payment of EUR 620,000 to compensate for the loss of share-based compensation he would have been entitled to at the previous employer. Srini Gopalan was obligated to invest the net amount paid out from the compensation payment in DTAG shares. Upon expiry of lock-up period, he can freely dispose of these shares.

Niek Jan van Damme		Thomas Dannenfeldt		Srini Gopalan		Dr. Christian P. Illek	
Function: Germany		Function: Finance (CFO)		Function: Europe		Function: Human Resources	
until Dec. 31, 2017		since Jan. 1, 2014		since Jan. 1, 2017		since Apr. 1, 2015	
2016	2017	2016	2017	2016	2017	2016	2017
850,000	850,000	860,000	860,000		700,000	700,000	700,000
28,913	27,040	26,711	24,631		1,139,610[c]	37,585	35,741
878,913	**877,040**	**886,711**	**884,631**	**–**	**1,839,610**	**737,585**	**735,741**
781,172	821,744	858,270	835,490		654,500	674,850	685,850
749,066	**1,132,139**	**0**	**572,000**	**–**	**0**	**0**	**0**
396,000	665,687	0	572,000		0	0	0
353,066	466,452	0	0		0	0	0
0	0	0	0		0	0	0
2,409,151	**2,830,923**	**1,744,981**	**2,292,121**	**–**	**2,494,110**	**1,412,435**	**1,421,591**
303,289	302,706	276,804	281,578	–	305,625	269,168	272,566
2,712,440	**3,133,629**	**2,021,785**	**2,573,699**	**–**	**2,799,735**	**1,681,603**	**1,694,157**

COMPENSATION OF THE SUPERVISORY BOARD

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Under the compensation system applicable for the 2017 financial year, members of the Supervisory Board receive fixed annual compensation of EUR 70,000.00.

The Chairman of the Supervisory Board receives a further EUR 70,000.00 and the Deputy Chairman EUR 35,000.00. Members of the Supervisory Board also receive compensation as follows for activities on Supervisory Board committees:

(a) The Chairman of the Audit Committee receives EUR 80,000.00, ordinary members of the Audit Committee EUR 40,000.00.

(b) The Chairman of the General Committee receives EUR 70,000.00, ordinary members of the General Committee EUR 30,000.00.

(c) The Chairman of the Nomination Committee receives EUR 25,000.00, ordinary members of the Nomination Committee EUR 12,500.00.

(d) The Chairman of any other committee receives EUR 40,000.00, ordinary members of any other committee EUR 25,000.00.

Chairmanship and membership of the Mediation Committee are not remunerated.

Members of the Supervisory Board receive an attendance fee amounting to EUR 1,000.00 for each meeting of the Supervisory Board or its committees that they have attended. The Company reimburses value-added tax payable on remuneration and expenses.

The total compensation of the members of the Supervisory Board in 2017 amounted to EUR 2,899,500.00 (plus VAT).

The Company has not granted any advances or loans to current or former Supervisory Board members, nor were any other financial obligations to the benefit of this group of people entered into.

The compensation of the individual members of the Supervisory Board for 2017 is as follows:

€

Member of the Supervisory Board	Fixed remuneration	Meeting attendance fee	Total
Baldauf, Sari	95,000.00	12,000.00	107,000.00
Bednarski, Josef	165,000.00	25,000.00	190,000.00
Dr. Bernotat, Wulf H. (until August 27, 2017 †)	80,000.00	7,000.00	87,000.00
Brandl, Monika	95,000.00	12,000.00	107,000.00
Geismann, Johannes	158,750.00	27,000.00	185,750.00
Hanas, Klaus-Dieter	95,000.00	12,000.00	107,000.00
Hauke, Sylvia[a] (until June 30, 2017)	60,000.00	6,000.00	66,000.00
Hinrichs, Lars	95,000.00	14,000.00	109,000.00
Dr. Jung, Helga	70,000.00	10,000.00	80,000.00
Kallmeier, Hans-Jürgen[b] (until December 31, 2017)	135,000.00	19,000.00	154,000.00
Prof. Dr. Kaschke, Michael	110,000.00	14,000.00	124,000.00
Koch, Nicole[c]	70,000.00	10,000.00	80,000.00
Kollmann, Dagmar P.	187,500.00	21,000.00	208,500.00
Kreusel, Petra Steffi[d]	110,000.00	17,000.00	127,000.00
Prof. Dr. Lehner, Ulrich (Chairman)	300,000.00	27,000.00	327,000.00
Schröder, Lothar[e] (Deputy Chairman)	240,000.00	25,000.00	265,000.00
Dr. Schröder, Ulrich	135,000.00	2,000.00	137,000.00
Sommer, Michael	111,666.67	14,000.00	125,666.67
Spoo, Sibylle	95,000.00	8,000.00	103,000.00
Streibich, Karl-Heinz	120,000.00	17,000.00	137,000.00
Suckale, Margret (since September 28, 2017)	29,583.33	3,000.00	32,583.33
Topel, Karin (since July 1, 2017)	35,000.00	5,000.00	40,000.00
	2,592,500.00	**307,000.00**	**2,899,500.00**

[a] In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Sylvia Hauke also received other remuneration amounting to EUR 8,000.00 (including meeting attendance fees) in the 2017 financial year (for her mandate as member of the supervisory board of Telekom Deutschland GmbH).

[b] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Hans-Jürgen Kallmeier also received other remuneration amounting to EUR 16,000.00 (including meeting attendance fees) in the 2017 financial year (for his mandate as member of the supervisory board of T-Systems International GmbH).

[c] In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Nicole Koch also received other remuneration amounting to EUR 4,500.00 (including meeting attendance fees) in the 2017 financial year (for her mandate as member of the supervisory board of Telekom Shop Vertriebsgesellschaft mbH).

[d] In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Petra Steffi Kreusel also received other remuneration amounting to EUR 15,500.00 (including meeting attendance fees) in the 2017 financial year (for her mandate as member of the supervisory board of T-Systems International GmbH).

[e] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Schröder also received other remuneration amounting to EUR 25,000.00 (including meeting attendance fees) in the 2017 financial year (EUR 19,000.00 for his mandate as member of the supervisory board of Deutsche Telekom Services Europe GmbH and EUR 6,000.00 as Chairman of the Data Privacy Advisory Council).

SHARE OWNERSHIP BY MEMBERS OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Members of the Board of Management and Supervisory Board of Deutsche Telekom AG were reported to have purchased 270,755 shares and sold 9,531 in the course of 2017. Total direct or indirect holdings in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

ANNEX: REPORT ON EQUALITY AND EQUAL PAY

Deutsche Telekom is a leading integrated telecommunications company, with a presence in more than 50 countries.

We embrace diversity. With its global focus, our Group unites a wide variety of different cultures, experience, and talent, and we are actively committed to fostering this diversity. Our ultimate goal is to benefit from the creativity and innovation that diversity offers. As early as 1992, our then Board of Management launched a program for the advancement of women. That program ushered in a whole range of measures that are still in place today, including efforts to increase the percentage of women in management positions and in technical professions, and to come up with more flexible working-time models for both women and men.

Since 2010, our goal has been to achieve a share of 30.0 percent of women in (upper and middle) management. The corresponding figure in 2010 was already a gratifying 22.7 percent across the Group, and by 2016 we had succeeded in raising it to 25.4 percent. The corresponding figures for our Group companies in Germany have also risen: from 12.5 percent in 2010 to 21.2 percent in 2016. At year-end 2016, women accounted for 35.3 percent of our global workforce. At Deutsche Telekom AG, they made up an average of 42.5 percent of the workforce in 2016. On average, 62.5 percent of these women worked full time, while 37.5 percent worked part time.

In 2015, the Act on the Equal Participation of Women and Men in Management came into force in Germany, creating a statutory obligation to fill 30.0 percent of supervisory board positions with women. We have gone a step further, setting ourselves the goal of filling 30.0 percent of board of management and managing board positions and 30.0 percent of management level 1 and 2 positions with women. Deutsche Telekom AG had already achieved one of these goals at the end of 2016, with 40.0 percent of its Supervisory Board positions held by women. The corresponding figures for management levels 1 and 2 at year-end 2016 were gratifying as well, at 29.6 percent and 25.5 percent respectively. Only at Board of Management level was the share of women – at 14.3 percent – not yet close to the target level. We continue our efforts to promote gender equality and focus on raising the profile of this issue in HR processes, for example using

- regular reports that track the trend in what we term the fair share quota;
- events and partnerships such as women@work, FEMTEC, and the STEM award;
- partnerships with HR consultants that specialize in finding women to fill management positions;
- strategic succession planning with a focus on rules for filling positions (e.g., at least one woman on the successor shortlist);
- flexible working-time options such as flexitime, part time with a guaranteed option to return to full-time work, phased retirement, family care leave, leave of absence, lifetime work accounts, leave without pay, parental leave, caregiver's leave, education leave, tandem models, working from home or on the move.

Improving its employees' work-life balance is a top priority for Deutsche Telekom, which is why we offer company childcare facilities or parent-child offices at many locations. We also have an experienced partner in the shape of AWO Lifebalance GmbH, a company that offers our employees information and consultation free of charge on all aspects of childcare and care for the next-of-kin, and can help find the right services for them. The latter include not only classical childcare and nursing care services, but also personal and household services.

In order to create the basis for diversity among our junior staff, we rely on a selection procedure that is geared to talent – one that focuses less on grades, and more on the aptitudes, strengths and interests that the applicants require for their respective courses of training/study and for their prospective careers within our Group. This selection procedure enables us to win over new talent and access previously untapped pools of applicants. Another project, which we are conducting in cooperation with Germany's Federal Employment Agency, focuses on training and cooperative study programs on a part-time basis. Since 2011, we have been offering single parents part-time training and cooperative study programs. To enable this target group to balance the demands of bringing up their children and still earning initial professional qualifications, we allow them to reduce their weekly working time to 25 hours (though they still have to complete their study times in full).

Since 2015, we have been raising awareness of unconscious bias. In 2016 alone, more than 130 classroom and online workshops were held on this topic, and we began rolling out these workshops worldwide in July 2017. Unconscious bias refers to prejudicial assumptions that people hold regarding the capabilities, skills and tendencies of other people. Such assumptions are affected by numerous different factors, many of them physical. Unconscious bias thus denotes thought processes that occur unconsciously and very quickly, without being sufficiently questioned. For example, we often select applicants who seem similar to us, or who seem to be the right fit for our corporate culture. As a result, we can overlook others with great innovative and creative potential.

In order to prepare women for positions on supervisory boards, a Supervisory Board Readiness Program was conducted for women in management positions in 2015 and 2016. A new round of this program, which was entitled "Update your readiness," was launched in November 2017. Our mentoring program Child and Career [Karriere mit Kind] helps ease workers back into their jobs after a period of parental leave. The focus is on avoiding gaps in the individual's career and promoting a change in culture that will enable people to strike a balance between their careers and their parental obligations.

In our Company, compensation is based on the nature and scope of a person's work and not on their gender. Our collective agreements on remuneration and other matters reached with the trade unions ensure a transparent, gender-neutral system of compensation. As a result, we offer remuneration that is independent of gender, age, and nationality.

THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

millions of €

	Note	Dec. 31, 2017	Dec. 31, 2016
ASSETS			
CURRENT ASSETS		**20,392**	**26,638**
Cash and cash equivalents	1	3,312	7,747
Trade and other receivables	2	9,723	9,362
Current recoverable income taxes	26	236	218
Other financial assets	8	3,329	5,713
Inventories	3	1,985	1,629
Other assets	9	1,646	1,597
Non-current assets and disposal groups held for sale	4	161	372
NON-CURRENT ASSETS		**120,943**	**121,847**
Intangible assets	5	62,865	60,599
Property, plant and equipment	6	46,878	46,758
Investments accounted for using the equity method	7	651	725
Other financial assets	8	5,716	7,886
Deferred tax assets	26	4,013	5,210
Other assets	9	819	669
TOTAL ASSETS		**141,334**	**148,485**

millions of €

	Note	Dec. 31, 2017	Dec. 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES		**27,366**	**33,126**
Financial liabilities	10	8,358	14,422
Trade and other payables	11	10,971	10,441
Income tax liabilities	26	224	222
Other provisions	13	3,372	3,068
Other liabilities	14	4,440	4,779
Liabilities directly associated with non-current assets and disposal groups held for sale	4	–	194
NON-CURRENT LIABILITIES		**71,498**	**76,514**
Financial liabilities	10	49,171	50,228
Provisions for pensions and other employee benefits	12	8,375	8,451
Other provisions	13	3,155	3,320
Deferred tax liabilities	26	6,967	10,007
Other liabilities	14	3,831	4,508
LIABILITIES		**98,864**	**109,640**
SHAREHOLDERS' EQUITY	15	**42,470**	**38,845**
Issued capital		12,189	11,973
Treasury shares		(49)	(50)
		12,140	**11,923**
Capital reserves		55,010	53,356
Retained earnings including carryforwards		(38,750)	(38,727)
Total other comprehensive income		(1,127)	78
Net profit (loss)		3,461	2,675
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT		**30,734**	**29,305**
Non-controlling interests		11,737	9,540
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**141,334**	**148,485**

CONSOLIDATED INCOME STATEMENT

millions of €

	Note	2017	2016	2015
NET REVENUE	16	**74,947**	**73,095**	**69,228**
Other operating income	17	3,819	4,180	2,008
Changes in inventories		21	(12)	(11)
Own capitalized costs	18	2,292	2,112	2,041
Goods and services purchased	19	(38,161)	(37,084)	(35,706)
Personnel costs	20	(15,504)	(16,463)	(15,856)
Other operating expenses	21	(3,444)	(3,284)	(3,316)
Depreciation, amortization and impairment losses	22	(14,586)	(13,380)	(11,360)
PROFIT FROM OPERATIONS (EBIT)		**9,383**	**9,164**	**7,028**
Finance costs	23	(2,197)	(2,492)	(2,363)
Interest income		320	223	246
Interest expense		(2,517)	(2,715)	(2,609)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	24	76	(53)	24
Other financial income (expense)	25	(2,269)	(2,072)	89
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES		**(4,390)**	**(4,617)**	**(2,250)**
PROFIT BEFORE INCOME TAXES		**4,994**	**4,547**	**4,778**
Income taxes	26	558	(1,443)	(1,276)
PROFIT (LOSS)		**5,551**	**3,104**	**3,502**
PROFIT (LOSS) ATTRIBUTABLE TO				
Owners of the parent (net profit (loss))		3,461	2,675	3,254
Non-controlling interests	27	2,090	429	248
EARNINGS PER SHARE	28			
Basic €		0.74	0.58	0.71
Diluted €		0.74	0.58	0.71

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

millions of €

	2017	2016	2015
PROFIT (LOSS)	**5,551**	**3,104**	**3,502**
Items not reclassified to the income statement retrospectively			
Gain (loss) from the remeasurement of defined benefit plans	116	(660)	230
Share of profit (loss) of investments accounted for using the equity method	0	0	0
Income taxes relating to components of other comprehensive income	(19)	205	(60)
	97	**(455)**	**170**
Items reclassified to the income statement retrospectively, if certain reasons are given			
Exchange differences on translating foreign operations			
Recognition of other comprehensive income in income statement	0	(948)	4
Change in other comprehensive income (not recognized in income statement)	(2,196)	395	2,000
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	7	2,282	0
Change in other comprehensive income (not recognized in income statement)	27	(2,323)	31
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	450	328	(255)
Change in other comprehensive income (not recognized in income statement)	(270)	(457)	653
Share of profit (loss) of investments accounted for using the equity method			
Recognition of other comprehensive income in income statement	0	7	0
Change in other comprehensive income (not recognized in income statement)	0	1	25
Income taxes relating to components of other comprehensive income	(58)	39	(127)
	(2,040)	**(676)**	**2,331**
OTHER COMPREHENSIVE INCOME	**(1,943)**	**(1,131)**	**2,501**
TOTAL COMPREHENSIVE INCOME	**3,608**	**1,973**	**6,003**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the parent	2,340	1,306	5,221
Non-controlling interests	1,268	667	782

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

millions of €

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
	thousands	Issued capital	Treasury shares	Capital reserves	Retained earnings including carryforwards	Net profit (loss)
BALANCE AT JANUARY 1, 2015	**4,535,571**	**11,611**	**(53)**	**51,778**	**(39,783)**	**2,924**
Changes in the composition of the Group						
Transactions with owners				(425)		
Unappropriated profit (loss) carried forward					2,924	(2,924)
Dividends					(2,257)	
Capital increase at Deutsche Telekom AG	71,081	182		906		
Capital increase from share-based payment				127		
Share buy-back/sale of shares/shares held in a trust deposit			2	26	(11)	
Profit (loss)						3,254
Other comprehensive income					160	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					(2)	
BALANCE AT DECEMBER 31, 2015	**4,606,652**	**11,793**	**(51)**	**52,412**	**(38,969)**	**3,254**
BALANCE AT JANUARY 1, 2016	**4,606,652**	**11,793**	**(51)**	**52,412**	**(38,969)**	**3,254**
Changes in the composition of the Group						
Transactions with owners				(87)		
Unappropriated profit (loss) carried forward					3,254	(3,254)
Dividends					(2,523)	
Capital increase at Deutsche Telekom AG	70,250	180		839		
Capital increase from share-based payment				192		
Share buy-back/sale of shares/shares held in a trust deposit			1		3	
Profit (loss)						2,675
Other comprehensive income					(454)	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					(38)	
BALANCE AT DECEMBER 31, 2016	**4,676,902**	**11,973**	**(50)**	**53,356**	**(38,727)**	**2,675**
BALANCE AT JANUARY 1, 2017	**4,676,902**	**11,973**	**(50)**	**53,356**	**(38,727)**	**2,675**
Changes in the composition of the Group						
Transactions with owners				355		
Unappropriated profit (loss) carried forward					2,675	(2,675)
Dividends					(2,794)	
Capital increase at Deutsche Telekom AG	84,557	216		1,175		
Capital increase from share-based payment				124		
Share buy-back/sale of shares/shares held in a trust deposit			1		3	
Profit (loss)						3,461
Other comprehensive income					93	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings						
BALANCE AT DECEMBER 31, 2017	**4,761,459**	**12,189**	**(49)**	**55,010**	**(38,750)**	**3,461**

Issued capital and reserves attributable to owners of the parent								
Total other comprehensive income								
Translation of foreign operations	Revaluation surplus	Available-for-sale financial assets	Hedging instruments	Investments accounted for using the equity method	Taxes	Total	Non-controlling interests	Total shareholders' equity
(1,247)	**(62)**	**79**	**340**	**(42)**	**(108)**	**25,437**	**8,629**	**34,066**
						–	–	–
194	(2)					(233)	(619)	(852)
						0	–	0
						(2,257)	(106)	(2,363)
						1,088	–	1,088
						127	64	191
						17	–	17
						3,254	248	3,502
1,480		31	398	25	(127)	1,967	534	2,501
						5,221	**782**	**6,003**
	2					0	–	0
427	**(62)**	**110**	**738**	**(17)**	**(235)**	**29,400**	**8,750**	**38,150**
427	**(62)**	**110**	**738**	**(17)**	**(235)**	**29,400**	**8,750**	**38,150**
						–	–	–
(6)						(93)	117	24
						0	–	0
						(2,523)	(97)	(2,620)
						1,019	–	1,019
						192	103	295
						4	–	4
						2,675	429	3,104
(792)		(41)	(129)	8	39	(1,369)	238	(1,131)
						1,306	**667**	**1,973**
	2			36		0	–	0
(371)	**(60)**	**69**	**609**	**27**	**(196)**	**29,305**	**9,540**	**38,845**
(371)	**(60)**	**69**	**609**	**27**	**(196)**	**29,305**	**9,540**	**38,845**
						–	6	6
9						364	977	1,341
						0	–	0
						(2,794)	(122)	(2,916)
						1,391	–	1,391
						124	68	192
						4	–	4
						3,461	2,090	5,551
(1,367)		32	180	(1)	(58)	(1,121)	(823)	(1,944)
						2,340	**1,268**	**3,608**
						–	–	–
(1,729)	**(60)**	**101**	**789**	**26**	**(254)**	**30,734**	**11,737**	**42,470**

CONSOLIDATED STATEMENT OF CASH FLOWS

millions of €

	Note	2017	2016	2015
	30			
PROFIT BEFORE INCOME TAXES		**4,994**	**4,547**	**4,778**
Depreciation, amortization and impairment losses		14,586	13,380	11,360
(Profit) loss from financial activities		4,390	4,617	2,250
(Profit) loss on the disposal of fully consolidated subsidiaries		(537)	(7)	(583)
(Income) loss from the sale of stakes accounted for using the equity method		(226)	(2,591)	–
Other non-cash transactions		(1,447)	316	243
(Gain) loss from the disposal of intangible assets and property, plant and equipment		(103)	(495)	(87)
Change in assets carried as working capital		(1,874)	(1,000)	(1,438)
Change in provisions		265	(234)	112
Change in other liabilities carried as working capital		51	(510)	878
Income taxes received (paid)		(634)	(527)	(695)
Dividends received		241	331	578
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives		–	289	100
CASH GENERATED FROM OPERATIONS		**19,706**	**18,116**	**17,496**
Interest paid		(3,783)	(3,488)	(3,464)
Interest received		1,274	905	965
NET CASH FROM OPERATING ACTIVITIES		**17,196**	**15,533**	**14,997**
Cash outflows for investments in				
Intangible assets		(10,345)	(5,603)	(6,446)
Property, plant and equipment		(9,149)	(8,037)	(8,167)
Non-current financial assets		(361)	(483)	(493)
Payments to acquire control of subsidiaries and associates		(15)	(2)	(28)
Proceeds from disposal of				
Intangible assets		21	1	4
Property, plant and equipment		379	363	363
Non-current financial assets		612	335	446
Proceeds from the loss of control of subsidiaries and associates		528	4	(58)
Net change in short-term investments and marketable securities and receivables		1,514	(186)	(638)
Other		2	–	2
NET CASH USED IN INVESTING ACTIVITIES		**(16,814)**	**(13,608)**	**(15,015)**
Proceeds from issue of current financial liabilities		13,516	26,187	33,490
Repayment of current financial liabilities		(26,537)	(34,951)	(36,944)
Proceeds from issue of non-current financial liabilities		11,215	9,520	5,247
Repayment of non-current financial liabilities		(10)	(20)	(207)
Dividends (including to non-controlling interests)		(1,559)	(1,596)	(1,256)
Repayment of lease liabilities		(715)	(374)	(224)
Deutsche Telekom AG share buy-back		–	–	(15)
Sale of Deutsche Telekom AG treasury shares		–	–	31
Cash inflows from transactions with non-controlling entities		18	26	43
Cash outflows from transactions with non-controlling entities		(522)	(114)	(1,041)
Other		–	–	–
NET CASH USED IN FINANCING ACTIVITIES		**(4,594)**	**(1,322)**	**(876)**
Effect of exchange rate changes on cash and cash equivalents		(226)	250	267
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale		3	(3)	1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(4,435)**	**850**	**(626)**
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR		**7,747**	**6,897**	**7,523**
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR		**3,312**	**7,747**	**6,897**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF ACCOUNTING POLICIES

GENERAL INFORMATION

The Deutsche Telekom Group (hereinafter referred to as "Deutsche Telekom" or the "Group") is one of the world's leading service providers in the telecommunications and information technology sector. Deutsche Telekom offers its customers all kinds of products and services for connected life and work. The Group reports on the operating segments Germany, United States, Europe, Systems Solutions, and Group Development, as well as on the Group Headquarters & Group Services segment.

The Company was entered as Deutsche Telekom AG in the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) on January 2, 1995.

The Company has its registered office in Bonn, Germany. Its address is Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn.

The declaration of conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) has been released and made available to shareholders. The Declaration of Conformity can be found on the Deutsche Telekom website (www.telekom.com) via the following path: Investor Relations/Management & Corporate Governance/Reports and declarations/Declaration of Conformity according to § 161 AktG.

The shares of Deutsche Telekom AG are traded on the Frankfurt/Main Stock Exchange as well as on other stock exchanges.

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the Federal Gazette (Bundesanzeiger). The Annual Report is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website (www.telekom.com) under Investor Relations.

The consolidated financial statements of Deutsche Telekom for the 2017 financial year were released for publication by the Board of Management on February 13, 2018.

BASIS OF PREPARATION

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315e (1) of the German Commercial Code (Handelsgesetzbuch – HGB). The term IFRS is consistently used in the following.

The financial year corresponds to the calendar year. The consolidated statement of financial position includes comparative amounts for one reporting date. The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows include two comparative years.

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities, which – where required – are broken down further by their respective maturities in the notes to the consolidated financial statements. The consolidated income statement is presented using the total cost method. Here, the costs incurred in the financial year are broken down by cost type and the costs capitalized under inventories as well as under intangible assets and property, plant and equipment are presented separately as changes in inventories or own capitalized costs. The consolidated financial statements are prepared in euros.

The financial statements of Deutsche Telekom AG and its subsidiaries included in the consolidated financial statements were prepared using uniform group accounting policies.

INITIAL APPLICATION OF STANDARDS, INTERPRETATIONS, AND AMENDMENTS TO STANDARDS AND INTERPRETATIONS IN THE FINANCIAL YEAR

In the 2017 financial year, Deutsche Telekom applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

Pronouncement	Title	To be applied by Deutsche Telekom from	Changes	Impact on the presentation of Deutsche Telekom'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 Unrealised 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)	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 Deutsche Telekom from	Changes	Expected impact on the presentation of Deutsche Telekom'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	Entities falling within the scope of IFRS 4 and whose predominant activity is issuing insurance contracts may, by way of temporary exemption, defer application of IFRS 9 until such time as the new standard for insurance contracts has come into force. In the interim, such entities are thus subject to the provisions of IAS 39. In the case of designated financial assets, other entities falling within the scope of IFRS 4 may incur differences in values depending on whether these assets are to be accounted for in accordance with IFRS 9 or IAS 39; these differences must be presented in other comprehensive income instead of in profit and loss.	No material impact.
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. It replaces in particular IAS 18 "Revenue" and IAS 11 "Construction Contracts." When applying IFRS 15 for the first time, an entity shall apply the standard in full for the current period. In respect of prior periods, the transition guidance grants entities an option to either apply IFRS 15 in full to prior periods (with certain limited practical expedients being available) or to retain prior-period figures as reported under the previous standards, recognizing the cumulative effect of applying IFRS 15 to all contracts that had not yet been completed at the beginning of the reporting period as an adjustment to the opening balance of equity at the date of first-time adoption (beginning of current reporting period).	The standard has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. The effects are detailed in the explanations following this table.
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.	The effects of IFRS 15 are detailed in the explanations following this table.
Amendments to IFRS 15	Clarifications to IFRS 15	January 1, 2018	The clarifications address the following topics relating to IFRS 15: Identification of performance obligations (when a promised good or service is distinct from other promises in the contract); Differentiation of principal-agent relationships, application guidance on the concept of the transfer of control in case of services provided by third parties; Clarification of the conditions for the timing of the recognition of revenue arising from the licensing of the intellectual property. Further simplifications for the transition to IFRS 15 were also added.	The effects of IFRS 15 are detailed in the explanations following this table.
Annual Improvements Project	Annual Improvements to IFRSs 2014–2016 Cycle	January 1, 2018 (IFRS 1 and IAS 28)	Clarification of many published standards.	No material impact.
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. Going forward, lessees will therefore no longer be required to make the distinction between finance and operating leases that was required in the past in accordance with IAS 17. For all leases, the lessee will recognize a lease liability in its statement of financial position for the obligation to make future lease payments. At the same time, the lessee will capitalize a right of use to the underlying asset which is equivalent to the present value of the future lease payments plus initial direct costs, directly attributable expenditure, advance payments and restoration costs, as well as less incentive payments received. Similar to the guidance on finance leases in IAS 17, the lease liability will be adjusted over the lease term for any remeasurement, while the right-of-use asset will be depreciated, which in contrast to the current lease expense normally leads to higher expenses at the inception date of a lease. For the lessor, on the other hand, the provisions of the new standard are similar to the existing guidance in IAS 17. 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.	The standard has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. The effects are detailed in the explanations following this table.

Pronouncement	Title	To be applied by Deutsche Telekom from	Changes	Expected impact on the presentation of Deutsche Telekom's results of operations and financial position
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 has been postponed indefinitely, the amendments to IFRS 10 and IAS 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 Deutsche Telekom. 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 material impact.
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	January 1, 2018	Clarifications of classification and measurement of share-based payment transactions.	No material impact.
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 advance 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-monetary 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 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.

In May 2014, the IASB issued **IFRS 15 "Revenue from Contracts with Customers."** Application of the standard is mandatory for reporting periods beginning on or after 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. It replaces in particular IAS 18 "Revenue" and IAS 11 "Construction Contracts" and has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. Depending on the business model applied, the new provisions affect the following issues in particular:

- In the case of multiple-element arrangements (e.g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue in future. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.

- At the same time, it results in higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.

- The extent of the changes resulting from the initial application of IFRS 15 that are described above therefore largely depends on the business models used by the subsidiary in question. Whereas the sale of subsidized handsets in connection with the conclusion of service contracts in the retail business is still common in the Germany operating segment, handsets are not sold at a discount at all or only to a limited extent in the United States and to some extent in the Europe operating segments; payment-by-installment models or leased models are offered to customers instead.

- In the future, expenses for sales commissions (customer acquisition costs) must be capitalized and recognized over the estimated customer retention period.

- On first-time application of the standard, both total assets and shareholders' equity will increase due to the capitalization of contract assets and customer acquisition costs for contracts not yet fully completed.

- Deferral, i.e., later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.

- Contract liabilities (which, as deferred revenue, were already recognized as liabilities in the past) must be netted against the contract assets for each customer contract.

- For the purposes of determining whether Deutsche Telekom sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), there are no material changes for the existing agreements.

Deutsche Telekom will utilize the option for simplified initial application, i.e., contracts that are not completed by January 1, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives will not be adjusted; instead, Deutsche Telekom will provide an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period as a result of applying IFRS 15 for the first time.

The effects were analyzed as part of a Group-wide project for implementing the new standard. Based on management's current estimate, Deutsche Telekom expects the transition to the new standard to result in a cumulative increase in retained earnings of between EUR 2.2 billion and EUR 2.6 billion before deferred taxes as of January 1, 2018. This effect will be mainly attributable to the first-time recognition of

- Contract assets that, under IFRS 15, would have led to the earlier recognition of revenue from the sale of goods and merchandise, and

- Deferred customer acquisition costs that, under IFRS 15, would have resulted in the later recognition of selling expenses.

The change in the forecast transition effects before taxes compared with previous quarters is due on the one hand to the final interpretation of the judgments of IFRS 15 and on the other to an updated simulation of the impact of the transition.

As regards the new standard's impact on the consolidated income statement, Deutsche Telekom expects the overall share of revenue from the provision of services to decrease, and the overall share of revenue from the sale of goods and merchandise to increase, by around 2 percentage points. As outlined above, IFRS 15 will also result in earlier recognition of revenue and later recognition of expenditure. On the assumption that business development remains unchanged, this will mean the following for a mass market characterized by a large number of customer contracts that are being concluded at different points in time:

- Higher revenue, on the conclusion of new contracts, from the sale of goods and lower selling expenses from the capitalization of contract assets and customer acquisition costs, partly offset by

- lower service revenues and higher selling expenses arising the amortization of capitalized contract assets and customer acquisition costs for existing contracts.

Compared with the current accounting method, major effects on earnings can thus also arise if business development changes, for example, if volumes or prices change or if there are changes to business models or products offered.

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 analyzed 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 Deutsche Telekom's consolidated financial statements. The new provisions mainly comprise the following items of relevance to Deutsche Telekom:

- Depending on the respective underlying business model, the new provisions on the classification of financial assets will in some cases give rise to changes in measurement and presentation. The measurement of debt instruments – especially trade receivables held for potential sale – at fair value through other comprehensive income will have minor effects at the transition date. Effects may arise in ongoing application, particularly from changes in the volumes of receivables held for potential sale in the future. Equity instruments held are irrevocably allocated to a measurement category instrument by instrument upon initial recognition. Deutsche Telekom will measure equity instruments held at fair value through other comprehensive income without reclassification in profit or loss of the cumulative gains and losses on disposal (OCI option).

- The new provisions on the accounting of impairment losses will lead to expected losses having to be expensed earlier in some cases. Application of the simplified approach also for financial assets with a significant financing component, and impairment losses on the contract assets to be recognized for the first time as of January 1, 2018 in accordance with IFRS 15, will lead to a minor increase in impairment losses. Effects may arise in ongoing application from a change in business development (for example, changes in volumes or prices) or from changes to business models where these are reflected in the amounts reported for long-term trade receivables and contract assets.

- In the future, the hedging relationships will be accounted for in accordance with the requirements of IFRS 9. The transition of existing hedging relationships to the new regime will not have any material effects. Cash flow hedges for hedging interest rate and currency risks will be de-designated and redesignated on the transition to IFRS 9 so that future use can be made of the opportunity to recognize the costs of hedging in other comprehensive income. The other hedging relationships will continue unchanged.

In January 2016, the IASB issued **IFRS 16 "Leases."** The standard will be effective for the first time for financial years beginning on or after January 1, 2019. Early application is permitted. Deutsche Telekom did not apply this option, however. From the date of first-time adoption, the new lease standard will have a material effect on Deutsche Telekom's consolidated financial statements, particularly on the results of operations, net cash from operating activities, total assets, and the presentation of the financial position.

Deutsche Telekom will not apply the new lease standard retrospectively in full, but will make use of the corresponding exemption provisions for lessees, also known as the modified retrospective method. On the transition to the new regulations, payment obligations from existing operating leases (see Note 33 "Leases", pages 226 and 227.) will be discounted using the relevant incremental borrowing rate. The resulting present value will be recognized as a lease liability. The right-of-use assets will be carried in the amount of the lease liability, adjusted by the amount of the prepaid or accrued lease payments.

With regard to the options and simplifications under IFRS 16, Deutsche Telekom takes the following approach:

- Right-of-use assets and lease liabilities will be reported separately in the statement of financial position.

- The recognition, measurement and disclosure requirements of IFRS 16 will also be applied in full to current leases and leases of low-value assets.

- A distinction will not be made in leases that contain both lease components and non-lease components. Each lease component will be accounted for as a lease in conjunction with other related performance components.

- IFRS 16 will not be applied to the majority of leases for intangible assets.

Depending on whether Deutsche Telekom is the supplier or the customer in an arrangement or on how the contractual facts have been designed in the various business models in our operating segments, the application of IFRS 16 will have the following material effects:

- The lease payments largely relate to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes.

- In the future, payment obligations for operating leases that in accordance with the existing regulations must be stated in the notes to the consolidated financial statements will be reported as right-of-use assets and lease liabilities.

- Deutsche Telekom anticipates a significant increase in total assets on first-time adoption due to the capitalization of right-of-use assets and the recognition of lease liabilities. The increase in lease liabilities leads to a corresponding increase in net debt. Due to the significant amount of liabilities from straight-line leases in accordance with IAS 17, which in accordance with IFRS 16 must be deducted from the right-of-use assets, the capitalized right-of-use assets under IFRS 16 will be lower than the lease liabilities under IFRS 16 by the amount of those straight-line lease liabilities (Note 14 "Other liabilities," page 206).

- Going forward, depreciation charges and interest expense will be reported in the income statement instead of lease expense. This will give rise to a significant improvement in EBITDA.
- In the statement of cash flows, the repayment portion of the lease payments from existing operating leases will reduce net cash from/used in financing activities and no longer affect net cash from operating activities. Only the interest payments will remain in net cash from operating activities, the total of which will rise.
- For Deutsche Telekom as a lessor, the number of identified leases will change. This does not affect the contracts for routers or similar hardware provided to customers as part of data and network solutions or contracts for handsets and smart home network solutions provided to customers. It is expected that these will continue to be defined as leases. In fact, the number of identified leases for modems/routers for the latest generation of devices provided to consumers as part of fixed-network mass-market contracts is expected to decrease. Deutsche Telekom is still analyzing whether contracts related to services provided in data centers and in connection with wholesale fixed-network customers contain lease components or not.

The overall effects of IFRS 16 are being analyzed as part of a Group-wide project for implementing IFRS 16, though a reliable estimate of the quantitative effects is not possible at the present time due to the variety and complexity of business models as well as the total number of the relevant transactions.

Readers are also referred to the Disclaimer at the end of this report as regards the forward-looking statements contained in this section; the latter reflect the current views of the management of Deutsche Telekom with regard to future events.

CHANGES IN ACCOUNTING POLICIES AND CHANGES IN THE REPORTING STRUCTURE

Since January 1, 2017, the newly established Board of Management department **Technology and Innovation**, which comprises the Innovations, Telekom IT, and Technology units formerly assigned to the Germany, Europe, and Systems Solutions operating segments, has been reported on in the Group Headquarters & Group Services segment. Comparative figures have been adjusted retrospectively in segment reporting.

Since January 1, 2017, Deutsche Telekom has also reported on the **Group Development** operating segment, which actively manages and increases the value of selected subsidiaries and equity investments of the Group. The following units and subsidiaries have been included: T-Mobile Netherlands (previously in the Europe operating segment), Deutsche Funkturm (DFMG, previously in the Germany operating segment), Deutsche Telekom Capital Partners (DTCP), the stakes in BT plc, and Ströer SE & Co. KGaA, as well as Strato AG, which was sold in March 2017, and the stake in Scout24 AG, which was sold in June 2017 (all previously in the Group Headquarters & Group Services segment). The Group functions of Mergers & Acquisitions and Strategic Portfolio Management have also been assigned to Group Development. Comparative figures have been adjusted retrospectively in segment reporting.

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
Trade and other receivables	Amortized cost
Current recoverable income taxes	Amount expected to be recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Inventories	Lower of net realizable value and cost
Non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs of disposal (including allocable liabilities)
NON-CURRENT ASSETS	
Intangible assets	
Of which: with finite useful lives	Amortized cost or lower recoverable amount
Of which: with indefinite useful lives (including goodwill)	Cost or lower recoverable amount (impairment-only approach)
Property, plant and equipment	Amortized cost or lower recoverable amount
Investments accounted for using the equity method	Pro-rata value of the investment's equity carried forward or lower recoverable amount
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
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

Items in the statement of financial position	Measurement principle
LIABILITIES	
CURRENT LIABILITIES	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Trade payables	Amortized cost
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 provisions	Present value of the settlement amount
NON-CURRENT LIABILITIES	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Provisions for pensions and other employee benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
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 consolidated financial statements.

INTANGIBLE ASSETS (EXCLUDING GOODWILL)

Intangible assets with finite useful lives, including UMTS and LTE licenses, are measured at cost and generally amortized on a straight-line basis over their useful lives. Such assets are impaired if their recoverable amount, which is measured at the higher of fair value less costs of disposal and value in use, is lower than the carrying amount. Indefinite-lived intangible assets (mobile communications licenses granted by the Federal Communications Commission in the United States (FCC licenses)) are carried at cost. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at negligible costs. Moreover, Deutsche Telekom has determined that there are currently no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful lives of the FCC licenses, and therefore treats the FCC licenses as an indefinite-lived intangible asset. They are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount. If the reasons for recognizing the original impairment loss no longer apply, impairment losses are reversed taking amortization into account, i.e., not exceeding the value that would have been applied if no impairment losses had been recognized in prior periods.

Intangible assets may also be acquired in connection with a frequency or spectrum exchange. The costs of intangible assets acquired in such an exchange are measured at fair value if the swap has commercial substance and the fair value of the asset received and the asset given up is reliably measurable. If the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable, the carrying amount of the asset given up is used as the fair value of the asset received.

The useful lives and the amortization methods 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.

Amortization of mobile communications licenses begins as soon as the related network is ready for use. The useful lives of mobile communications licenses are determined based on several factors, including the term of the licenses granted by the respective regulatory body in each country, the availability and expected cost of renewing the licenses, as well as the development of future technologies.

The useful lives of Deutsche Telekom's most important mobile communications licenses are as follows:

Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	6 to 25
UMTS licenses	17 to 19
GSM licenses	7 to 27

Expenditures for internally generated intangible assets incurred during the development phase are capitalized if they meet the criteria for recognition as assets, and are amortized over their useful lives. Research expenditures are expensed as incurred. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services prior to the commencement of commercial production or use. Examples of activities typically included in development are the design, construction, and testing of pre-production or pre-use prototypes and models involving new technology. The development phase is deemed complete when the IT department has formally documented that the capitalized asset is ready for its intended use. Expenditure on research and development recognized as an expense by Deutsche Telekom amounted to EUR 57.7 million (2016: EUR 84.1 million).

GOODWILL

Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated (impairment-only approach). The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less straight-line depreciation, and impairment losses, if applicable. The depreciation period is based on the expected useful life of the assets. Items of property, plant and equipment are depreciated pro rata temporis in the year of acquisition. The residual values, useful lives, and the depreciation methods 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. In addition to directly attributable costs, the costs of internally developed assets include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. In addition to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment consists of several components with different estimated useful lives, those components that are significant are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Public investment grants reduce the cost of the assets for which the grants were made.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in the following table:

	Years
Buildings	25 to 50
Telephone facilities and other telecommunications equipment	3 to 15
Switching, transmission, IP, and radio transmission equipment	2 to 12
Outside plant networks	8 to 35
Other equipment, operating and office equipment	2 to 23

Leasehold improvements are depreciated over the shorter of their useful lives or applicable lease terms.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of that asset. Deutsche Telekom defines qualifying assets as construction projects or other assets for which a period of at least twelve months is necessary in order to get them ready for their intended use or sale. Borrowing costs relating to assets measured at fair value and to inventories that are manufactured or produced in large quantities on a repetitive basis are not capitalized.

IMPAIRMENTS OF INTANGIBLE ASSETS (INCLUDING GOODWILL) AND ITEMS OF PROPERTY, PLANT AND EQUIPMENT

Impairments are identified by comparing the carrying amount with the recoverable amount. If individual assets do not generate future cash flows independently of other assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, annual impairment tests are carried out for intangible assets with indefinite useful lives (goodwill and FCC licenses) at regular intervals. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced in the amount of the difference. Impairment losses for goodwill must not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is to be distributed on a pro-rata basis to the assets allocated to the cash-generating unit. The fair values or values in use (if measurable) of the individual assets shall be considered to be the minimum values. If the reasons for previously recognized impairments no longer exist, the impairment losses on the assets concerned (with the exception of goodwill) must be reversed.

The recoverable amount of a cash-generating unit is measured at the higher of fair value less costs of disposal and the value in use. The recoverable amount is generally determined by means of a discounted cash flow (DCF) calculation, unless it can be determined on the basis of a market price. These DCF calculations use projections that are based on financial budgets approved by management covering a ten-year period and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. For the key assumptions on which management has based its calculation of the recoverable amount, please refer to the “Judgments and estimates,” further on in this section.

INVENTORIES

Inventories are carried at cost on initial recognition and are subsequently measured at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the necessary estimated selling expenses. Deutsche Telekom sells handsets in connection with service contracts, and separately. In the former case, Deutsche Telekom sometimes also sells such devices at a price below cost, as the handset subsidy is part of the Company's strategy for acquiring new customers. In these cases, the loss on the sale of handsets is recognized at the time of the sale as the difference between cost and the lower revenue generated.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups held for sale are classified as such if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of the carrying amount and fair value less costs of disposal and classified as non-current assets and disposal groups held for sale. Such assets are no longer depreciated. Impairment of such assets is recognized if fair value less costs of disposal is lower than the carrying amount. If fair value less costs of disposal subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is limited to the impairment losses previously recognized for the assets concerned. If the requirements for the classification of assets as held for sale are no longer met, the assets may no longer be shown as held for sale. The assets are to be measured at the lower of the carrying amount that would have applied if the asset had not been classified as held for sale, and the recoverable amount at the date at which the requirements for the classification as held for sale are no longer met.

EMPLOYEE BENEFITS

Deutsche Telekom maintains **defined benefit pension plans** in various countries on the basis of the pensionable compensation of its employees and their length of service. Some of these pension plans are financed through external pension funds and some through incorporation in a contractual trust agreement (CTA). Provisions for pensions are actuarially measured using the projected unit credit method for defined benefit pension plans, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is generally set on the basis of the yields on high-quality corporate bonds in the respective currency area. The return on plan assets and interest expenses resulting from the unwinding of the discount are reported in (net) finance costs. Service cost is classified as operating expenses. Past service cost resulting from a change in the pension plan shall immediately be recognized in the period in which the change took effect. Gains and losses arising from adjustments and changes in actuarial assumptions are recognized immediately and in full in the period in which they occur outside profit or loss within equity. Some Group entities grant defined contribution plans to their employees in accordance with statutory or contractual requirements, with the payments being made to state or private pension insurance funds. Under defined contribution plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contribution made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. The amounts payable are expensed when the obligation to pay the amounts is established, and classified as expenses.

Up until December 31, 2012, Deutsche Telekom maintained a joint pension fund, **Bundes-Pensions-Service für Post und Telekommunikation e.V., Bonn (Federal Pension Service for Post and Telecommunications – BPS-PT)**, together with Deutsche Post AG and Deutsche Postbank AG for civil-servant pension plans. BPS-PT made pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil-servant pensions (organized within the Civil Service Pension Fund) to the German Federal Posts and Telecommunications Agency effective January 1, 2013. The level of Deutsche Telekom AG's payment obligations to the Civil Service Pension Fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). Deutsche Telekom AG has been legally obliged since 2000 to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. Deutsche Telekom is not required to fulfill any other obligations in respect of pensions for civil servants. The payment obligations can therefore be considered defined contribution plans.

In the past, Deutsche Telekom AG and its domestic subsidiaries agreed on **phased retirement arrangements** with varying terms and conditions, predominantly based on what is known as the block model. Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro-rata basis during the active or working phase. The cumulative outstanding settlement amount is based on the difference between the employee's remuneration before entering phased retirement (including the employer's social security contributions) and the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme. Top-up payments are often hybrid in nature, i.e., although the agreement is often considered a form of compensation for terminating the employment relationship at an earlier date, payments to be made at a later date are subject to the performance of work in the future. Despite having the characteristics of severance payments, the top-up payments must be recognized ratably over the vesting period due to their dependency on the performance of work in the future. If the block model is used, the vesting period for top-up payments starts when the employee is granted the entitlement to participate in the phased retirement program and ends upon entry into the passive phase (leave from work).

Obligations arising from the granting of termination benefits are recognized when Deutsche Telekom does not have a realistic possibility of withdrawal from the granting of the corresponding benefits. Severance payments for employees and obligations arising in connection with early retirement arrangements in Germany are mainly granted in the form of offers to the employees to leave the Company voluntarily. As a rule, such obligations are not recognized before the employees have accepted an offer from the Company, unless the Company is prevented by legal or other restrictions from withdrawing its offer at an earlier date. Obligations arising from the sole decision by the Company to shed jobs are recognized when the Company has announced a detailed formal plan to terminate employment relationships. If termination benefits are granted in connection with restructuring measures within the meaning of IAS 37, a liability under IAS 19 is recognized at the same time as a restructuring provision. Where termination benefits fall due more than twelve months after the reporting date, the expected amount to be paid is discounted to the reporting date. If the timing or the amount of the payment is still uncertain at the reporting date, the obligations are reported under other provisions.

OTHER PROVISIONS

Other provisions are recognized for current legal or constructive obligations to third parties that are uncertain with regard to their timing or their amount. Provisions are recognized for these obligations provided they relate to past transactions or events, will probably require an outflow of resources to settle, and this outflow can be reliably measured. Provisions are carried at their expected settlement amount, taking into account all identifiable risks and uncertainties. The settlement amount is calculated on the basis of a best estimate; suitable estimation methods and sources of information are used depending on the characteristics of the obligation. In case of a number of similar obligations, the group of obligations is treated as one single obligation. The expected value method is used as the estimation method. If there is a range of potential events with the same probability of occurrence, the average value is taken. Individual obligations (e.g., legal and litigation risks) are regularly evaluated based on the most probable outcome, provided an exceptional probability distribution does not mean that other estimates would lead to a more appropriate evaluation. The measurement of provisions is based on past experience, current costing and price information, as well as estimates and reports from experts. If experience or current costing or price information is used to determine the settlement amount, these values are extrapolated to the expected settlement date. Suitable price trend indicators (e.g., construction price indexes or inflation rates) are used for this purpose. Provisions are discounted when the effect of the time value of money is material. Provisions are discounted using pre-tax market interest rates that reflect the term of the obligation and the risk associated with it (insofar as not already taken into consideration in the calculation of the settlement amount). Reimbursement claims are not netted against provisions; they are recognized separately as soon as their realization is virtually certain.

Provisions for decommissioning, restoration, and similar obligations arising from the acquisition of property, plant and equipment are offset by a corresponding increase in the capitalized cost of the relevant asset. Changes at a later date in estimates of the amount or timing of payments or changes to the interest rate applied in measuring such obligations also result in retrospective increases or decreases in the carrying amount of the relevant item of property, plant and equipment. These in turn change the depreciation of the asset to be recognized in the future, which leads to the changes in estimates being recognized in profit or loss over the remaining useful life. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss.

FINANCIAL INSTRUMENTS

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, cash and cash equivalents, trade receivables and other originated loans and receivables, held-to-maturity investments, and derivative and non-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, trade payables, liabilities to banks, finance lease payables, liabilities to non-banks from promissory notes, and derivative financial liabilities. Financial instruments are recognized as soon as Deutsche Telekom 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 asset within the timeframe established generally by regulation or convention in the marketplace 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 Deutsche Telekom. 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 taken into account. The fair values recognized in the statement of financial position are generally based on 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 are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

Trade and other current receivables are measured at the carrying amount at which the item is initially recognized less any impairment losses, and, provided the receivables are due after one year or more, using the effective interest rate method. Impairments, which take the form of allowances, make adequate provision for the expected credit risk; concrete cases of default lead to the derecognition of the respective receivables. For allowances, financial assets with a potential need for a write-down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment, and written down, if necessary. The expected future cash flows of the portfolios are being calculated based on contractually agreed cash flows, taking previous cases of default into consideration. The cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the relevant portfolio. Impairments of trade receivables are recognized in some cases using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. As there are a variety of operating segments and regional circumstances, this decision is the responsibility of the respective portfolio managers.

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.

In the consolidated statement of cash flows, Deutsche Telekom reports cash flows from interest and dividends received as cash inflows or outflows in net cash from operating activities.

Other non-current receivables are measured at amortized cost using the effective interest method.

Financial assets held for trading are measured at fair value. These mainly include derivatives that are not part of an effective hedging relationship as set out in IAS 39 and therefore shall be classified as held for trading. Any gains or losses arising from subsequent measurement are recognized in the income statement.

Certain types of investments are intended and expected to be held to maturity with reasonable economic certainty. These financial assets are measured at amortized cost using the effective interest method.

Non-derivative financial assets that do not fulfill the definition of another category of financial instruments are classified as available for sale and generally measured at fair value. The gains and losses arising from fair value measurement are recognized directly in equity, unless the impairment is permanent or significant, or the changes in the fair value of debt instruments resulting from currency fluctuations are recognized in profit or loss. The cumulative gains and losses arising from fair value measurement, which have been recognized in equity, are only recognized in profit or loss on disposal of the related financial assets. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

Deutsche Telekom has not yet 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 or loss are tested at each reporting date to determine whether there is objective, material evidence of impairment (e.g., a debtor is facing serious financial difficulties, it is highly probable that insolvency proceedings will be initiated against the debtor, an active market for the financial asset disappears, there is a substantial change in the technological, economic or legal environment, or the market environment of the issuer, or there is a continuous decline in the fair value of the financial asset to a level below amortized cost). When available-for-sale financial assets are being tested for impairment, the overall circumstances of the individual case are always taken into account. In addition to the factors specific to the issuer, the market environment and the macroeconomic and legal conditions are considered. Where listed companies are involved, the extent and permanency of price declines and the price volatility are also especially relevant. Any impairment losses caused by the fair value being lower than the carrying amount are recognized in profit or loss. Where changes in the fair value of available-for-sale financial assets were recognized directly in equity (other comprehensive income) in the past, these must now be reclassified from other comprehensive income in the amount of the impairment determined to the income statement. If, in a subsequent period, the fair value of the financial asset increases and this increase can be related objectively to events occurring after the impairment was recognized, the impairment loss is reversed in the appropriate amount. In the case of debt instruments, these reversed impairment losses are recognized in profit or loss. Impairment losses on unquoted equity instruments that are classified as available for sale and carried at cost may not be reversed. In case of held-to-maturity securities and loans and receivables measured at amortized cost, the fair value to be determined for impairment testing corresponds to the present value of the estimated future cash flows, discounted using the original effective interest rate. The fair value of unquoted equity instruments measured at cost is calculated as the present value of the expected future cash flows, discounted using the current interest rate that corresponds to the investment's special risk position.

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.

If the agreed credit period for liabilities to suppliers is longer than the normal credit period in the relevant procurement market at this point in time, this liability is reported under other interest-bearing liabilities in financial liabilities instead of under trade payables. A financing agreement of this nature is shown as a non-cash transaction in the statement of cash flows and the relevant repayment of the financial liability reported under net cash from/used in financing activities. This applies regardless of whether the supplier sells its receivable or not. For the effects on the consolidated statement of cash flows, please refer to Note 30 "Notes to the consolidated statement of cash flows," page 217 et seq.

Trade payables and other non-derivative financial liabilities are measured at amortized cost using the effective interest method.

Deutsche Telekom 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.

Derivatives that are not part of an effective hedging relationship as set out in IAS 39 must be classified as held for trading and measured at fair value through profit or loss. If the fair values are negative, the derivatives are recognized as financial liabilities.

Deutsche Telekom uses derivatives to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities. The Company does not hold or issue derivatives for speculative trading purposes.

Derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value is determined using standard financial valuation models.

The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were transferred at the reporting date. This is calculated on the basis of the contracting parties' relevant exchange rates and interest rates at the reporting date. Calculations are made using middle rates. 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.

Recording the changes in the fair values – in either the income statement or directly in equity – depends on whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If hedge accounting pursuant to IAS 39 is not employed, the changes in the fair values of the derivatives must be recognized in profit or loss. If, on the other hand, an effective hedging relationship as set out in IAS 39 exists, the hedge will be recognized as such.

Deutsche Telekom applies hedge accounting to hedge items in the statement of financial position and future cash flows, thus reducing income statement volatility. A distinction is made between fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation depending on the nature of the hedged item.

Fair value hedges are used to hedge the fair values of assets recognized in the statement of financial position, liabilities recognized in the statement of financial position, or firm commitments not yet recognized in the statement of financial position. Any change in the fair value of the derivative designated as the hedging instrument is recognized in profit or loss; the carrying amount of the hedged item is adjusted by the profit or loss to the extent of the hedged risk (basis adjustment). The adjustments to the carrying amount are not amortized until the hedging relationship has been discontinued.

Cash flow hedges are used to hedge against fluctuations in future cash flows from assets and liabilities recognized in the statement of financial position, from firm commitments (in the case of currency risks), or from highly probable forecast transactions. To hedge the currency risk of an unrecognized firm commitment, Deutsche Telekom makes use of the option to recognize it as a cash flow hedge rather than a fair value hedge. If a cash flow hedge is employed, the effective portion of the change in the fair value of the hedging instrument is recognized in equity (hedging reserve) until the gain or loss on the hedged item is realized; the ineffective portion of the hedging instrument is recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial or non-financial asset or liability, the associated cumulative gains and losses that were recognized directly in equity are reclassified into profit or loss in the same periods during which the financial asset acquired or the financial liability assumed affects profit or loss for the period. In doing so, Deutsche Telekom has decided not to make use of the basis adjustment option for hedging forecast transactions when non-financial items in the statement of financial position arise.

If hedges of a net investment in a foreign operation are employed, all gains or losses on the effective portion of the hedging instrument, together with any gains or losses on the foreign-currency translation of the hedged investment, are taken directly to equity. Any gains or losses on the ineffective portion are recognized immediately in profit or loss. The cumulative remeasurement of gains and losses on the hedging instrument that had previously been recognized directly in equity and the gains and losses on the currency translation of the hedged item are recognized in profit or loss only on disposal of the investment.

IAS 39 sets out strict requirements on the use of hedge accounting. These are fulfilled at Deutsche Telekom by documenting, at the inception of a hedge, both the relationship between the financial instrument used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This involves concretely assigning the hedging instruments to the corresponding assets or liabilities or (firmly agreed/expected) future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis; ineffective hedges are discontinued immediately.

Deutsche Telekom does not use hedge accounting in accordance with IAS 39 to hedge the foreign-currency exposure of recognized monetary assets and liabilities, because the gains and losses on the hedged item from currency translation that are recognized in profit or loss in accordance with IAS 21 are shown in the income statement together with the gains and losses on the derivatives used as hedging instruments.

CONTINGENCIES (CONTINGENT LIABILITIES AND ASSETS)

Contingencies (contingent liabilities and assets) are potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities are also present obligations that arise from past events for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are only recognized at their fair value if they were assumed in the course of a business combination. Contingent liabilities not assumed in the course of a business combination are not recognized. Contingent assets are not recognized. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, but it is recognized as an asset. Information on contingent liabilities is disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

LEASES

Beneficial ownership of leased assets is attributed to the contracting party in the lease to which the substantial risks and rewards incidental to ownership of the asset are transferred.

If substantially all risks and rewards are attributable to the lessor (operating lease), the leased asset is recognized in the statement of financial position by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss by the lessor. The lessee in an operating lease recognizes the lease payments made during the term of the lease in profit or loss. Contractually defined future changes in the lease payments during the term of the lease are recognized on a straight-line basis over the entire lease term, which is defined only once at the inception date of the contract. Where extension options exist, the exercise of those extension options that are reasonably certain is initially taken into account at the time the lease is concluded. If the original assessment of the exercise of extension options changes in the course of the lease, the estimated future obligations arising from operating leases will be changed accordingly.

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the lessee (finance lease), the lessee must recognize the leased asset in the statement of financial position. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the shorter of the estimated useful life or the lease term. Depreciation is recognized as expense. The lessee recognizes a lease liability equal to the carrying amount of the leased asset at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount is adjusted accordingly. The lessor in a finance lease recognizes a receivable in the amount of the net investment in the lease. Lease income is broken down into repayments of the lease receivable and finance income. The lease receivable is reduced using the effective interest method and the carrying amount is adjusted accordingly.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

SHARE-BASED PAYMENT PROGRAMS

Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period and offset against capital reserves. For equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model. For cash-settled share-based payment transactions, the goods and services acquired and the liability incurred have to be recognized at the fair value of the liability. The fair value of the liability has to be newly determined at each reporting date and at the settlement date, and the changes in the fair value have to be recognized in profit and loss, until the liability is settled.

NET REVENUE

Revenues include all revenues from the ordinary business activities of Deutsche Telekom. Revenues are recorded net of value-added tax and other taxes collected from customers that are remitted to governmental authorities. They are recognized in accordance with the provision of services based on the realization principle. Customer activation fees are deferred and recognized as revenue over the estimated average period of customer retention, unless they are part of a multiple-element arrangement, in which case they are a component of the arrangement consideration to be paid by the customer.

For multiple-element arrangements, revenue recognition for each of the units of accounting (elements) identified must be determined separately. Arrangements involving the delivery or provision of multiple separable products or services must be separated into individual elements, each with its own separate revenue contribution. At Deutsche Telekom, this especially concerns the sale or lease of a mobile handset or other telecommunications equipment combined with the conclusion of a mobile or fixed-network telecommunications contract. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative standalone selling prices, i.e., based on a ratio of the standalone selling price of each element to the aggregated standalone selling prices of the bundled deliverables. The relative standalone selling price of an individual element and thus the revenue recognized for this unit of accounting, however, is limited by that proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements (contingent revenue cap). As a result, the revenue to be recognized for products delivered in advance (e.g., mobile handsets) that are sold at a subsidized price in combination with a long-term service contract is ultimately limited by this subsidized price. The contingent revenue cap does not apply for lease assets, such as leased devices.

Payments to customers, including payments to dealers and agents (discounts, commissions) are generally recognized as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognized as expenses.

Revenue recognition at Deutsche Telekom is as follows:

Revenue generated by the mobile communications business of the operating segments Germany, United States, Europe, and Group Development includes revenues from the provision of mobile services, customer activation fees, and sales or lease of mobile handsets and accessories. Mobile service revenue includes monthly service charges, charges for special features, call charges, and roaming charges billed to Deutsche Telekom customers, as well as other mobile operators. Mobile service revenue is recognized based upon minutes of use or other agreed rate plans (e.g., monthly flat rates) less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile handsets and accessories are recognized when the products are delivered and accepted by the customer. Revenue from the non-sales-type lease of mobile handsets is recognized on a straight-line basis over the lease term.

The fixed-network business in the operating segments Germany, Europe, and Group Development provides narrow and broadband access to the fixed network as well as the Internet. Revenue generated from these types of access for the use of voice and data communications as well as television via Internet is recognized upon rendering of the service. The services rendered relate to use by customers (e.g., call minutes), availability over time (e.g., monthly service charges), or other agreed rate plans. Telecommunications equipment is also sold, leased, and serviced. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from the lease of telecommunications equipment is recognized monthly as the entitlement to the fees accrues. Revenues from customer activation fees are deferred over the average customer retention period. Revenues also result from charges for advertising and e-commerce. Advertising revenues are recognized in the period in which the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

In the Systems Solutions operating segment, revenue is recognized when persuasive evidence of a sales arrangement exists, products are delivered or services are rendered, the selling price or fee is fixed or determinable, and collectability of the fees is reasonably assured.

Revenues from Computing & Desktop Services are recognized in accordance with the provision of services. Revenue is recognized ratably over the contractual service period for fixed-price contracts and on an output or consumption basis for all other service contracts. Revenue from service contracts billed on the basis of time and material used is recognized at the contractual hourly rates as labor hours are delivered and direct expenses are incurred.

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Telecommunications services include network services and hosting & ASP services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Customer activation fees and related costs are deferred and amortized over the estimated average period of customer retention. Revenues for voice and data services are recognized under such contracts when used by the customer. When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 and IAS 17. Revenues from hosting & ASP services are recognized as the services are provided.

Revenue from construction contracts and construction-type service contracts (or elements of service contracts) (e.g., IT developments) is recognized using the percentage of completion method. The measure of progress or stage of completion of a contract is generally determined as the percentage of cost incurred up until the reporting date relative to the total estimated cost at the reporting date (cost-to-cost method). In particular for complex outsourcing contracts with corporate customers, a reliable estimate of the total cost and therefore of the stage of completion is not possible in many cases, so revenue is only recognized in the amount of the contract costs already expensed. This means that a proportionate profit is not realized until the contract has been completed (zero-profit method).

Revenue from non-sales-type rentals and leases is recognized on a straight-line basis over the lease term.

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 Deutsche Telekom 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 tax assets and current tax liabilities must be recognized in the amount that Deutsche Telekom expects to settle or recover from the tax authorities. They include liabilities/receivables for the current period as well as for prior periods.

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards and tax credits. By way of derogation from this principle, a deferred tax liability is not recognized for temporary differences if the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit/tax loss. A deferred tax liability is not recognized either for temporary differences arising from the initial recognition of goodwill. A deferred tax liability is generally recognized for temporary differences associated with investments in subsidiaries, joint arrangements, and associates unless Deutsche Telekom is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

JUDGMENTS AND ESTIMATES

The presentation of the results of operations or financial position in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions, and estimates. The actual amounts may differ from those estimates. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties may have on the consolidated financial statements.

Measurement of property, plant and equipment, and intangible assets involves the use of estimates for determining the fair value at the acquisition date, provided they were acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of the fair values of assets and liabilities, as well as of the useful lives of the assets is based on management's judgment. The measurement of intangible assets acquired in exchange transactions is based on management's judgment as to whether an exchange transaction has commercial substance. For this, an analysis is performed to determine to what extent the future cash flows (risk, timing, and amount) are expected to change as a consequence of the transaction. Information from external experts is obtained for this analysis and for the determination of the fair values of assets.

The determination of impairments of property, plant and equipment, and intangible assets involves the use of estimates that include, but are not limited to, the cause, timing, and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions, and other changes in circumstances that indicate an impairment exists. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives, and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow, and potential impairment. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future results of operations.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to calculate the recoverable amount include discounted cash flow-based methods and methods that use market prices as a basis. The measurements on the basis of discounted cash flows are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state is only reached based on the planning horizon selected, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal mid-term planning are extrapolated using appropriate growth rates. The key assumptions on which management has based its calculation of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the risks associated with the cash-generating unit. Any future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer creditworthiness, and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

When available-for-sale financial assets are being tested for impairment, the overall circumstances of the individual case are always taken into account. In addition to the factors specific to the issuer, the market environment and the macroeconomic and legal conditions are considered. Where listed companies are involved, the extent and permanency of price declines and the price volatility are also especially relevant.

In each tax jurisdiction in which Deutsche Telekom operates, management must make judgments for the calculation of current and deferred taxes. This is relevant, for example, when it comes to a decision on the recognition of deferred tax assets because it must be probable that a taxable profit will be available against which the deductible temporary differences, loss carryforwards, and tax credits can be utilized. In addition to the estimate of future earnings, various factors are used to assess the probability of the future utilization of deferred tax assets, including past results of operations, the reliability of planning, and tax planning strategies. The period used for the assessment of the recoverability depends on the circumstances at the respective Group company and typically is in a range of five to ten years. In view of the U.S. tax reform adopted just before the reporting date December 31, 2017, there are still estimation uncertainties with regard to the specific future tax effects of the measures taken, which could still be affected, for example, by potential clarifications of specific aspects by the U.S. tax authorities.

Pension obligations for benefits to non-civil servants are generally satisfied by defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuations, which rely on assumptions regarding the discount rate, the expected salary increase rate, the expected pension trend, and life expectancy. In the event that changes in the assumptions regarding these parameters are required, the future amounts of the pension benefit costs may be affected materially.

Deutsche Telekom is obligated, under the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), to pay for its share of any operating cost shortfalls between the income of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse) and benefits paid. The Civil Service Health Insurance Fund provides services mainly in cases of illness, birth, or death for its members, who are civil servants employed by or retired from Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG, and their relatives. When Postreform II came into effect, participation in the Civil Service Health Insurance Fund was closed to new members. The insurance premiums collected by the Civil Service Health Insurance Fund must not exceed the insurance premiums imposed by alternative private health insurance enterprises for comparable insurance benefits, and, therefore, do not reflect the changing age distribution of the participants in the fund. Deutsche Telekom recognizes provisions in the amount of the actuarially determined present value of Deutsche Telekom's share in the fund's future deficit, using a discount rate and making assumptions about life expectancies and projections for contributions and future increases in general health care costs in Germany. Since the calculation of these provisions involves long-term projections over periods of more than 50 years, the present value of the liability may be highly sensitive even to small variations in the underlying assumptions.

Deutsche Telekom exercises considerable judgment in measuring and recognizing provisions and contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration, or government regulation. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recognized for losses from executory contracts, provided a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the determination of provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future results of operations.

REVENUE RECOGNITION

Customer activation fees that are not part of a multiple-element arrangement are deferred and recognized as revenue over the estimated average period of customer retention. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

The fair values of individual products or services that are part of multi-element arrangements are complex to determine, because some of the elements are price-sensitive and, thus, volatile in a competitive marketplace. Revisions to the estimates of these relative fair values may significantly affect the allocation of total arrangement consideration among the different units of accounting, affecting future results of operations.

CONSOLIDATION METHODS

SUBSIDIARIES

Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom. Control only exists if an investor has the power over the investee, is exposed to variable returns, and is able to use power to affect its amount of variable returns. The existence and effect of substantive potential voting rights that are currently exercisable or convertible, including potential voting rights held by other Group companies, are considered when assessing whether an entity is controlled.

All subsidiaries are included in the consolidated financial statements, unless an operating segment or the Group considers them to be insignificant based on the following criterion: The sum of all unconsolidated subsidiaries must not account for more than 1 percent of the Group's total assets, revenue, profit/loss for the year, contingent assets/liabilities, and other financial obligations. If the 1-percent limit is exceeded, Deutsche Telekom determines which companies are to be included in the consolidated financial statements, taking the long-term development of the investment and consolidation effects into account. Aside from the quantitative criteria, qualitative criteria will also be used to assess the materiality of an entity for the consolidated group. Excluding a subsidiary must not significantly change the segment result or the Group's profit/loss for the year, nor may other significant trends be ignored.

Income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary remain included in the consolidated financial statements until the date on which the parent company ceases to control the subsidiary. If necessary, the subsidiaries' accounting principles are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

Upon loss of control, a gain or loss from the disposal of the subsidiary is recognized in the consolidated income statement in the amount of the difference between the (i) proceeds from the disposal of the subsidiary, the fair value of the remaining shares, the carrying amount of the non-controlling interests, and the cumulative amounts of other comprehensive income attributable to the subsidiary, and (ii) the carrying amount of the subsidiary's net assets to be disposed of.

JOINT OPERATIONS, JOINT VENTURES, AND ASSOCIATES

Joint arrangements, in which two or more parties have joint control over an activity, must be classified as either joint operations or joint ventures.

A joint operation is characterized by the fact that the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in the joint operation as well as its share of the joint assets, liabilities, revenues and expenses.

In a joint venture, on the other hand, the parties that have joint control of the arrangements (partners) have rights to the net assets of the entity. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

Investments in joint ventures and associates that are included in the consolidated financial statements using the equity method are recognized at cost at the time of acquisition. The carrying amount of the investment may include goodwill as the positive difference between the cost of the investment and Deutsche Telekom's proportionate share in the fair values of the entity's identifiable net assets. If necessary, the accounting principles of joint ventures and associates are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use.

Upon loss of significant influence, a gain or loss from the disposal of the joint venture/associate is recognized in the amount of the difference between the (i) proceeds from the disposal of the shares, the fair value of the remaining shares, and the cumulative amounts of other comprehensive income attributable to the joint venture or associate, and (ii) the carrying amount of the investment to be disposed of.

The materiality assessment for jointly controlled entities and associates is generally performed using the same methods as for subsidiaries, but is limited to the criteria of profit/loss for the year, contingent assets and liabilities, and other financial obligations.

BUSINESS COMBINATIONS

A business combination exists when Deutsche Telekom obtains control of another entity. All business combinations must be accounted for using the acquisition method. The cost of an acquired subsidiary is measured at the fair value of the consideration transferred, i.e., the sum of the assets transferred, liabilities assumed, and equity instruments issued. Transaction costs are generally recognized as expense. The acquisition cost is allocated to the acquired assets, liabilities, and contingent liabilities. The identifiable assets acquired and the liabilities and contingent liabilities assumed are recognized in full at their fair values at the acquisition date, regardless of the level of the investment held by Deutsche Telekom.

Goodwill arising in a business combination is measured as the excess of the aggregate of the cost of acquisition, the amount of any non-controlling interest in the acquiree, and, in a business combination achieved in stages, the fair value of the equity interest held by Deutsche Telekom in the acquiree prior to the acquisition date over the fair value of the net assets acquired. Any difference arising on the revaluation of equity interests previously held by Deutsche Telekom is recognized in profit or loss.

For all business combinations there is an option in relation to the measurement of the non-controlling interests. These can be recognized either directly at their fair value (i.e., the non-controlling interest in the enterprise value of the acquiree) or at the non-controlling interest in the fair value of the net assets acquired. As a result, in the first case, the non-controlling interests also have a share in the goodwill arising from the business combination, while in the second case the non-controlling interest is limited to the revalued assets and liabilities and the goodwill is therefore recognized only as the amount attributable to Deutsche Telekom.

Transactions relating to the further acquisition or sale of equity interests with other shareholders that do not affect Deutsche Telekom's controlling interest do not lead to any change in goodwill. The difference between the fair value of the consideration transferred or received (i.e., the purchase price of the interests) and the carrying amount of the equity attributable to the non-controlling interests must be offset directly against consolidated shareholders' equity in capital reserves or increases the capital reserves.

CHANGES IN THE COMPOSITION OF THE GROUP AND OTHER TRANSACTIONS

In the 2017 financial year, Deutsche Telekom conducted the following transactions, which had an impact on the composition of the Group. Other changes to the composition of the Group not shown here were of no material significance for Deutsche Telekom's consolidated financial statements.

Sale of Strato AG

In December 2016, Deutsche Telekom reached an agreement with United Internet AG on the sale of hosting service provider Strato AG. The sale is in line with the strategy of selling off or finding partners for business areas that cannot be developed adequately within the Deutsche Telekom Group and, in doing so, potentially increasing their value. The sale was completed at a purchase price of EUR 0.6 billion effective midnight March 31, 2017 after approval was given by the Federal Cartel Office (Bundeskartellamt). Income from divestitures of EUR 0.5 billion attributable to the sale was disclosed under other operating income.

Sale of DeTeMedien GmbH

On June 14, 2017, Deutsche Telekom completed the sale of all its shares in DeTeMedien GmbH to a consortium of medium-sized publishers. By agreement, the purchase price remains confidential. It comprises a cash component as well as other elements, including a settlement of the dispute with the buyers, who for several years have pursued legal proceedings concerning the level of charges for subscriber data. In addition, the publishers have assumed the obligation to publish subscriber directories.

Sale of the shares in Scout24 AG

With accounting effect from June 23, 2017, Deutsche Telekom placed its entire direct stake of 9.26 percent in Scout24 AG in the market at a price of EUR 32.20 per share. The sale resulted in proceeds of EUR 0.3 billion and income from divestitures of EUR 0.2 billion attributable to the sale was disclosed under other operating income.

Voluntary presentation of the quantitative effects on the composition of the Group

Deutsche Telekom acquired and disposed of entities in the current and prior financial years. This imposes certain limits on the comparability of the consolidated financial statements and the disclosures under segment reporting.

The presented effects in the Group Development operating segment result from the acquisition of the fixed-network consumer business from Vodafone in the Netherlands as of December 16, 2016 and the aforementioned sale of Strato AG.

The following table shows the effect of changes in the composition of the Group on the consolidated income statement and segment reporting.

millions of €

	Total 2017	2016									Organic change 2017
		Total	Germany	United States	Europe	Systems Solutions	Group Develop-ment	Group Head-quarters & Group Services	Recon-ciliation	Pro forma[a]	
Net revenue	74,947	73,095					(7)	(118)		72,970	1,977
Other operating income	3,819	4,180					(2)	(3)		4,175	(356)
Changes in inventories	21	(12)					0	0		(12)	33
Own capitalized costs	2,292	2,112					2	(1)		2,113	179
Goods and services purchased	(38,161)	(37,084)					(47)	96		(37,035)	(1,126)
Personnel costs	(15,504)	(16,463)					22	5		(16,436)	932
Other operating expenses	(3,444)	(3,284)					(13)	1		(3,296)	(148)
Depreciation, amortization and impairment losses	(14,586)	(13,380)					8	4		(13,368)	(1,218)
PROFIT (LOSS) FROM OPERATIONS (EBIT)	**9,383**	**9,164**	**0**	**0**	**0**	**0**	**(37)**	**(16)**	**0**	**9,111**	**273**
Finance costs	(2,197)	(2,492)					0	0		(2,492)	295
Share of profit (loss) of associates and joint ventures accounted for using the equity method	76	(53)					0	0		(53)	129
Other financial income (expense)	(2,269)	(2,072)					0	0		(2,072)	(197)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	**(4,390)**	**(4,617)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(4,617)**	**227**
PROFIT (LOSS) BEFORE INCOME TAXES	**4,994**	**4,547**	**0**	**0**	**0**	**0**	**(37)**	**(16)**	**0**	**4,494**	**500**
Income taxes	558	(1,443)					0	0		(1,443)	2,001
PROFIT (LOSS)	**5,551**	**3,104**	**0**	**0**	**0**	**0**	**(37)**	**(16)**	**0**	**3,051**	**2,501**

[a] Based on the composition of the Group in the current reporting period.

Changes in the composition of the Group

The composition of the Deutsche Telekom Group changed as follows in the 2017 financial year:

	Domestic	International	Total
CONSOLIDATED SUBSIDIARIES			
January 1, 2017	61	188	249
Additions	4	5	9
Disposals (including mergers)	5	7	12
DECEMBER 31, 2017	**60**	**186**	**246**
ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2017	6	7	13
Additions	–	–	–
Disposals	4	–	4
DECEMBER 31, 2017	**2**	**7**	**9**
JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2017	3	4	7
Additions	–	1	1
Disposals	–	1	1
DECEMBER 31, 2017	**3**	**4**	**7**
TOTAL			
January 1, 2017	70	199	269
Additions	4	6	10
Disposals (including mergers)	9	8	17
DECEMBER 31, 2017	**65**	**197**	**262**

The following transactions will change the composition of the Deutsche Telekom Group in future.

Agreed acquisition of Layer3 TV Inc.

On November 9, 2017, T-Mobile US signed an agreement to acquire 100 percent of the shares in online TV provider Layer3 TV, Inc. The agreement includes a cash purchase price of around USD 325 million. The transaction was completed on January 22, 2018. T-Mobile US expects the acquisition to further strengthen its TV and video portfolio and its plans include rolling out its own TV service in 2018. The purchase price allocation and the measurement of the assets and liabilities have not yet been concluded.

Agreed acquisition of Tele2 Netherlands Holding N.V.

On December 15, 2017, Deutsche Telekom signed an agreement with the Tele2 Group on the acquisition of telecommunications provider Tele2 Netherlands Holding N.V. by T-Mobile Netherlands. This transaction is part of the long-term strategy and will establish a stronger, more sustainable provider of convergent fixed-network and mobile services on the Dutch market. Tele2 Group receives a purchase price in the form of a 25.0 percent stake in T-Mobile Netherlands and a cash component of EUR 190 million. The transaction is expected to be closed in the second half of 2018, following approval by the responsible antitrust authority.

Agreed acquisition of UPC Austria GmbH

On December 22, 2017, T-Mobile Austria Holding GmbH agreed to acquire Austria's leading cable operator, UPC Austria GmbH, from Liberty Global Holdco 2 B.V. The agreed cash purchase price is around EUR 1.9 billion less net debt. In line with the strategy, this acquisition will allow Deutsche Telekom to offer convergent product bundles to its customers on the European market. The transaction is expected to be closed in the second half of 2018, following approval by the responsible antitrust authorities and the city of Vienna.

PRINCIPAL SUBSIDIARIES

The Group's principal subsidiaries are presented in the following table:

Name and registered office		Deutsche Telekom share %	Net revenue[c] millions of €	Profit (loss) from operations[c] millions of €	Shareholders' equity[c] millions of €	Average number of employees	Segment allocation
Telekom Deutschland GmbH, Bonn, Germany	**Dec. 31, 2017/2017**	100.00	21,577	4,787	4,714	7,396	Germany
	Dec. 31, 2016/2016	100.00	21,429	4,483	4,484	12,118	
T-Mobile US, Inc., Bellevue, Washington, United States[a, b]	**Dec. 31, 2017/2017**	62.29	35,736	5,930	22,927	43,935	United States
	Dec. 31, 2016/2016	64.78	33,738	3,685	18,558	43,699	
T-Systems International GmbH, Frankfurt/Main, Germany	**Dec. 31, 2017/2017**	100.00	5,010	(1,536)	1,225	12,608	Systems Solutions
	Dec. 31, 2016/2016	100.00	6,009	(662)	122	18,261	
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece[a]	**Dec. 31, 2017/2017**	40.00	3,857	353	3,238	20,259	Europe
	Dec. 31, 2016/2016	40.00	3,908	60	3,255	20,713	
Magyar Telekom Public Limited Company, Budapest, Hungary[a, b]	**Dec. 31, 2017/2017**	59.44	1,975	248	2,295	9,094	Europe
	Dec. 31, 2016/2016	59.23	1,935	246	2,307	9,492	
T-Mobile Netherlands Holding B.V., The Hague, Netherlands[a, b]	**Dec. 31, 2017/2017**	100.00	1,355	201	2,520	1,262	Group Development
	Dec. 31, 2016/2016	100.00	1,331	(307)	2,359	1,380	
T-Mobile Polska S.A., Warsaw, Poland[a, b]	**Dec. 31, 2017/2017**	100.00	1,509	684	2,119	4,379	Europe
	Dec. 31, 2016/2016	100.00	1,488	201	2,729	4,079	
T-Mobile Czech Republic a.s., Prague, Czech Republic[a, b]	**Dec. 31, 2017/2017**	100.00	1,011	211	1,846	3,437	Europe
	Dec. 31, 2016/2016	100.00	959	226	1,757	3,286	
Hrvatski Telekom d.d., Zagreb, Croatia[a, b]	**Dec. 31, 2017/2017**	51.00	1,039	144	2,208	5,032	Europe
	Dec. 31, 2016/2016	51.00	925	155	2,107	4,499	
T-Mobile Austria Holding GmbH, Vienna, Austria[a, b]	**Dec. 31, 2017/2017**	100.00	900	109	1,546	1,204	Europe
	Dec. 31, 2016/2016	100.00	855	132	1,422	1,138	
Slovak Telekom a.s., Bratislava, Slovakia[a, b]	**Dec. 31, 2017/2017**	100.00	748	108	1,434	3,499	Europe
	Dec. 31, 2016/2016	100.00	766	92	1,423	3,327	

[a] Consolidated subgroup from Deutsche Telekom's perspective.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures of the respective subgroup.

In accordance with § 313 HGB, the full statement of investment holdings, which forms part of the notes to the consolidated financial statements, is published in the Federal Gazette (Bundesanzeiger) together with the consolidated financial statements. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website (www.telekom.com) under Investor Relations. Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB or disclosure simplification options in accordance with § 264 b HGB.

The following table shows the non-controlling interests for principal subsidiaries:

Name and registered office		Percentage of shareholding for non-controlling interests %	Percentage of voting rights for non-controlling interests %	Cumulative non-controlling interests [c] millions of €	Dividends paid out to non-controlling interests millions of €
T-Mobile US, Inc., Bellevue, Washington, United States [a, b]	**Dec. 31, 2017/2017**	37.71	37.71	8,424	–
	Dec. 31, 2016/2016	35.22	35.22	6,274	–
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece [a]	**Dec. 31, 2017/2017**	60.00	50.00	1,743	47
	Dec. 31, 2016/2016	60.00	50.00	1,740	29
Magyar Telekom Public Limited Company, Budapest, Hungary [a, b]	**Dec. 31, 2017/2017**	40.56	40.56	670	34
	Dec. 31, 2016/2016	40.77	40.77	690	29
Hrvatski Telekom d.d., Zagreb, Croatia [a, b]	**Dec. 31, 2017/2017**	49.00	49.00	875	32
	Dec. 31, 2016/2016	49.00	49.00	815	32

[a] Consolidated subgroup from Deutsche Telekom's perspective.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures at the level of the consolidated financial statements of Deutsche Telekom.

Deutsche Telekom held 40 percent plus one vote of the shares in the OTE group as of the reporting date. In accordance with shareholder agreements between Deutsche Telekom and the Hellenic Republic, Deutsche Telekom has taken control of 50 percent plus two voting shares and therefore the OTE group's financial and operating policy. Consequently, the OTE group companies are fully consolidated subsidiaries.

Summarized financial information for subsidiaries with significant non-controlling interests:

millions of €

Name and registered office		Current assets [c]	Non-current assets [c]	Current liabilities [c]	Non-current liabilities [c]	Profit (loss) [c]	Total comprehensive income [c]
T-Mobile US, Inc., Bellevue, Washington, United States [a, b]	**Dec. 31, 2017/2017**	9,045	55,886	10,168	31,835	5,271	2,825
	Dec. 31, 2016/2016	15,317	53,032	14,296	35,495	1,150	1,791
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece [a]	**Dec. 31, 2017/2017**	2,393	5,514	2,723	1,946	54	62
	Dec. 31, 2016/2016	2,734	5,585	2,443	2,621	(202)	(198)
Magyar Telekom Public Limited Company, Budapest, Hungary [a, b]	**Dec. 31, 2017/2017**	663	3,349	730	987	123	121
	Dec. 31, 2016/2016	654	3,577	892	1,032	179	204
Hrvatski Telekom d.d., Zagreb, Croatia [a, b]	**Dec. 31, 2017/2017**	747	1,898	336	101	103	133
	Dec. 31, 2016/2016	751	1,686	249	82	114	128

[a] Consolidated subgroup from Deutsche Telekom's perspective.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures of the respective subgroup.

millions of €

Name and registered office		Net cash from operating activities[c]	Net cash (used in) from investing activities[c]	Net cash (used in) from financing activities[c]
T-Mobile US, Inc., Bellevue, Washington, United States[a, b]	2017	6,847	(9,948)	(966)
	2016	5,586	(5,174)	354
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece[a]	2017	782	(732)	(334)
	2016	1,003	(479)	(260)
Magyar Telekom Public Limited Company, Budapest, Hungary[a, b]	2017	507	(181)	(243)
	2016	496	(285)	(315)
Hrvatski Telekom d.d., Zagreb, Croatia[a, b]	2017	362	(185)	(125)
	2016	278	(358)	(111)

[a] Consolidated subgroup from Deutsche Telekom's perspective.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures of the respective subgroup.

STRUCTURED ENTITIES

Deutsche Telekom processes factoring transactions by means of structured entities (see Note 36 "Financial instruments and risk management," page 230 et seq.).

Since 2014, Deutsche Telekom has consolidated four structured leasing SPEs for real estate as well as operating and office equipment at two sites for the operation of data centers in Germany. The two data centers were built under the management of an external leasing company and are operated by T-Systems International GmbH. Apart from the contractual obligations to make lease payments to the leasing SPEs, Deutsche Telekom has no obligation to give them further financial support.

T-Mobile USA Tower LLC and T-Mobile West Tower LLC, which are included in the consolidated financial statements as investments accounted for using the equity method, are also structured entities (see Note 7 "Investments accounted for using the equity method," page 188 et seq.).

JOINT OPERATIONS

On the basis of a contractual arrangement concluded by T-Mobile Polska S.A., Poland, Deutsche Telekom combined the activities for the planning, building, and operation of the Polish mobile communications network with a partner in 2011 to generate savings. Deutsche Telekom recognizes its share (50 percent) of the corresponding assets in line with the economic substance in the consolidated statement of financial position.

CURRENCY TRANSLATION

Foreign-currency transactions are translated into the functional currency at the exchange rate at the date of transaction. At the reporting date, 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 profit or loss.

The assets and liabilities of Group entities whose functional currency is not the euro are translated into euros from the local currency using the middle rates at the reporting date. The income statements and corresponding profit or loss of foreign-currency denominated Group entities are translated at monthly average exchange rates for the period. The differences that arise from the use of both rates are recognized directly in equity.

The exchange rates of certain significant currencies changed as follows:

€

	Annual average rate			Rate at the reporting date	
	2017	2016	2015	Dec. 31, 2017	Dec. 31, 2016
100 Czech korunas (CZK)	3.79799	3.69912	3.66596	3.90961	3.70104
1 pound sterling (GBP)	1.14063	1.22003	1.37760	1.12664	1.16939
100 Croatian kuna (HRK)	13.39790	13.27380	13.13380	13.43590	13.23480
1,000 Hungarian forints (HUF)	3.23421	3.21138	3.22570	3.22290	3.22612
100 Macedonian denars (MKD)	1.62388	1.62360	1.62569	1.62592	1.62421
100 Polish zlotys (PLN)	23.48500	22.91960	23.89210	23.93060	22.65680
1 U.S. dollar (USD)	0.88549	0.90365	0.90117	0.83340	0.94872

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 569 million (December 31, 2016: EUR 829 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents decreased by EUR 4.4 billion to EUR 3.3 billion. For further details, please refer to Note 30 "Notes to the consolidated statement of cash flows," page 217 et seq.

As of December 31, 2017, Deutsche Telekom reported cash and cash equivalents of EUR 16 million held by subsidiaries in the F.Y.R.O. Macedonia (December 31, 2016: EUR 23 million). These subsidiaries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

2 TRADE AND OTHER RECEIVABLES

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Trade receivables	9,553	9,179
Other receivables	169	183
	9,723	**9,362**

Of the total of trade and other receivables, EUR 8,125 million (December 31, 2016: EUR 7,861 million) is due within one year.

The increase in trade receivables is primarily due to the small increase in receivables in each of the Europe, Group Development, and Germany operating segments. In the United States operating segment, receivables remained more or less unchanged from the prior-year level. The carrying amount increased as a result of the higher volume of receivables for terminal equipment sold under installment plans in connection with the market launch of higher-priced smartphones. This increase was offset by exchange rate effects from the translation from U.S. dollars into euros. Factoring agreements concluded or extended in the reporting period also reduced the carrying amount of receivables (please also refer to Note 36 "Financial instruments and risk management," page 230 et seq.).

The following table shows the maturity structure of the trade receivables that are not impaired at the reporting date:

millions of €

Trade receivables	Of which: neither impaired nor past due on the reporting date millions of €	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and180 days	Between 181 and 360 days	More than 360 days
As of Dec. 31, 2017	**4,107**	**340**	**89**	**60**	**66**	**35**	**52**
As of Dec. 31, 2016	3,074	631	74	58	62	44	46

With respect to the trade receivables that are neither impaired nor past due, there were no indications as of the reporting date that the debtors will not meet their payment obligations.

The allowances on trade receivables developed as follows:

millions of €

	2017	2016
ALLOWANCES AS OF JANUARY 1	**1,567**	**1,502**
Currency translation adjustments	(19)	10
Additions (allowances recognized as expense)	698	757
Use	(490)	(596)
Reversal	(99)	(106)
ALLOWANCES AS OF DECEMBER 31	**1,657**	**1,567**

The following table presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

millions of €

	2017	2016	2015
Expenses for full write-off of receivables	81	126	375
Income from recoveries on receivables written off	105	67	329

3 INVENTORIES

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Raw materials and supplies	54	71
Work in process	13	18
Finished goods and merchandise	1,918	1,540
	1,985	**1,629**

The carrying amount of inventories increased by EUR 0.4 billion compared to December 31, 2016 to EUR 2.0 billion. This was mainly due to higher inventories of terminal equipment (in particular new higher-priced smartphone models) in the United States and Germany operating segments as of the reporting date. Exchange rate effects primarily from the translation from U.S. dollars into euros had an offsetting effect.

Write-downs of EUR 27 million (2016: EUR 46 million; 2015: EUR 121 million) on the net realizable value were recognized in 2017 and are shown in profit or loss.

The carrying amount of inventories expensed during the reporting period was EUR 13,358 million (2016: EUR 13,295 million; 2015: EUR 12,367 million).

The finished goods and merchandise primarily comprise retail products (e.g., terminal equipment and accessories) not manufactured by Deutsche Telekom and services rendered but not yet invoiced, primarily to business customers.

4 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

As of December 31, 2017, current assets recognized in the consolidated statement of financial position included EUR 0.2 billion in non-current assets and disposal groups held for sale. Current liabilities in the consolidated statement of financial position did not include any liabilities directly associated with non-current assets and disposal groups held for sale. The decrease of EUR 0.2 billion in non-current assets and disposal groups held for sale compared with December 31, 2016 results primarily from the following effects:

The sale of Strato AG to United Internet AG completed in March 2017 reduced the carrying amount by EUR 0.1 billion. In addition, the transaction agreed between T-Mobile US and a telecommunications company in September 2016 and completed in March 2017 on the exchange of spectrum licenses also reduced the carrying amount by EUR 0.1 billion. A transaction agreed upon between T-Mobile US and a telecommunications company in April 2017 on the exchange of spectrum licenses with a carrying amount of EUR 0.1 billion was completed in September 2017. Another transaction agreed upon between T-Mobile US and a telecommunications company in September 2017 on the exchange of spectrum licenses with a carrying amount of EUR 0.2 billion was completed in December 2017.

Reversals of impairments of the carrying amounts of the non-current assets and disposal groups held for sale were not material.

millions of €

	Dec. 31, 2017			Dec. 31, 2016					
	Deutsche Telekom AG	Other	Total	Deutsche Telekom AG	Strato	T-Mobile US	DeTeMedien	Other	Total
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE									
Other current assets	–	–	–	–	10	–	25	–	**35**
Intangible assets	–	–	**–**	14	53	96	–	–	**163**
Property, plant and equipment	160	1	**161**	115	36	–	2	5	**158**
Investments accounted for using the equity method	–	–	**–**	–	–	–	3	–	**3**
Deferred tax assets	–	–	**–**	8	–	–	5	–	**13**
Other non-current assets	–	–	**–**	–	–	–	–	–	**–**
TOTAL	**160**	**1**	**161**	**137**	**99**	**96**	**35**	**5**	**372**

millions of €

	Dec. 31, 2017			Dec. 31, 2016					
	Deutsche Telekom AG	Other	Total	Deutsche Telekom AG	Strato	T-Mobile US	DeTeMedien	Other	Total
LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE									
Financial liabilities	–	–	–	50	–	–	–	–	**50**
Trade and other payables	–	–	–	–	7	–	5	–	**12**
Income tax liabilities	–	–	–	–	–	–	30	–	**30**
Other current provisions	–	–	–	–	13	–	3	–	**16**
Other current liabilities	–	–	–	–	28	–	17	–	**45**
Provisions and similar obligations	–	–	–	–	–	–	23	–	**23**
Other non-current provisions	–	–	–	–	2	–	–	–	**2**
Deferred tax liabilities	–	–	–	16	–	–	–	–	**16**
Other non-current liabilities	–	–	–	–	–	–	–	–	**–**
TOTAL	**–**	**–**	**–**	**66**	**50**	**–**	**78**	**–**	**194**

In accordance with IFRS 5, the following assets and disposal groups were no longer recognized at their carrying amounts, but at their fair value less costs of disposal as of December 31, 2017.

millions of €

	Dec. 31, 2017				Dec. 31, 2016			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE								
Deutsche Telekom real estate	–	–	48	**48**	–	–	84	**84**

Deutsche Telekom AG's real estate held for sale relates to sites no longer considered to be necessary for operations. The fair values are determined by external experts. The fair value is measured on a regular basis using the earnings value method, taking into account local market estimates and specific characteristics of the property, including input parameters that cannot be observed in the market. The expected costs of disposal (currently usually around 10 percent of the fair value) are subtracted. Real estate held for sale is recognized in the statement of financial position at the lower of carrying amount and fair value less costs of disposal. The real estate was written down by EUR 27.7 million (2016: EUR 29.5 million) to the fair value less costs of disposal. The expense was recognized under depreciation, amortization and impairment losses.

5 INTANGIBLE ASSETS

millions of €

	Internally generated intangible assets	Acquired intangible assets		
		Total	Acquired concessions, industrial and similar rights and assets	LTE licenses
COST				
AT DECEMBER 31, 2015	**5,416**	**66,139**	**1,177**	**5,101**
Currency translation	102	1,306	5	3
Changes in the composition of the Group	(14)	(20)	(10)	16
Additions	130	4,918	103	964
Disposals	493	1,592	27	0
Change from non-current assets and disposal groups held for sale	(20)	(640)	(24)	0
Reclassifications	813	1,233	(153)	19
AT DECEMBER 31, 2016	**5,934**	**71,344**	**1,071**	**6,103**
Currency translation	(450)	(5,441)	(36)	60
Changes in the composition of the Group	0	(32)	3	0
Additions	236	8,841	245	0
Disposals	560	1,242	3	5
Change from non-current assets and disposal groups held for sale	0	(393)	0	0
Reclassifications	1,554	1,304	2	9
AT DECEMBER 31, 2017	**6,714**	**74,381**	**1,282**	**6,167**
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES				
AT DECEMBER 31, 2015	**3,727**	**27,613**	**717**	**792**
Currency translation	79	285	1	1
Changes in the composition of the Group	(8)	(38)	(11)	1
Additions (amortization)	955	3,175	120	318
Additions (impairment)	0	1	0	0
Disposals	491	1,572	21	0
Change from non-current assets and disposal groups held for sale	(11)	(198)	(10)	0
Reclassifications	(36)	36	(157)	0
Reversal of impairment losses	0	0	0	0
AT DECEMBER 31, 2016	**4,215**	**29,302**	**639**	**1,112**
Currency translation	(345)	(1,172)	(21)	5
Changes in the composition of the Group	0	(46)	0	0
Additions (amortization)	938	3,178	150	384
Additions (impairment)	0	6	2	0
Disposals	554	1,235	2	5
Change from non-current assets and disposal groups held for sale	0	(82)	0	0
Reclassifications	9	3	(1)	0
Reversal of impairment losses	0	(1,651)	0	0
AT DECEMBER 31, 2017	**4,263**	**28,303**	**767**	**1,496**
NET CARRYING AMOUNTS				
At December 31, 2016	1,719	42,042	432	4,991
AT DECEMBER 31, 2017	**2,451**	**46,078**	**515**	**4,671**

Acquired intangible assets				Goodwill	Advance payments and intangible assets under development	
UMTS licenses	GSM licenses	FCC licenses (T-Mobile US)	Other acquired intangible assets			Total
9,933	**1,548**	**32,013**	**16,367**	**30,290**	**2,037**	**103,882**
(7)	(6)	1,194	117	396	40	1,844
0	0	0	(26)	1	(1)	(34)
0	0	3,108	743	0	2,491	7,539
0	0	21	1,544	0	26	2,111
0	0	(522)	(94)	0	(4)	(664)
24	2	0	1,341	0	(2,009)	37
9,950	**1,544**	**35,772**	**16,904**	**30,687**	**2,528**	**110,493**
19	13	(4,931)	(566)	(1,466)	(111)	(7,468)
0	0	0	(35)	21	0	(11)
0	0	7,819	777	0	2,543	11,620
0	163	0	1,071	0	57	1,859
0	0	(392)	(1)	0	(5)	(398)
0	0	0	1,293	0	(2,812)	46
9,969	**1,394**	**38,268**	**17,301**	**29,242**	**2,086**	**112,423**
6,925	**692**	**6,343**	**12,144**	**15,517**	**0**	**46,857**
(4)	(4)	205	86	389	0	753
0	0	0	(28)	0	0	(46)
585	46	0	2,106	0	0	4,130
0	0	0	1	471	0	472
0	0	10	1,541	0	0	2,063
0	0	(95)	(93)	0	0	(209)
0	0	0	193	0	0	0
0	0	0	0	0	0	0
7,506	**734**	**6,443**	**12,868**	**16,377**	**0**	**49,894**
12	9	(755)	(422)	(1,456)	0	(2,973)
0	0	0	(46)	0	0	(46)
584	70	0	1,990	0	0	4,116
0	0	4	0	2,071	0	2,077
0	163	0	1,065	0	0	1,789
0	0	(81)	(1)	0	0	(82)
1	0	0	3	0	0	12
0	0	(1,651)	0	0	0	(1,651)
8,103	**650**	**3,960**	**13,327**	**16,992**	**0**	**49,558**
2,444	810	29,329	4,036	14,310	2,528	60,599
1,866	**744**	**34,308**	**3,974**	**12,250**	**2,086**	**62,865**

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 0.5 billion (December 31, 2016: EUR 0.5 billion) as of the reporting date. The majority of this related to commitments entered into by T-Mobile US.

The partial reversal of impairment losses on FCC licenses previously acquired by T-Mobile US increased the carrying amount of intangible assets by EUR 1.7 billion before deferred taxes. These FCC licenses were impaired as of September 30, 2012 following ad hoc impairment testing of the United States cash-generating unit. Because all of the FCC license impairment was allocated to the portfolio of PCS licenses, based on a determination that AWS licenses were carried at less than fair value, the PCS license portfolio is the only FCC license asset subject to an impairment reversal. This made it necessary to perform regular tests in subsequent periods to determine whether the reasons for impairment still existed – in full or in part. The value of the United States cash-generating unit, which has been listed on the stock exchange since May 2013, increased substantially in recent years on the back of the increase in the share price of T-Mobile US, Inc. and exceeded its carrying amount. However, the maximum possible reversal is limited to the lower of the recoverable amount of the impaired spectrum licenses determined from the fair value less costs of disposal on the one hand and the cost of these licenses on the other. As the recoverable amount of the impaired FCC licenses in the past financial years was lower than their carrying amount, the requirements for a reversal were not met.

In the third quarter of 2017, the results of the 600 MHz spectrum auction by the Federal Communications Commission (FCC), which was completed in 2017, indicated an increase in value of the previously impaired licenses. A remeasurement was then performed using a discounted cash flow method (greenfield method). The value was calculated in accordance with Level 3 of the fair value hierarchy pursuant to IFRS 13. The greenfield method uses a hypothetical cash flow scenario of developing an operating business for an entity that owns a single asset, in this case FCC licenses, at inception. The greenfield method requires an understanding of how much time and investment it would take to grow the business considering the current market conditions. Cash flows are forecasted to reflect required resources and eventual returns from the build-out of the operations and the acquisition of customers. The underlying theory of that approach is that by incurring theoretical start-up costs and capital expenditures that reflect the creation of all other assets, the value of the FCC licenses becomes isolated. The expenses and capital expenditures required to recreate the business would be higher than the expense and capital expenditure level of an established business. In addition, the time to recreate (ramp-up period) also determines the required level of investments (e.g., to shorten the ramp-up period more investment would be required). In summary, the key inputs of the greenfield method are:

- The time and required expenses of the ramp-up period. The build-out was staged over a period of time to reflect a plan to migrate from a start-up to a fully capable national wireless network. The estimated timeline to build the existing network that most closely meets the current business plan's long-term projected level of subscribers is approximately eight years.

- Long-term projected revenues and operating cash flows are based on a market-participant or normalized level of operation of the business. Given the long-term nature of the investment, the initial planning period of ten years was extended by an additional ten years to allow for profit margins, capital expenditures and related depreciation to reach normalized levels.

- A long-term growth rate was applied for the ten additional years to the forecasted revenues that matches the selected long-term growth rate of 2 percent for the derivation of the terminal value. The long-term growth rate was determined by considering industry and economic research.

- The rate of return required by a market participant for investing in such a business (discount rate). A discount rate of 7.5 percent was used.

The total value of the license portfolio calculated in this way of USD 53 billion was then allocated to the spectrum types (PCS, AWS, 700 MHz and 600 MHz) according to a relative market price model based on auction data. A recoverable amount of EUR 13.6 billion was calculated for the FCC licenses previously impaired. Taking the carrying amount of EUR 11.9 billion into account, a partial reversal of EUR 1.7 billion arose for the United States operating segment that was recorded under other operating income.

In the 2017 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

United States. The decrease of EUR 144 million in goodwill compared with December 31, 2016 was the result of exchange rate effects.

Europe, Germany, Systems Solutions, and Group Development. Since January 1, 2017, the Netherlands cash-generating unit, which was previously allocated to the Europe operating segment, has been reported in the Group Development operating segment. The same applies for the Deutsche Funkturm cash-generating unit, which was previously allocated to the Germany cash-generating unit in the Germany operating segment. The Deutsche Telekom IT (DT IT) cash-generating unit – the internal IT service provider – which was previously allocated to the Systems Solutions cash-generating unit in the Systems Solutions operating segment, has been allocated to the Group Headquarters & Group Services segment. The allocation of goodwill to the corresponding segments was adjusted, reducing goodwill in the Europe operating segment by EUR 897 million year-on-year, goodwill in the Germany operating segment by EUR 259 million, and goodwill in the Systems Solutions operating segment by EUR 590 million. Goodwill in the receiving segments increased accordingly. In addition, exchange rate effects contributed to the year-on-year increase in goodwill.

Following the withdrawal of the goodwill attributable to Deutsche Telekom IT from the Systems Solutions cash-generating unit, the remaining goodwill following a change in the control logic was allocated proportionately among the two cash-generating units Market Unit, the external IT service provider, and T-Sec, Deutsche Telekom's IT security service provider, based on the units' fair values.

Following a change in the Group's control logic for Greece and Romania, the relevant cash-generating units (Mobile communications and Fixed network) and the related goodwill were combined in a single cash-generating unit in each case for the first time in 2017.

Disclosures on annual impairment tests. Deutsche Telekom performed its annual impairment tests for the goodwill assigned to the cash-generating units as of December 31, 2017. A need for impairment of goodwill totaling EUR 829 million on a pro rata basis was identified in the Europe operating segment at the cash-generating units Poland, Romania, and Albania as of December 31, 2017 on the basis of information available at the reporting date and expectations with respect to the future development of the market and competitive environment. The impairment of goodwill at these cash-generating units was attributable in particular to intensified competition and a difficult overall market situation, as well as a rising interest rate level. In addition, an impairment test was performed as of September 30, 2017 for the Market Unit cash-generating unit in the Systems Solutions operating segment; this was triggered by an unexpected decrease in order entry and resulted in the recognition of impairment losses of EUR 1,242 million. The impairment test as of December 31, 2016 resulted in a need for impairment totaling EUR 471 million at the Netherlands, Romania – Mobile communications, and Montenegro cash-generating units in the Europe operating segment.

The recoverable amounts to be identified for the impairment test were largely determined on the basis of the fair values less costs of disposal. With the exception of the United States cash-generating unit, these figures were calculated using a net present value approach. The main parameters are shown in the table on the next page.

The recoverable amounts (prior to the deduction of net debt) for the cash-generating units were EUR 2,447 million (EUR 2,246 million as of the date of the impairment test on September 30, 2017) for the Market Unit, EUR 2,932 million for Poland, EUR 701 million for Romania, and EUR 47 million for Albania as of December 31, 2017. The values were calculated according to IFRS 13 using Level 3 input parameters (i.e., unobservable input parameters). As of December 31, 2016, the recoverable amounts (prior to the deduction of net debt) for Romania – Mobile communications and Montenegro were EUR 422 million and EUR 169 million, respectively. The values were calculated according to IFRS 13 using Level 3 input parameters (i.e., unobservable input parameters). The recoverable amount (prior to the deduction of net debt) for the Netherlands was EUR 2,402 million as of December 31, 2016. It was calculated on the basis of the value in use.

The recoverable amounts at the Croatia, Montenegro, and F.Y.R.O. Macedonia cash-generating units were determined using the value in use. For the Netherlands cash-generating unit, the recoverable amount was again determined using Deutsche Telekom's usual approach based on fair value less costs of disposal. The market price of an active and liquid market (share price) of T-Mobile US was used to determine the fair value less costs of disposal in the case of the United States cash-generating unit. The measurements of all other cash-generating units are founded on projections for a ten-year projection period that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state can only be established based on this planning horizon, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal medium-term planning are extrapolated using appropriate growth rates defined separately for each cash-generating unit. These growth rates are based on real growth and inflation expected in the long term for the countries in which the respective unit operates. To achieve the sustainable growth rates set for the period of the perpetual annuity, additional sustainable investments derived specifically for each cash-generating unit are taken into account. The key assumptions on which management has based its determination of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the market and country risks associated with the cash-generating unit. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Changes in the assumptions may have a negative impact, as a result of future macroeconomic trends, continued intense competition, further possible legislation changes (e.g., as part of national austerity programs), and regulatory intervention.

The following tables provide an overview of the main factors affecting the measurement, the classification of the input parameters (levels) used to determine the recoverable amounts in accordance with IFRS 13, as well as the sensitivity calculations for the need for impairment resulting from a change in the main parameters discount rate, net cash flow, and growth rate. They show the most significant cash-generating units to which goodwill has been allocated.

		Goodwill carrying amount millions of €	Impairment millions of €	Detailed planning period years	Discount rates[a] %	Sustainable growth rate p.a. Ø in %	Level allocation of input parameters[b]
GERMANY	2017	3,719		10	4.93	0.0	Level 3
	2016	3,978		10	4.89	0.0	Level 3
UNITED STATES	2017	1,041		n. a.	n. a.	n. a.	Level 1
	2016	1,185		n. a.	n. a.	n. a.	Level 1
EUROPE							
Poland	2017	835	787	10	6.85	2.0	Level 3
	2016	1,530		10	6.45	2.0	Level 3
Hungary	2017	1,070		10	7.47	2.0	Level 3
	2016	1,069		10	7.83	2.0	Level 3
Czech Republic	2017	781		10	6.37	2.0	Level 3
	2016	739		10	5.33	2.0	Level 3
Croatia	2017	519		10	7.13	2.0	Value in use
	2016	500		10	6.74	2.0	Value in use
Slovakia	2017	428		10	5.79	2.0	Level 3
	2016	428		10	5.61	2.0	Level 3
Greece[c]	2017	422		10	7.93	2.0	Level 3
	2016	422		10	7.91	2.0	Level 3
Austria	2017	324		10	5.47	2.0	Level 3
	2016	324		10	5.24	2.0	Level 3
Romania[c]	2017	41	34	10	7.67	2.0	Level 3
	2016	76	44	10	7.96	2.0	Level 3
International Carrier Sales & Solutions	2017	102		10	5.05	2.0	Level 3
	2016	101		10	4.64	2.0	Level 3
Other[d]	2017	79	8	10	8.39 – 10.29	2.0	Level 3 and values in use
	2016	87	12	10	8.06 – 9.93	2.0	Level 3 and values in use
SYSTEMS SOLUTIONS							
Market Unit	2017	1,063	1,242	10	6.60	1.5	Level 3
	2016						
Telekom Security	2017	80		10	6.50	1.5	Level 3
	2016						
System Solutions[e]	2017						
	2016	2,974		10	6.15	1.5	Level 3
GROUP DEVELOPMENT							
Netherlands	2017	897		10	5.29	0.5	Level 3
	2016	897	415	10	4.99	0.5	Value in use
Deutsche Funkturm	2017	259		10	5.35	1.0	Level 3
	2016						
GROUP HEADQUARTERS & GROUP SERVICES							
Deutsche Telekom IT	2017	590		10	8.00	1.5	Level 3
	2016						
DEUTSCHE TELEKOM IN TOTAL	2017	**12,250**	**2,071**				
	2016	**14,310**	**471**				

[a] Discount rate consistently after taxes. The discount rate before taxes for the calculation of the value in use amounts to 8.59 percent (2016: 8.31 percent) for Croatia, and 9.27 to 9.34 percent (2016: 8.73 to 8.99 percent) for "Other."

[b] Level of input parameters in the case of fair value less costs of disposal.

[c] In 2016, there were still two cash-generating units, Fixed network and Mobile communications, with all of the goodwill being allocated to the Mobile communications cash-generating unit.

[d] In 2017, the impairments under "Other" exclusively relate to the Albania cash-generating unit. The underlying discount rate amounts to 10.29 percent (2016: 9.93 percent). In 2016, they related exclusively to the Montenegro cash-generating unit, with an underlying discount rate of 8.07 percent (2017: 8.42 percent).

[e] Following the removal of Deutsche Telekom IT, the remaining goodwill of the Systems Solutions cash-generating unit was allocated proportionately among the two cash-generating units Market Unit and Telekom Security based on the units' fair values. As a result, the Systems Solutions cash-generating unit ceased to exist.

Sensitivity analysis of the impairment losses
millions of € [a]

	Increase (decrease) in impairment losses in 2017					
	Decrease of discount rate by 50 basis points	Decrease of net cash flows by 5.0 %	Decrease of sustainable growth rate by 50 basis points	Increase of discount rate by 50 basis points	Increase of net cash flows by 5.0 %	Increase of sustainable growth rate by 50 basis points
EUROPE						
Poland	−334 (−787/ 6.85 %/ 5.81 %)	147 (−787/ 100 %/126.84 %)	172 (−787/ 2.0 %/ 3.47 %)	273 (−787/ 6.85 %/ 5.81 %)	−147 (−787/ 100 %/126.84 %)	−211 (−787/ 2.0 %/ 3.47 %)
Romania	−34 (−93/ 7.67 %/7.21 %)	12 (−93/ 100 %/113.23 %)	19 (−93/ 2.0 %/ 2.69 %)	29 (−93/ 7.67 %/7.21 %)	−12 (−93/ 100 %/113.23 %)	−22 (−93/ 2.0 %/ 2.69 %)
Croatia				33 (122/ 7.13 %/7.45 %)		
F.Y.R.O. Macedonia		2 (10/ 100 %/ 97.05 %)	1 (10/ 2.0 %/1.65 %)	5 (10/ 8.39 %/ 8.58 %)		
Albania[b]	−2 (−57/ 10.29 %/ 6.45 %)	1 (−57/ 100 %/ 217.17 %)	1 (−57/ 2.0 %/7.21 %)	1 (−57/ 10.29 %/ 6.45 %)	−1 (−57/ 100 %/ 217.17 %)	−1 (−57/ 2.0 %/7.21 %)
SYSTEMS SOLUTIONS						
Market Unit		55 (67/ 100 %/ 97.25 %)	125 (67/ 1.50 %/ 1.34 %)	238 (67/ 6.60 %/ 6.70 %)		
GROUP DEVELOPMENT						
Netherlands		120 (5/ 100 %/ 99.82 %)	118 (5/ 0.50 %/ 0.48 %)	203 (5/ 5.29 %/ 5.30 %)		

[a] Where a change in the parameters results in an impairment loss, the following information is indicated in parentheses: the current amount by which the unit's recoverable amount exceeds its carrying amount, the current value of the parameter, and the value of the parameter that makes the recoverable amount of the cash-generating unit equal to the unit's carrying amount.
[b] For more information on the impairment losses recognized for assets in the Albania cash-generating unit, please refer to Note 6 "Property, plant and equipment," pages 186 and 187.

The sensitivity analysis of the impairment losses lists all those cash-generating units where the sensitivity analysis resulted in an impairment loss or a change in the impairment loss. The sensitivity analysis was performed separately for each parameter, i.e., a change in the impairment charge on a cash-generating unit is only determined by reducing or increasing the parameter under consideration.

6 PROPERTY, PLANT AND EQUIPMENT

millions of €

	Land and equivalent rights, and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total
COST					
AT DECEMBER 31, 2015	**18,516**	**116,013**	**8,597**	**3,468**	**146,594**
Currency translation	80	928	47	38	1,093
Changes in the composition of the Group	0	15	(2)	2	15
Additions	133	5,357	482	5,384	11,356
Disposals	157	4,786	1,240	82	6,265
Change from non-current assets and disposal groups held for sale	(200)	(9)	(106)	(8)	(323)
Reclassifications	168	4,196	636	(5,037)	(37)
AT DECEMBER 31, 2016	**18,540**	**121,714**	**8,414**	**3,765**	**152,433**
Currency translation	(294)	(3,342)	(209)	(165)	(4,010)
Changes in the composition of the Group	23	7	2	9	41
Additions	104	4,954	469	5,994	11,521
Disposals	206	5,053	596	57	5,912
Change from non-current assets and disposal groups held for sale	(526)	(32)	0	(1)	(559)
Reclassifications	246	4,874	761	(5,927)	(46)
AT DECEMBER 31, 2017	**17,887**	**123,122**	**8,841**	**3,618**	**153,468**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
AT DECEMBER 31, 2015	**11,082**	**84,785**	**6,063**	**27**	**101,957**
Currency translation	51	503	23	(2)	575
Changes in the composition of the Group	0	5	(3)	0	2
Additions (depreciation)	684	7,148	724	1	8,557
Additions (impairment)	63	138	11	8	220
Disposals	163	4,165	1,046	24	5,398
Change from non-current assets and disposal groups held for sale	(139)	(8)	(73)	(8)	(228)
Reclassifications	(41)	(68)	110	(1)	0
Reversal of impairment losses	(8)	(2)	0	0	(10)
AT DECEMBER 31, 2016	**11,529**	**88,336**	**5,809**	**1**	**105,675**
Currency translation	(200)	(1,809)	(115)	(1)	(2,125)
Changes in the composition of the Group	9	0	1	0	10
Additions (depreciation)	635	6,905	772	0	8,312
Additions (impairment)	35	42	3	0	80
Disposals	173	4,234	532	0	4,939
Change from non-current assets and disposal groups held for sale	(369)	(31)	0	0	(400)
Reclassifications	(84)	(11)	83	0	(12)
Reversal of impairment losses	(11)	0	0	0	(11)
AT DECEMBER 31, 2017	**11,371**	**89,198**	**6,021**	**0**	**106,590**
NET CARRYING AMOUNTS					
At December 31, 2016	7,011	33,378	2,605	3,764	46,758
AT DECEMBER 31, 2017	**6,516**	**33,924**	**2,820**	**3,618**	**46,878**

For further details on depreciation, amortization and impairment losses, please refer to Note 22 “Depreciation, amortization and impairment losses,” page 210, and Note 5 “Intangible assets,” page 180 et seq.

Additions relate in particular to investments in the United States operating segment in growth in network build-out and investments in the Germany and Europe operating segments in the broadband and fiber-optic roll-out, the IP transformation, and our mobile infrastructure. Moreover, EUR 1.0 billion were attributable to the capitalization of higher-priced mobile devices. These relate to the business model JUMP! On Demand, which was introduced at T-Mobile US in June 2015 and under which customers no longer purchase the device but lease it. This capitalization was offset in the financial year by disposals of terminal equipment returned by customers under the JUMP! On Demand program amounting to EUR 0.7 billion.

Restoration obligations of EUR 0.3 billion were recognized as of December 31, 2017 (December 31, 2016: EUR 0.4 billion). This includes restoration obligations of EUR 0.2 billion at T-Mobile US and EUR 0.1 billion at the Germany operating segment.

Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 2.8 billion (December 31, 2016: EUR 2.3 billion) as of the reporting date.

In the case of the Romania – Fixed network cash-generating unit assigned to the Europe operating segment, an ad hoc impairment test led to the review of a potential need to impair the assets. The impairment testing in Romania was necessitated by the aggregation of the Fixed network and Mobile communications cash-generating units in Romania. No goodwill was allocated to the Romania – Fixed network cash-generating unit at the reporting date.

The measurement of the Romania – Fixed network cash-generating unit was founded on projections for a ten-year projection period that is based on the financial plan that has been approved by management and is also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the entities' business outlook that is necessary for calculating the perpetual annuity. This steady state can only be established based on this planning horizon, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal mid-term planning are extrapolated using appropriate growth rates defined separately for each cash-generating unit. A growth rate of 2.0 percent (2016: 2.0 percent) was set for the cash-generating unit Romania – Fixed network and was based on the real growth and inflation expected in the long term. The key assumptions on which management has based its determination of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the market and country risks associated with the cash-generating unit. The discount rate for the cash-generating unit Romania – Fixed network was 7.76 percent (2016: 7.79 percent).

The recoverable amount determined internally, which was calculated in accordance with IFRS 13 using Level 3 input parameters (i.e., unobservable inputs) amounted (before deduction of net debt) to EUR 334 million for the Romania – Fixed network cash-generating unit. The resulting need for impairment was EUR 121 million for Romania – Fixed network, which as a rule must be allocated to non-current assets. The recoverable amount was reviewed on the basis of an external expert opinion on account of the existing lower value limits (fair value less costs of disposal of the relevant assets). Based on the recoverable amounts for the non-current assets of the Romania – Fixed network cash-generating unit derived from this expert opinion, no impairment loss was recorded in the final analysis.

The annual impairment tests for the goodwill assigned to the cash-generating units as of December 31, 2017 identified a need for impairment in the Albania cash-generating unit of EUR 45 million. This need for impairment was to be allocated to existing goodwill (EUR 8 million) (please also refer to Note 5 "Intangible assets," page 180 et seq.) and, as a rule, to non-current assets. The recoverable amounts (fair value less costs of disposal) of the relevant assets were reviewed on the basis of an external expert opinion on account of the lower value limits to be observed. Based on the recoverable amounts of non-current assets derived from this expert opinion, items of property, plant and equipment were impaired by EUR 37 million. Of this figure, EUR 22 million was attributable to non-controlling interests. The impairment loss primarily related to technical infrastructure.

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Deutsche Telekom publishes the following information on significant investments included in the consolidated financial statements using the equity method:

	Deutsche Telekom share		Percentage of voting rights		Assigned to segment	Fair value of the investment, if a listed market price is available	
Name and registered office	Dec. 31, 2017 %	Dec. 31, 2016 %	Dec. 31, 2017 %	Dec. 31, 2016 %		Dec. 31, 2017 millions of €	Dec. 31, 2016 millions of €
Hrvatske telekomunikacije d.d. Mostar, Mostar, Bosnia-Herzegovina[a]	39.10	39.10	39.10	39.10	Europe	31	31
Scout24 AG, Munich, Germany	–	9.26	–	9.26	Group Development	–	337
Ströer SE & Co. KGaA, Cologne, Germany[b]	11.60	11.60	11.60	11.60	Group Development	395	267
T-Mobile USA Tower LLC, Wilmington, United States[c]	100.00	100.00	100.00	100.00	United States	–	–
T-Mobile West Tower LLC, Wilmington, United States[c]	100.00	100.00	100.00	100.00	United States	–	–
Toll Collect GmbH, Berlin, Germany	45.00	45.00	45.00	45.00	Systems Solutions	–	–

[a] Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00 percent).

[b] Sale of shares with accounting effect as of June 23, 2017 (please also refer to the information provided in the section "Summary of accounting policies" under "Changes in the composition of the Group and other transactions," page 171 et seq.).

[c] Indirect shareholding via T-Mobile US, Inc., United States (Deutsche Telekom AG's share: 62.29 percent).

Description of the nature of the activities of the joint arrangement or associate

Hrvatske telekomunikacije d.d. (HT Mostar d.d.) provides mobile and fixed-network communications services in Bosnia-Herzegovina.

Ströer SE & Co. KGaA is a leading digital multi-channel media house that offers advertisers customized, fully integrated premium communications solutions. Deutsche Telekom holds 11.6 percent of the shares in Ströer SE & Co. KGaA. In addition, Deutsche Telekom is represented by two of the six members on the supervisory board of Ströer SE & Co. KGaA. This representation comprising a third of all seats on the supervisory board gives Deutsche Telekom a significant influence on the financial and operating policies of Ströer SE & Co. KGaA. Consequently, Deutsche Telekom includes the investment in its consolidated financial statements as an associate using the equity method.

T-Mobile USA Tower LLC and T-Mobile West Tower LLC are structured entities founded by T-Mobile US in each of which it holds a 100-percent stake for the purpose of contributing cell sites in accordance with a framework agreement signed in 2012 between T-Mobile US and Crown Castle International Corp., Houston, United States, concerning the leasing and use of the cell sites. The sole right to continue to use and lease out these sites was transferred to Crown Castle. T-Mobile US continues to operate its mobile equipment on these cell towers and, to this end, leases back the required capacity from Crown Castle. Previously unused infrastructure is thus available for Crown Castle to lease to third parties. In return, the owners of the land on which the cell towers are built will no longer receive lease payments from T-Mobile US for those cell towers which were contributed to the two associates and those that were disposed of. Both entities were deconsolidated as of the date of the closing of the transaction in 2012, because Crown Castle independently operates the cell sites, generates revenues from the lease out of the sites for an average of 27 years and determines the finance and business activities of both entities that are relevant for consolidation purposes. It is expected that the leasing of tower space will allow Crown Castle to generate sufficient ongoing profits and cash flows to be able to meet its contractual obligations. Thus Deutsche Telekom has only a significant influence and includes these companies in the consolidated financial statements as associates. Under certain conditions, T-Mobile US will continue to be held liable for any default in the lease payment by Crown Castle to the owners of the underlying land of the cell sites. The agreement includes a considerably low maximum guarantee amount for Deutsche Telekom, since in the unlikely event that this case occurs, T-Mobile US could take over the further use of the relevant cell sites or alternatively terminate the contracts with the owners of the cell site land at short notice. At closing, T-Mobile US established an immaterial cash reserve in the entities sufficient to fund the payment of ongoing administrative expenses not payable by Crown Castle. Aside from the guarantee and the payment of administrative expenses there is no other funding obligation by T-Mobile US.

Toll Collect GmbH operates the highway toll system for trucks in Germany.

The following tables provide summarized financial information on the main companies included in the consolidated financial statements and accounted for using the equity method. The data is not based on the stakes attributable to Deutsche Telekom AG, but represents the shareholdings on an assumed 100-percent basis.

Summarized financial information on the main joint ventures accounted for using the equity method

millions of €

	HT Mostar d.d.		Toll Collect GmbH	
	Dec. 31, 2017/2017	Dec. 31, 2016/2016	Dec. 31, 2017/2017	Dec. 31, 2016/2016
Current assets	38	44	768	770
Of which: cash and cash equivalents	16	13	241	18
Non-current assets	158	163	150	150
Current liabilities	25	34	851	836
Of which: financial liabilities	0	0	0	0
Non-current liabilities	3	3	37	151
Of which: financial liabilities	1	1	0	150
Net revenue	42	42	634	530
Interest income	0	0	10	14
Interest expense	0	0	(2)	(6)
Income taxes	0	0	(81)	(31)
Profit (loss)	0	(2)	97	61
Other comprehensive income	0	0	0	1
Total comprehensive income	0	(2)	97	62
Depreciation and amortization	(12)	(12)	(1)	(1)
Dividends paid to Deutsche Telekom	0	0	0	0

Summarized financial information on significant associates accounted for using the equity method

millions of €

	Ströer SE & Co. KGaA [a]		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	Dec. 31, 2017/2017	Dec. 31, 2016/2016	Dec. 31, 2017/2017	Dec. 31, 2016/2016	Dec. 31, 2017/2017	Dec. 31, 2016/2016
Current assets	335	293	0	0	0	0
Non-current assets	1,542	1,416	60	68	91	104
Current liabilities	477	438	0	0	0	0
Non-current liabilities	786	642	0	0	0	0
Net revenue	910	766	0	0	0	0
Profit (loss)	52	40	0	0	0	0
Other comprehensive income	(8)	(6)	0	0	0	0
Total comprehensive income	44	34	0	0	0	0
Dividends paid to Deutsche Telekom	7	4	0	0	0	0

[a] As financial data of Ströer SE & Co. KGaA as of December 31, 2017 was not publicly available to Deutsche Telekom at the date of preparation, the quarterly statement of Ströer SE & Co. KGaA as of September 30, 2017 was used as a basis for the summarized financial information.

Reconciliation to the carrying amount included in the consolidated statement of financial position

millions of €

	HT Mostar d.d.		Toll Collect GmbH	
	2017	2016	2017	2016
NET ASSETS AS OF JANUARY 1	**170**	**173**	**(67)**	**(128)**
Profit (loss)	0	(2)	97	61
Other comprehensive income	0	0	0	1
Dividends paid	0	0	0	0
Exchange rate effects	(2)	(1)	0	0
NET ASSETS AS OF DECEMBER 31	**168**	**170**	**30**	**(67)**
SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31	**66**	**66**	**10**	**(34)**
Adjustment of carrying amount	0	0	0	34
Other reconciliation effects	(15)	(16)	0	0
CARRYING AMOUNT AS OF DECEMBER 31	**51**	**50**	**10**	**0**

millions of €

	Ströer SE & Co. KGaA [a]		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	2017	2016	2017	2016	2017	2016
NET ASSETS AS OF JANUARY 1	**629**	**286**	**68**	**66**	**104**	**101**
Profit (loss)	71	73	0	0	0	0
Other comprehensive income	0	1	0	0	0	0
Dividends paid	(61)	(39)	0	0	0	0
Capital increase	3	380	0	0	0	0
Obligation to acquire own equity instruments	(9)	(72)	0	0	0	0
Exchange rate effects	(19)	0	(8)	2	(13)	3
NET ASSETS AS OF DECEMBER 31 [b]	**614**	**629**	**60**	**68**	**91**	**104**
SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31 [b]	**71**	**73**	**60**	**68**	**91**	**104**
Adjustment of carrying amount	0	0	0	0	0	0
Reversal of impairment loss/(impairment loss)	50	(50)	0	0	0	0
Other reconciliation effects	194	248	0	0	0	0
CARRYING AMOUNT AS OF DECEMBER 31	**315**	**271**	**60**	**68**	**91**	**104**

[a] As financial data of Ströer SE & Co. KGaA as of December 31, 2017 was not publicly available to Deutsche Telekom at the date of preparation, the quarterly statement of Ströer SE & Co. KGaA as of September 30, 2017 was used as a basis for the summarized financial information and for the reconciliation statement to the carrying amount reported in Deutsche Telekom's consolidated statement of financial position. The resulting effects for the extrapolation of the carrying amount as of December 31, 2017 were estimated and are included under other reconciliation effects. In addition, profit/loss after income taxes also includes profit/loss after income taxes of the prior-year fourth quarter on a pro rata basis.

[b] The figures for net assets and the share of the net assets of Ströer SE & Co. KGaA relate to September 30, 2017 and September 30, 2016 respectively.

Deutsche Telekom did not recognize losses in 2017 in connection with investments included in the consolidated financial statements using the equity method. In 2016, losses of EUR 34 million were not recognized, because Deutsche Telekom has no obligation to offset these losses.

Summarized aggregate financial information on non-significant investments accounted for using the equity method

The figures relate to the interests attributable to Deutsche Telekom.

millions of €

	Joint ventures		Associates	
	Dec. 31, 2017/2017	Dec. 31, 2016/2016	Dec. 31, 2017/2017	Dec. 31, 2016/2016
Total carrying amounts	15	17	109	124
Total interests				
Profit (loss)	1	0	12	0
Other comprehensive income	0	0	0	0
TOTAL COMPREHENSIVE INCOME	**1**	**–**	**12**	**–**

8 OTHER FINANCIAL ASSETS

millions of €

	Dec. 31, 2017		Dec. 31, 2016	
	Total	Of which: current	Total	Of which: current
Originated loans and receivables	3,507	3,015	5,664	5,104
Available-for-sale financial assets	4,216	8	5,548	13
Derivative financial assets	1,317	306	2,379	594
Held-to-maturity investments	5	–	8	2
	9,045	**3,329**	**13,599**	**5,713**

millions of €

Originated loans and receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods: Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
As of Dec. 31, 2017							
Due within one year	2,933	23	3	–	–	1	3
Due after more than one year	333	–	–	–	–	–	–
As of Dec. 31, 2016							
Due within one year	4,620	63	87	8	1	3	2
Due after more than one year	404	–	–	–	–	–	–

The decline of EUR 2.1 billion in current originated loans and receivables was mainly attributable to the utilization of a cash deposit of EUR 2.0 billion placed with the U.S. telecommunications authority in June 2016 in connection with the spectrum auction concluded in the second quarter of 2017. The reduction of EUR 1.3 billion in the carrying amount of available-for-sale assets primarily relates to a total impairment equivalent to EUR 1.5 billion (2016: EUR 2.2 billion) of the stock exchange-traded financial stake in BT recognized in profit and loss in 2017.

With respect to the originated loans and receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Receivables of EUR 504 million (December 31, 2016: EUR 235 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

Available-for-sale financial assets in the amount of EUR 187 million were recognized at cost as of December 31, 2017 (December 31, 2016: EUR 126 million). No plans existed as of the reporting date to sell these instruments.

9 OTHER ASSETS

Other assets mainly include deferred expenses of EUR 1.1 billion (December 31, 2016: EUR 1.2 billion).

10 FINANCIAL LIABILITIES

millions of €

	Dec. 31, 2017				Dec. 31, 2016			
	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities	**45,453**	**3,762**	**14,982**	**26,709**	**50,090**	**8,175**	**15,216**	**26,699**
Liabilities to banks	**4,974**	**1,365**	**2,739**	**870**	**4,097**	**1,293**	**2,071**	**733**
Of which: promissory notes	539	150	287	102	191	–	61	130
Of which: loans from the European Investment Bank	3,149	159	2,315	675	2,359	243	1,616	500
Of which: other loans	1,286	1,056	137	93	1,547	1,050	394	103
	50,427	**5,127**	**17,721**	**27,579**	**54,187**	**9,468**	**17,287**	**27,432**
Finance lease liabilities	2,635	751	1,284	600	2,547	585	1,275	687
Liabilities to non-banks from promissory notes	480	49	209	222	535	35	204	296
Liabilities with the right of creditors to priority repayment in the event of default	–	–	–	–	1,866	19	76	1,771
Other interest-bearing liabilities	1,598	1,025	427	146	1,823	1,268	381	174
Other non-interest-bearing liabilities	1,443	1,311	129	3	1,958	1,769	186	3
Derivative financial liabilities	946	95	81	770	1,734	1,278	315	141
	7,102	**3,231**	**2,130**	**1,741**	**10,463**	**4,954**	**2,437**	**3,072**
FINANCIAL LIABILITIES	**57,529**	**8,358**	**19,851**	**29,320**	**64,650**	**14,422**	**19,724**	**30,504**

Financial liabilities decreased year-on-year by EUR 7.1 billion to a total of EUR 57.5 billion.

Deutsche Telekom has established ongoing liquidity management. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, Deutsche Telekom maintains a liquidity reserve in the form of credit lines and cash. This liquidity reserve is to cover the capital market maturities of the next 24 months at any time.

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 22 banks for a total of EUR 12.9 billion as of December 31, 2017. As of December 31, 2017, EUR 0.2 billion of these credit lines had been utilized. None of these credit lines were utilized in the prior year. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized.

In January 2017, Deutsche Telekom placed U.S. dollar bonds with a volume of USD 3.5 billion (around EUR 3.3 billion) with institutional investors. These comprised a 3-year variable-interest bond with a volume of USD 0.400 billion and a mark-up of 58 basis points above the 3-month USD Libor; a 3-year fixed-interest bond with a volume of USD 0.850 billion and a coupon of 2.225 percent; a 5-year bond with a volume of USD 1.0 billion and a coupon of 2.820 percent; and a 10-year bond with a volume of USD 1.250 billion and a coupon of 3.600 percent. The bonds were issued by Deutsche Telekom International Finance B.V. and guaranteed by Deutsche Telekom AG.

Under its debt issuance program, Deutsche Telekom International Finance B.V. additionally placed the following bonds – guaranteed by Deutsche Telekom – with institutional investors:

- In January 2017, euro bonds with a total volume of EUR 3.5 billion, comprising a 4 ¾-year fixed-interest bond with a volume of EUR 1.0 billion and a coupon of 0.375 percent; a 7-year fixed-interest bond with a volume of EUR 1.25 billion and a coupon of 0.875 percent; and a 10-year bond with a volume of EUR 1.25 billion and a fixed coupon of 1.375 percent;
- In April 2017, a 12-year fixed-interest pound sterling bond with a nominal volume of GBP 0.25 billion (around EUR 0.3 billion) and a coupon of 2.25 percent, and a 10-year fixed-interest Hong Kong dollar bond with a nominal volume of HKD 1.3 billion (around EUR 0.2 billion) and a coupon of 2.95 percent;
- In May 2017, a 9-year fixed-interest euro bond with a volume of EUR 0.75 billion and a coupon of 1.125 percent;
- In December 2017, a 7-year fixed-interest euro bond with a volume of EUR 0.75 billion and a coupon of 0.625 percent.

Under its debt issuance program, Deutsche Telekom also issued a 10-year fixed-interest Norwegian krone bond with a volume of NOK 1 billion (around EUR 0.1 billion) and a coupon of 2.7 percent in July 2017.

In the first half of 2017, T-Mobile US prematurely repaid senior notes with a total volume of USD 8.25 billion (around EUR 7.6 billion). These included, on February 10, 2017, senior notes for an amount of USD 1.0 billion (around EUR 0.9 billion) with an interest rate of 6.625 percent at a price of 102.208 percent of the nominal amount (plus accrued interest). On March 6, 2017, further senior notes were repaid in the amount of USD 0.5 billion (around EUR 0.5 billion) with an interest rate of 5.250 percent at a price of 101.313 percent of the nominal amount (plus accrued interest). On April 3, 2017, further senior notes were repaid in the amount of USD 1.75 billion (around EUR 1.6 billion) with an interest rate of 6.250 percent at a price of 103.125 percent of the nominal amount (plus accrued interest). The other senior notes with an aggregate volume of USD 5.0 billion (around EUR 4.6 billion) and an interest rate ranging between 6.464 and 6.731 percent were repaid on April 28, 2017 at prices between 100.000 percent and 103.366 percent of the nominal amount (plus accrued interest). Further, T-Mobile US prematurely repaid a secured external loan in the amount of USD 2.0 billion (around EUR 1.9 billion) in the first half of 2017.

In December 2017, T-Mobile US repaid the Mandatory Convertible Preferred Stock issued in December 2014 with a nominal volume of USD 1.0 billion and bearing interest of 5.5 percent, by way of mandatory conversion into ordinary shares of the company. The conversion rights, which were disclosed under derivative financial liabilities until December 2017 and embedded in the T-Mobile US Mandatory Convertible Preferred Stock, were recognized for a final time on their maturity date through profit or loss and then derecognized in the amount of EUR 0.9 billion with no effect on the income statement as part of the share issue (please also refer to Note 36 "Financial instruments and risk management," page 230 et seq.).

In addition, in the reporting period, euro bonds in a total amount of EUR 2.1 billion were repaid along with a U.S. dollar bond totaling USD 1.0 billion (around EUR 0.9 billion), a bond in Australian dollars amounting to AUD 0.1 billion (around EUR 0.1 billion), and a Norwegian krone bond for NOK 1.3 billion (around EUR 0.1 billion).

In March 2017, T-Mobile US placed high-yield notes with an aggregate volume of USD 1.5 billion (around EUR 1.4 billion) in a public offering in three tranches of USD 500 million each (at 4.000 percent and due in 2022, at 5.125 percent and due in 2025, and at 5.375 percent and due in 2027). These notes replace higher-interest bonds that T-Mobile US prematurely repaid.

The net change of EUR 0.5 billion in commercial paper also increased the carrying amount of the financial liabilities. The total increase of EUR 0.9 billion in liabilities to banks compared with the end of 2016 was mainly due to promotional loans to the Group companies issued by the European Investment Bank in the reporting year for a total amount of EUR 0.8 billion, and the issuance of new promissory notes totaling EUR 0.4 billion. Repayments in the reporting year had an offsetting effect.

A year-on-year decrease in the carrying amount of the financial liabilities of around EUR 1.8 billion relates to exchange rate effects in the United States operating segment.

The following tables show Deutsche Telekom's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with positive and negative fair values:

millions of €

	Carrying amounts Dec. 31, 2017	Cash flows in 2018			Cash flows in 2019		
		Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
NON-DERIVATIVE FINANCIAL LIABILITIES							
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(50,907)	(1,084)	(17)	(4,145)	(1,630)	(16)	(3,352)
Finance lease liabilities	(2,635)	(117)		(751)	(91)		(687)
Liabilities with the right of creditors to priority repayment in the event of default	–						
Other interest-bearing liabilities	(1,598)	(11)	(9)	(1,025)	(19)	(5)	(192)
Other non-interest-bearing liabilities	(1,443)			(1,311)			(125)
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS							
Derivative financial liabilities:							
Currency derivatives without a hedging relationship	(59)			(54)			
Currency derivatives in connection with cash flow hedges	(3)			(3)			
Currency derivatives in connection with net investment hedges	0						
Embedded derivatives without a hedging relationship	(56)			(2)			(4)
Other derivatives without a hedging relationship	(3)			(3)			
Interest rate derivatives without a hedging relationship	(219)	(177)	(115)		(148)	120	2
Interest rate derivatives in connection with fair value hedges	(442)	219	(233)		219	(233)	0
Interest rate derivatives in connection with cash flow hedges	(164)	(35)			35	0	0
Derivative financial assets:							
Currency derivatives without a hedging relationship	49			44			
Currency derivatives in connection with cash flow hedges	37			22			
Other derivatives without a hedging relationship	1						2
Interest rate derivatives without a hedging relationship	702	(175)	159	198	(209)	179	96
Interest rate derivatives in connection with fair value hedges	172	160	(68)	0	158	(58)	0
Interest rate derivatives in connection with cash flow hedges	5	2		0	2		7
FINANCIAL GUARANTEES AND LOAN COMMITMENTS[a]	–						

[a] For more detailed information, please refer to Note 36 "Financial instruments and risk management," page 230 et seq.

	Cash flows in 2020–2022			Cash flows in 2023–2027			Cash flows in 2028 and thereafter		
	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
	(4,355)	(4)	(14,623)	(4,124)	(1)	(19,093)	(2,079)		(8,676)
	(180)		(597)	(164)		(365)	(51)		(235)
	(61)	(1)	(235)	(38)		(74)	(25)		(74)
			(4)			(1)			(2)
			(23)			(20)			(28)
	(464)	410		(139)	117	3	28	27	2
	626	(661)	0	751	(865)	(23)	225	(345)	(101)
	104	0	19	170	0	0	21	0	170
	(353)	218	98	1	(1)	136		126	43
	326	(124)	0	419	(203)		607	(434)	0
	0	0	0			0			0

millions of €

	Carrying amounts Dec. 31, 2016	Cash flows in 2017	2018	2019–2021	2022–2026	2027 and thereafter
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(54,722)	(9,981)	(4,771)	(20,298)	(22,863)	(11,956)
Finance lease liabilities	(2,547)	(710)	(581)	(1,014)	(610)	(338)
Liabilities with the right of creditors to priority repayment in the event of default	(1,866)	(81)	(81)	(239)	(1,844)	
Other interest-bearing liabilities	(1,823)	(1,285)	(216)	(238)	(145)	(108)
Other non-interest-bearing liabilities	(1,958)	(1,769)	(171)	(15)	(3)	
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(249)	(266)				
Currency derivatives in connection with cash flow hedges	(36)	(38)				
Currency derivatives in connection with net investment hedges	0					
Other derivatives without a hedging relationship	(5)	(3)	(3)			
Interest rate derivatives without a hedging relationship	(516)	(219)	(236)	(30)	(33)	164
Interest rate derivatives in connection with fair value hedges	(79)	(26)	(8)	(22)	(41)	(1)
Interest rate derivatives in connection with cash flow hedges	(12)	3	3	10	34	17
Derivative financial assets:						
Currency derivatives without a hedging relationship	131	134				
Currency derivatives in connection with cash flow hedges	25	13				
Other derivatives without a hedging relationship	3	0	0	1	0	0
Interest rate derivatives without a hedging relationship	832	270	207	120	96	207
Interest rate derivatives in connection with fair value hedges	230	52	64	92	17	266
Interest rate derivatives in connection with cash flow hedges	243	61	61	194	311	588
Derivative financial liabilities directly associated with non-current assets and disposal groups held for sale (without a hedging relationship) [a]	(50)					
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [b]	(1)	(75)				

[a] For more detailed information, please refer to Note 36 "Financial instruments and risk management," page 230 et seq. In each case, the maximum payment at the earliest possible date of utilization is shown.
[b] For more information, please refer to Note 36 "Financial instruments and risk management," page 230 et seq.

All instruments held at December 31, 2017 and for which payments were already contractually agreed were included. Planning data for future, new liabilities were not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2017. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities that were already outstanding as at January 1, 1995. At December 31, 2017, this figure was a nominal EUR 1.7 billion (December 31, 2016: EUR 1.6 billion).

11 TRADE AND OTHER PAYABLES

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Trade payables	10,934	10,388
Other liabilities	38	53
	10,971	**10,441**

Of the total of trade and other payables, EUR 10,971 million (December 31, 2016: EUR 10,441 million) is due within one year. The increase of EUR 0.5 billion in trade and other payables compared with the end of 2016 is due in particular to higher inventories of terminal equipment (in particular new smartphone models) in the United States and Germany operating segments. Exchange rate effects from the translation from U.S. dollars into euros have an offsetting effect.

12 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

DEFINED BENEFIT PLANS

The Group's pension obligations are based on direct and indirect pension commitments mainly in Germany, Greece, and Switzerland.

Deutsche Telekom's pension obligations are as follows:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
DEFINED BENEFIT LIABILITY	**8,375**	**8,451**
Defined benefit asset	(15)	(14)
NET DEFINED BENEFIT LIABILITY (ASSET)	**8,360**	**8,437**
Of which: provisions for direct commitments	7,968	7,944
Of which: provisions for indirect commitments	392	493

Defined benefit liabilities are disclosed under non-current liabilities in the consolidated statement of financial position. The defined benefit asset is recognized under other non-current assets in the consolidated statement of financial position.

Calculation of net defined benefit liabilities/assets:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Present value of the obligations fully or partially funded by plan assets	8,026	8,175
Plan assets at fair value	(3,102)	(2,990)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**4,924**	**5,185**
Present value of the unfunded obligations	3,436	3,252
DEFINED BENEFIT LIABILITY (ASSET) ACCORDING TO IAS 19.63	**8,360**	**8,437**
Effect of asset ceiling (according to IAS 19.64)	0	0
NET DEFINED BENEFIT LIABILITY (ASSET)	**8,360**	**8,437**

millions of €

	2017	2016
NET DEFINED BENEFIT LIABILITY (ASSET) AS OF JANUARY 1	**8,437**	**8,014**
Service cost	266	230
Net interest expense (income) on the net defined benefit liability (asset)	136	166
Remeasurement effects	(116)	660
Pension benefits paid directly by the employer	(347)	(343)
Employer contributions to plan assets	(10)	(264)
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	(1)	(25)
Administration costs actually incurred (paid from plan assets)	0	0
Exchange rate fluctuations for plans in foreign currency	(5)	(1)
NET DEFINED BENEFIT LIABILITY (ASSET) AS OF DECEMBER 31	**8,360**	**8,437**

Key assumptions for the measurement of the defined benefit obligations are the discount rate, the salary increase rate, the pension increase rate, and longevity. The following table shows the assumptions on which the measurement of defined benefit obligations as of December 31 of the respective year are based. The assumptions made as of December 31 of the respective prior year are used to measure the expected pension expense (defined benefit cost) of a given financial year.

From 2014, the following figures for the plans in Switzerland relate to T-Systems Schweiz AG and T-Systems Data Migration Consulting AG (previously only T-Systems Schweiz AG).

Assumptions for the measurement of defined benefit obligations as of December 31:

%

		2017	2016	2015
Discount rate	Germany	1.61	1.62	2.11
	Switzerland	0.64	0.62	0.83
	Greece (OTE S.A.)	1.66[a]/0.92[b]	1.62[a]/0.92[b]	2.13[a]/1.39[b]
Salary increase rate	Germany	2.40	2.40	2.50
	Switzerland	1.00	1.00	1.25
	Greece (OTE S.A.)	1.00[c]	1.00[d]	1.00[e]
Pension increase rate	Germany (general)	1.50	1.50	1.50
	Germany (according to articles of association)	1.00	1.00	1.00
	Switzerland	0.10	0.10	0.10
	Greece (OTE S.A.)	n. a.	n. a.	n. a.

[a] The discount rate relates to the plans for staff retirement indemnities and, until 2015, for phone credits (see the plan description, page 200 et seq.).
[b] The discount rate relates to the plan for youth accounts (see the plan description, page 200 et seq.).
[c] The following assumptions were made in 2017 concerning the development of salaries: 2018: 0.00 percent, 2019: 0.00 percent. An increase of 1.00 percent is assumed for the years from 2020 onward.
[d] The following assumptions were made in 2016 concerning the development of salaries in subsequent years: 2017: 0.00 percent, 2018: 0.00 percent, 2019: 0.00 percent, 2020: 0.00 percent. An increase of 1.00 percent is assumed for the years from 2021 onward.
[e] The following assumptions were made in 2015 concerning the development of salaries in subsequent years: 2016: 0.00 percent, 2017: 0.00 percent, 2018: 5.50 percent. An increase of 1.00 percent is assumed for the years from 2019 onward.

years

		Dec. 31, 2017	Dec. 31, 2016
Duration	Germany	13.6	14.0
	Switzerland	16.7	16.8
	Greece (OTE S.A.)	14.2/6.1	14.4[a]/6.4[b]

[a] The duration relates to the plans for staff retirement indemnities (see the plan description, page 200 et seq.).
[b] The duration relates to the plan for youth accounts (see the plan description, page 200 et seq.).

The following biometric assumptions were essential for the measurement of pension obligations: Germany: Heubeck 2005G, Switzerland: BVG 2015 Generational, Greece (OTE S.A.): EVK2000.

The aforementioned discount rates were used as of December 31, 2017 when calculating the present value of defined benefit obligations, taking into account future salary increases. These discount rates were set in line with the average weighted duration of the respective obligation.

In the eurozone, the discount rate is determined based on the yields of high-quality European corporate bonds with AA rating, mapped in a yield curve showing the corresponding spot rates. In order to adapt determination of the discount rate in Switzerland so that it approximates this system, the existing method was refined with effect from August 31, 2015. Instead of the swap yields previously used (for bonds with AAA rating), Swiss government bonds were taken as the basis for deriving a yield curve. Since the yield curve derived from the government bonds comprises a credit risk that is too low for accounting purposes, a further adjustment is made in the form of a risk premium (credit spread) based on high-quality Swiss corporate bonds. Since August 2015, this risk premium, which was previously applied as a constant for all durations, has been calculated separately for three duration intervals and used to determine the interest rate. As a result of further refinements made in May 2016, risk premiums are now calculated for all durations and discount rates on the basis of spot rates in the same way as for the eurozone.

Development of defined benefit obligations in the reporting year:

millions of €

	2017	2016
DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1	**11,427**	**10,753**
Current service cost	265	259
Interest cost	184	223
Remeasurement effects	(11)	698
Of which: experience-based adjustments	(12)	(15)
Of which: adjusted financial assumptions	18	721
Of which: adjusted demographic assumptions	(17)	(8)
Total benefits actually paid	(378)	(375)
Contributions by plan participants	4	5
Changes attributable to business combinations/transfers of operation/ acquisitions and disposals	(1)	(25)
Past service cost (due to plan amendments)	2	(27)
Past service cost (due to curtailments)	(9)	(4)
Settlements	8	(56)
Taxes to be paid as part of pensions	–	–
Exchange rate fluctuations for plans in foreign currency	(29)	(24)
DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31	**11,462**	**11,427**
Of which: active plan participants	5,350	5,245
Of which: plan participants with vested pension rights who left the Group	2,130	2,144
Of which: benefit recipients	3,982	4,038

Taking the plan assets into consideration, the pension obligations were accounted for in full.

Distribution of obligations relating to Deutsche Telekom's most significant plans as of December 31, 2017 and December 31, 2016:

millions of €

	Dec. 31, 2017				Dec. 31, 2016			
	Germany	Switzerland	Greece (OTE S.A.)	Other plans	Germany	Switzerland	Greece (OTE S.A.)	Other plans
Defined benefit obligations	10,688	221	239	314	10,608	251	248	320
Plan assets at fair value	(2,677)	(208)	–	(217)	(2,576)	(205)	–	(209)
Effect of asset ceiling	–	–	–	–	–	–	–	–
NET DEFINED BENEFIT LIABILITY (ASSET)	**8,011**	**13**	**239**	**97**	**8,032**	**46**	**248**	**111**

The following analyses in terms of age structure and sensitivity analysis, as well as descriptions of plans and the risks associated with them relate to the relevant pension obligations (Germany, Switzerland, and Greece (OTE S.A.)).

Age structure:
Deutsche Telekom's most significant plans are subject to the following status-related age structure.

Age structure of plan participants in the most significant pension plans at Deutsche Telekom[a]

[a] Figures relating to Greece (OTE S.A.) include the staff retirement indemnities plan only.

Sensitivity analysis for the defined benefit obligations:
The following sensitivity analysis describes the effects of possible adjustments in the material actuarial assumptions for measurement on the defined benefit obligations determined as of December 31, 2017. A change in the measurement assumptions to the extent described below, with otherwise unchanged assumptions, would have impacted the defined benefit obligations as of December 31, 2017 as follows:

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2017		
	Germany	Switzerland	Greece (OTE S.A.)
Increase of discount rate by 100 basis points	(1,219)	(25)	(26)
Decrease of discount rate by 100 basis points	1,490	42	31
Increase of salary increase rate by 50 basis points	7	3	9
Decrease of salary increase rate by 50 basis points	(6)	(3)	(9)
Increase of pension increase rate by 25 basis points	5	6	0
Decrease of pension increase rate by 25 basis points	(5)	(2)	0
Life expectancy increase by 1 year	270	6	0
Life expectancy decrease by 1 year	(269)	(6)	0

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2016		
	Germany	Switzerland	Greece (OTE S.A.)
Increase of discount rate by 100 basis points	(1,251)	(29)	(27)
Decrease of discount rate by 100 basis points	1,536	47	32
Increase of salary increase rate by 50 basis points	7	3	16
Decrease of salary increase rate by 50 basis points	(6)	(4)	(15)
Increase of pension increase rate by 25 basis points	6	6	0
Decrease of pension increase rate by 25 basis points	(5)	(2)	0
Life expectancy increase by 1 year	275	7	0
Life expectancy decrease by 1 year	(276)	(7)	0

Separate sensitivity analyses were carried out for the discount rate, the salary increase rate, and the pension increase rate. For this purpose, further actuarial evaluations were made for both the increase and the decrease of the assumptions. The variations used in the assumptions were selected in such a way that the probability that the respective assumption will not move beyond the analysis range within one year is 60 to 90 percent. In this context, a decreasing pension increase rate is generally limited to 0 percent. It can be assumed that the life expectancy of the plan members will not change significantly within a year. Nevertheless, the effect of a change in life expectancy on the obligations was additionally determined from a risk perspective. Evaluations were carried out based on the assumption that the life expectancy of the plan members aged 65 would increase or decrease by one year (age shift method). The age shift was applied to the remaining plan members accordingly. Variations in the assumed retirement age or turnover rates would only have an immaterial effect, especially in Germany.

Global pension policy and description of the plans:
Deutsche Telekom manages its pension commitments based on the Group-wide Global Pension Policy. It ensures on a worldwide basis that Group minimum standards regarding the granting and management of company pension benefits are complied with, plans are harmonized, and other risks to the core business are avoided or reduced. In addition, the policy provides guidelines for the implementation and management of pension commitments and defines requirements for the launch, adjustment, and closure of corresponding plans. The regulations and provisions laid down in this Group policy take into account the national differences in state pension and other commitments under labor, tax, and social law and the common business practices in the area of pension commitments.

Defined benefit plans based on final salaries in the Group have largely been replaced by plans with contribution-based promises to minimize the risks involved. In addition, a corporate CTA (Deutsche Telekom Trust e.V.) is used in Germany for additional funding of pension obligations. A CTA is a legally structured trust agreement to cover unfunded pension commitments with plan assets, and to provide greater protection against insolvency for these obligations.

In **Germany** there are commitments for pension and disability benefits for a majority of employees as well as pension benefits for their surviving dependents. As part of a reorganization of the company pension plan, a capital account plan was introduced across Germany in 1997 for active employees. Furthermore, in subsequent years, commitments acquired through company acquisitions were also transferred to the capital account plan scheme. The capital account plan is an employer-financed, contribution-based benefit promise. The salary-linked contributions granted annually are charged interest in advance for each year of provision up to age 60, calculated using age-based factors, converting the contribution into a guaranteed insured amount. The advance interest rate currently stands at 3.50 percent p.a. (target interest rate for the capital account plan).

Under the provisions of collective wage agreements, Deutsche Telekom reduced the interest granted on future contributions in its capital account plan in Germany in the 2016 financial year from 3.75 percent p.a. to the current level of 3.50 percent p.a. as past service cost by amending the plan. The option of changing the target interest rate makes it possible to achieve a yield on the contributions to the capital account that is in line with the capital market.

The period for providing contributions is initially limited to ten future contribution years. The contribution period will be extended automatically every year by a further year, unless terminated. The insured amounts accumulated over the period of active service are paid out if an insured event arises, primarily in the form of a lump sum. Hence there is only a limited longevity risk for these commitments. Based on the payment guidelines and the structure of the capital account plan, the employer can plan for this, and there is only a small risk inherent in the plan with regard to the volatility of remuneration dynamics.

In addition, in Germany there are various closed legacy commitments, which generally provide for old-age and disability benefits as well as benefits for surviving dependents in the form of life-long pensions. The commitments predominantly comprise the overall pension of the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP) that takes into account the statutory pension. Most of the plan members of these commitments are former employees with vested rights and retirees for whom the amount of benefits has already been determined. So the VAP overall pension scheme continues to apply to former employees who were already retired or who had left with vested claims in 1997.

To the extent that defined benefit plans in Germany grant annuities, the future adjustment for these pensions, except for insignificant exceptions, is bindingly defined in the existing benefit regulations. A change in the assumptions for the general pension trend in Germany therefore only has an immaterial impact on the defined benefit obligations.

As a change in life expectancy mainly impacts on the obligations from legacy pension commitments and, since 1997, commitments have been granted in the form of capital, the significance of the risk resulting from the change in life expectancy is expected to decline for the Group over subsequent years.

To cover pension obligations over the long term, Deutsche Telekom has transferred funds to a corporate CTA and a company special pension fund (Unterstützungskasse).

As part of the company pension scheme in **Switzerland** for T-Systems Schweiz AG, there is a contribution-based benefit plan financed by employer and employee contributions, which is managed by the legally independent T-Systems pension fund. Following a restructuring of the Swiss companies and harmonization of the pension fund commitments as of January 1, 2014, T-Systems Data Migration Consulting AG has also since been included in the pension fund of T-Systems Schweiz AG. As is often the case in Switzerland, both companies grant higher benefits than legally required. The Swiss Federal Law on Occupational Retirement, Surviving Dependants' and Disability Pension (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge – BVG) sets out minimum requirements for the pay to be insured, the age-based contributions, and a minimum annuity factor for the obligatory portion of the accrued retirement assets to be annuitized. In addition, the Swiss Federal Council defines a minimum interest rate for the obligatory retirement assets (2017: 1.00 percent, 2018: 1.00 percent).

The foundation board (Stiftungsrat) presides over the Swiss pension fund. It ensures the day-to-day running of the pension fund and decides on fundamental aspects, such as the amount and the structure of the pension benefits and the asset investment strategy. The foundation board is equally comprised of employer and employee representatives. According to information provided by the pension fund, the average annual yield of the fund in the past amounted to approximately 1.25 percent.

Due to the minimum yield for the obligatory retirement assets, a risk exists for the plans in Switzerland that additional resources would have to be allocated to the pension fund if it were to be underfinanced. The pension fund offers the plan members the option to choose a life-long pension instead of a one-time payment. This option gives rise to longevity and investment risks, since at the time of retirement, assumptions must be made regarding life expectancy and return on assets. In 2016, the pension fund of T-Systems Schweiz AG had announced that it would lower its conversion rates as of 2017. This reduced the future annual retirement pensions and thus resulted in lower pension provisions in 2016 (past service cost due to plan amendments).

In **Greece (OTE S.A.)**, mandatory staff retirement indemnities are due in cases of premature termination by the employer and, to a lesser extent, upon retirement by the employee. These are paid out as a lump sum and can amount to several times the employee's last monthly pay (including cap), depending on the employee's length of service. Due to a change in the law in 2012, the lump sum is capped at a maximum of twelve monthly salaries. The company also makes a voluntary top-up payment. In compliance with changes in the law, the minimum requirement of 35 years of service was eliminated as an eligibility requirement for early retirement benefits.

OTE S.A. is also obligated to make a one-time payment for the employees' children when they reach the age of 25 (youth accounts). The benefit plan, which had previously been based on the level of the employee's final monthly salary, was changed in November 2011 to a plan with a contribution-based promise financed by contributions by the employee and corresponding limited matching contributions by the employer.

The benefits granted by the staff retirement indemnities and youth account plans are paid out as a lump sum. For this reason there is no longevity risk. Employees and retirees were also entitled to phone credits until 2015. OTE S.A.'s payment obligation depends on the price of the telephone unit and the level of credit utilization by those entitled to them. The volume of the obligation (credit) is capped. Measured against the total amount of pension benefits paid by OTE S.A., the scope of these obligations is relatively small. OTE S.A. closed the phone credits plan at the start of 2016 and no longer grants any phone credits.

Development of plan assets at fair value in the respective reporting year:

millions of €

	2017	2016
PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1	**2,990**	**2,744**
Changes attributable to business combinations/transfers of operation/ acquisitions and disposals	0	0
Interest income on plan assets (calculated using the discount rate)	48	57
Amount by which the actual return exceeds (falls short of) the interest income on plan assets (remeasurement)	105	33
Contributions by employer	10	264
Contributions by plan participants	4	5
Benefits actually paid from plan assets	(31)	(32)
Settlements	0	(58)
Administration costs	0	0
Tax payments	–	–
Exchange rate fluctuations for plans in foreign currency	(24)	(23)
PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31	**3,102**	**2,990**

Contributions by employer as of December 31, 2017 do not include a payment to a corporate CTA in Germany on account of the payment planned for 2018 (December 31, 2016: EUR 250 million). Actual income from plan assets at fair value was substantially higher compared with the prior year.

Breakdown of plan assets at fair value by investment category:

millions of €

	Dec. 31, 2017	Of which: price in an active market	Of which: price without an active market
Equity securities	1,312	1,312	0
Debt securities	1,244	1,244	0
Real estate	56	56	0
Derivatives	0	0	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	350	350	0
Cash and cash equivalents	2	2	0
Other	138	101	37
PLAN ASSETS AT FAIR VALUE	**3,102**	**3,065**	**37**

millions of €

	Dec. 31, 2016	Of which: price in an active market	Of which: price without an active market
Equity securities	795	795	0
Debt securities	1,870	1,870	0
Real estate	56	56	0
Derivatives	1	1	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	135	135	0
Other	133	96	37
PLAN ASSETS AT FAIR VALUE	**2,990**	**2,953**	**37**

The investment policy and risk management is set in line with the risk and development characteristics of the pension obligations. On the basis of a systematic, integrated asset/liability management (ALM) analysis, potential results from different investment portfolios, which can cover a large number of asset classes, are compared with the stochastically simulated development of the pension obligations, thereby explicitly considering the relative development of plan assets against the pension obligations. The investment philosophy is mainly characterized by the objective of satisfying future obligations from granted pension commitments on time by systematically setting up and professionally managing a suitable portfolio for the plan assets. The investment strategy aims to establish a widely diversified investment portfolio that generates a risk profile appropriate to the overall objective, by means of corresponding risk factors and diversification. The management of investments is subject to continuous monitoring to ensure active risk management. Cost-efficient investment management is effected by means of professional portfolio management involving external service providers.

At the reporting date, the plan assets at fair value include shares issued by Deutsche Telekom AG amounting to EUR 3,349 thousand (December 31, 2016: shares totaling EUR 1,364 thousand). No other own financial instruments were included in the years shown.

Development of the effect of the asset ceiling:

millions of €

	2017	2016
EFFECT OF ASSET CEILING AS OF JANUARY 1	**0**	**5**
Interest expense on asset ceiling (recognized in the income statement)	0	0
Changes in asset ceiling ((gains) losses recognized in equity)	0	(5)
Currency gain (loss)	0	0
EFFECT OF ASSET CEILING AS OF DECEMBER 31	**0**	**0**

The defined benefit cost for each period is composed of the following items and reported in the indicated accounts of the income statement:

millions of €

	Disclosure in income statement	2017	2016	2015
Current service cost	Personnel costs	265	259	287
Past service cost (due to plan amendments)	Personnel costs	2	(27)	(3)
Past service cost (due to curtailments)	Personnel costs	(9)	(4)	(3)
Settlements	Personnel costs	8	2	4
SERVICE COST		**266**	**230**	**285**
Interest cost	Other financial income (expense)	184	223	207
Interest income on plan assets (calculated using the discount rate)	Other financial income (expense)	(48)	(57)	(50)
Interest expense on the effect of the asset ceiling	Other financial income (expense)	0	0	0
NET INTEREST EXPENSE (INCOME) ON NET DEFINED BENEFIT LIABILITY (ASSET)		**136**	**166**	**157**
DEFINED BENEFIT COST		**402**	**396**	**442**
Administration costs actually incurred (paid from plan assets)	Personnel costs	0	0	0
TOTAL AMOUNTS RECOGNIZED IN PROFIT OR LOSS		**402**	**396**	**442**

The consolidated statement of comprehensive income contains the following amounts:

millions of €

	2017	2016	2015
REMEASUREMENT ((GAIN) LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN THE FINANCIAL YEAR)	**(116)**	**660**	**(230)**
Of which: remeasurement due to a change in defined benefit obligations	(11)	698	(312)
Of which: remeasurement due to a change in plan assets	(105)	(33)	82
Of which: remeasurement due to changes in the effect of asset ceiling (according to IAS 19.64)	–	(5)	0

Total benefit payments expected:

millions of €

	2018	2019	2020	2021	2022
Benefits paid from pension provisions	353	392	414	457	433
Benefits paid from plan assets	30	31	31	36	33
TOTAL BENEFITS EXPECTED	**383**	**423**	**445**	**493**	**466**

Benefits paid directly by the employer for which the assets of the CTA can generally be utilized are usually reimbursed to the employer from the CTA assets soon after payment. Such reimbursements are currently not yet made as this would have a detrimental effect on the build-up of assets within the CTA in its first years.

To build up the plan assets, Deutsche Telekom is planning an allocation of its interests in the UK company BT at the fair value at this time to the CTA in Germany in 2018. Deutsche Telekom is also planning an international allocation of at least EUR 11 million in 2018.

Amounts for the current year and four preceding years of defined benefit obligations, plan assets, defined benefit obligations in excess of plan assets, and experience-based adjustments:

millions of €

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Defined benefit obligations	11,462	11,427	10,753	10,940	8,965
Plan assets at fair value	(3,102)	(2,990)	(2,744)	(2,498)	(1,973)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**8,360**	**8,437**	**8,009**	**8,442**	**6,992**

%

Adjustments	2017	2016	2015	2014	2013
Experience-based increase (decrease) of defined benefit obligations	(0.1)	(0.1)	0.0	(0.1)	0.3
Experience-based increase (decrease) of plan assets	3.4	1.1	(3.0)	8.3	0.7

DEFINED CONTRIBUTION PLANS

The employer's contribution paid to the statutory pension scheme (Deutsche Rentenversicherung) in Germany in the 2017 financial year totaled EUR 0.3 billion (2016: EUR 0.3 billion; 2015: EUR 0.3 billion). Group-wide, EUR 131 million (2016: EUR 109 million; 2015: EUR 94 million) from current contributions for additional defined contribution plans was recognized in the consolidated income statement in 2017.

CIVIL-SERVANT RETIREMENT ARRANGEMENTS AT DEUTSCHE TELEKOM

An expense of EUR 458 million was recognized in the 2017 financial year (2016: EUR 516 million; 2015: EUR 538 million) for the annual contribution to the Civil Service Pension Fund generally amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value of future payment obligations was EUR 3.1 billion at the reporting date (December 31, 2016: EUR 3.6 billion; December 31, 2015: EUR 4.2 billion) and is shown under other financial obligations (please refer to Note 34 "Other financial obligations," page 228).

13 OTHER PROVISIONS

millions of €

	Provisions for termination benefits	Other provisions for personnel costs	Provisions for restoration obligations	Provisions for litigation risks	Provisions for sales and procurement support	Miscellaneous other provisions	Total
AT DECEMBER 31, 2015	**186**	**2,263**	**1,546**	**314**	**460**	**1,576**	**6,345**
Of which: current	183	1,452	66	307	460	899	3,367
Changes in the composition of the Group	(4)	0	0	0	0	(1)	(5)
Currency translation adjustments	0	21	16	1	4	6	48
Addition	62	1,892	327	64	470	417	3,232
Use	(45)	(1,595)	(187)	(26)	(489)	(446)	(2,788)
Reversal	(3)	(117)	(80)	(23)	(30)	(243)	(496)
Interest effect	0	107	31	0	0	11	149
Other changes	1	(17)	(1)	(2)	8	(86)	(97)
AT DECEMBER 31, 2016	**197**	**2,554**	**1,652**	**328**	**423**	**1,234**	**6,388**
Of which: current	178	1,472	51	318	423	626	3,068
Changes in the composition of the Group	0	1	0	0	0	1	2
Currency translation adjustments	0	(59)	(65)	(2)	(25)	(44)	(195)
Addition	41	1,911	121	86	754	432	3,345
Use	(54)	(1,520)	(57)	(69)	(423)	(390)	(2,513)
Reversal	(17)	(121)	(68)	(17)	(23)	(163)	(409)
Interest effect	0	0	22	0	0	11	33
Other changes	0	(109)	(14)	0	0	(1)	(124)
AT DECEMBER 31, 2017	**167**	**2,657**	**1,591**	**326**	**706**	**1,080**	**6,527**
Of which: current	166	1,481	40	311	706	668	3,372

In the measurement of the other provisions, Deutsche Telekom is exposed to interest rate fluctuations, which is why the effect of a possible change in the interest rate on the principal non-current provisions was simulated. The other, non-staff-related provisions are discounted using maturity-related discount rates specific for the respective currency area. To this end, Deutsche Telekom determines discount rates with maturities of up to 30 years. In 2017, the discount rates ranged from 0.00 to 3.08 percent (2016: from 0.00 to 3.38 percent) in the euro currency area and from 2.42 to 4.96 percent (2016: from 1.72 to 5.56 percent) in the U.S. dollar currency area. If the discount rate were increased by 50 basis points with no other change in the assumptions, the present value of the principal other non-current provisions would decrease by EUR 111.6 million (December 31, 2016: EUR 107.7 million). If the discount rate were decreased by 50 basis points with no other change in the assumptions, the present value of the principal other non-current provisions would increase by EUR 103.1 million (December 31, 2016: EUR 114.1 million).

Provisions for termination benefits and other personnel provisions include provisions for staff restructuring. These provisions developed as follows in the financial year:

millions of €

	Jan. 1, 2017	Addition	Use	Reversal	Other changes	Dec. 31, 2017
Severance and voluntary redundancy models	197	41	(54)	(17)	0	167
Partial retirement	420	437	(294)	0	(74)	489
	617	**478**	**(348)**	**(17)**	**(74)**	**656**
Of which: current	311					316

Other provisions for personnel costs include provisions for deferred compensation and allowances, as well as for anniversary gifts.

Provisions for restoration obligations include the estimated costs for dismantling and removing an asset, and restoring the site on which it is located. The estimated costs are included in the costs of the relevant asset.

The provisions for litigation risks primarily relate to possible settlements attributable to pending lawsuits. In the Toll Collect arbitration proceedings, appropriate provisions for risks have been recognized in the statement of financial position since 2014. For further information, please refer to the explanations in Note 32 "Contingencies," page 224 et seq.

Provisions for sales and procurement support are recognized for dealer commissions, subsidies for advertising expenses, and reimbursements.

Miscellaneous other provisions include a large number of low-value individual items, such as provisions related to executory contracts, the disposal of businesses and site closures, in particular in prior financial years, as well as warranty and environmental damage provisions.

14 OTHER LIABILITIES

millions of €

	Dec. 31, 2017	Of which: current	Dec. 31, 2016	Of which: current
Early retirement	1,283	447	1,856	573
Deferred revenue	2,321	1,759	2,665	2,080
Liabilities from straight-line leases	2,098	–	2,334	–
Liabilities from other taxes	1,133	1,133	1,092	1,092
Other deferred revenue	626	424	565	401
Liabilities from severance payments	140	139	96	96
Miscellaneous other liabilities	670	538	679	537
	8,271	**4,440**	**9,287**	**4,779**

Liabilities from early retirement arrangements for civil servants exist vis-à-vis the Civil Service Pension Fund and arise from payment obligations under agreements that had already been concluded in prior years. The obligations are payable in up to seven annual installments following retirement. EUR 0.3 billion of the decline in liabilities from straight-line leases was attributable to exchange rate effects from the translation of U.S. dollars into euros.

15 SHAREHOLDERS' EQUITY

ISSUED CAPITAL

As of December 31, 2017, the share capital of Deutsche Telekom totaled EUR 12,189 million. The share capital is divided into 4,761,458,596 no par value registered shares.

	2017		2016	
	thousands	%	thousands	%
Federal Republic of Germany – Berlin, Germany	689,601	14.5	676,971	14.5
KfW Bankengruppe – Frankfurt/Main, Germany	829,179	17.4	818,992	17.5
Free float	3,242,679	68.1	3,180,939	68.0
Of which: BlackRock, Inc., Wilmington, DE, United States [a]	234,194		214,174	
	4,761,459	**100.0**	**4,676,902**	**100.0**

[a] According to the last notification from BlackRock published on September 22, 2017, the reporting threshold of 3 percent of the voting rights was thus exceeded. The stake in Deutsche Telekom was thus 4.92 percent of the voting rights on September 15, 2017.

Treasury shares. The shareholders' meeting resolved on May 25, 2016 to authorize the Board of Management to purchase shares in the Company by May 24, 2021, with the amount of share capital accounted for by these shares totaling up to EUR 1,179,302,878.72, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 25, 2016 under item 6 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 25, 2016, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the authorization by the shareholders' meeting on May 25, 2016 described above and corresponding authorizations by the shareholders' meeting on May 12, 2011 and May 24, 2012, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively. Further, 90 thousand shares and 860 thousand shares were acquired in September and October 2015, respectively, for an aggregate amount of EUR 14,787 thousand (excluding transaction costs); these acquisitions increased the number of treasury shares by 950 thousand.

No treasury shares were acquired in the reporting period.

As part of the Share Matching Plan, a total of 2 thousand treasury shares were transferred free of charge to the custody accounts of eligible participants in the 2012 and 2013 financial years. A further 90 thousand treasury shares were transferred free of charge in the 2014 financial year. An additional 140 thousand treasury shares were transferred in the 2015 financial year. In the 2016 financial year, 232 thousand treasury shares were transferred. Transfers of treasury shares to the custody accounts of employees of Deutsche Telekom AG are free of charge. In cases where treasury shares are transferred to the custody accounts of employees of other Group companies, the costs have been transferred at fair value to the respective Group company since the 2016 financial year.

A total of 300 thousand treasury shares were reallocated in January, March, April, May, June, July, August, September, October, and December 2017 and transferred to the custody accounts of eligible participants of the Share Matching Plan. As of December 31, 2017, disposals of treasury shares resulting from the transfers in the reporting period accounted for less than 0.01 percent, or EUR 769 thousand, of share capital. Gains on disposal arising from transfers of treasury shares amounted to EUR 2,986 thousand. In the reporting year, 107 thousand treasury shares with a fair value of EUR 1,763 thousand were billed to other Group companies. Transfers of treasury shares increased retained earnings by EUR 511 thousand and capital reserves by EUR 310 thousand.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001, Deutsche Telekom AG issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights expired in full in the 2013 financial year. As a result, the trustee no longer had any obligation to fulfill any claims in accordance with the purpose of the deposit. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred free of charge to a custody account of Deutsche Telekom AG. The 18,517 thousand previously deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1a) HGB. This equates to 0.4 percent, or EUR 48 million, of Deutsche Telekom's capital stock. On the basis of authorization by the shareholders' meeting on May 25, 2016, the treasury shares acquired free of charge may be used for the same purposes as the treasury shares acquired for a consideration.

Voting rights. Each share entitles the holder to one vote. These voting rights are restricted, however, in relation to treasury shares (at December 31, 2017: around 19 million in total).

Authorized capital and contingent capital. Authorized capital and contingent capital comprised the following components as of December 31, 2017:

	Amount millions of €	No par value shares thousands	Purpose
2017 Authorized capital[a]	3,600	1,406	Capital increase against cash contribution/contribution in kind (until May 30, 2022)
2014 Contingent capital	1,100	429,688	Servicing convertible bonds and/or bonds with warrants issued on or before May 14, 2019

[a] The Supervisory Board's approval is required.

Capital increase in connection with the dividend in kind. The resolution on the dividend of EUR 0.60 per share for the 2016 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. In June 2017, dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.4 billion were contributed in the form of shares from authorized capital and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2017. This increased capital reserves by EUR 1.2 billion. The number of shares increased by 84.6 million.

TRANSACTIONS WITH OWNERS

The total of EUR 1,341 million shown under transactions with owners is made up of EUR 364 million from the share of equity held by the owners of the parent company, and EUR 977 million from the share held by non-controlling interests. These amounts result in part from the mandatory conversion of preferred stock issued by T-Mobile US in December 2014 into ordinary shares of T-Mobile US in December 2017. In connection with this, conversion rights embedded in this preferred stock were reclassified. In total, EUR 1,707 million was reclassified from financial liabilities to the capital reserves in a non-cash transaction. Taking into account the reduction in the ownership interest in T-Mobile US by around 2.4 percentage points as a result of the conversion, EUR 599 million relates to the share of equity held by the owners of the parent company, and EUR 1,108 million to the share held by non-controlling interests. Furthermore, by December 31, 2017, shares worth a total of EUR 375 million had been bought back under the T-Mobile US share buy-back program begun in December 2017. Of this amount, EUR 133 million related to the share of equity held by the owners of the parent company and EUR 242 million to the share held by non-controlling interests. The effects for the reporting year and the previous year are shown in Deutsche Telekom's consolidated statement of changes in equity as of December 31, 2017 (see pages 150 and 151). Deutsche Telekom intends to acquire further ordinary shares in T-Mobile US in 2018.

millions of €

	2017			2016		
	Issued capital and reserves attributable to owners of the parent	Non-controlling interests	Total shareholders' equity	Issued capital and reserves attributable to owners of the parent	Non-controlling interests	Total shareholders' equity
Changes in the composition of the Group	**–**	**6**	**6**	**–**	**–**	**–**
Other effects	–	6	6	–	–	–
Transactions with owners	**364**	**977**	**1,341**	**(93)**	**117**	**24**
Conversion of T-Mobile US preferred stock	599	1,108	1,707	–	–	–
T-Mobile US share buy-back	(133)	(242)	(375)	–	–	–
Other effects	(102)	111	9	(93)	117	24

For further information, please refer to the section "Summary of accounting policies" under "Changes in the composition of the Group and other transactions," page 171 et seq.

NON-CONTROLLING INTERESTS: TOTAL OTHER COMPREHENSIVE INCOME

Total other comprehensive income of non-controlling interests primarily comprises remeasurement effects as part of the acquisition of the OTE group (business combination achieved in stages) totaling EUR 0.5 billion (December 31, 2016: EUR 0.6 billion) and currency translation effects of EUR -0.5 billion (December 31, 2016: EUR 0.4 billion).

NOTES TO THE CONSOLIDATED INCOME STATEMENT

For detailed information on special factors, please refer to the combined management report in the section "Development of business in the Group," page 49 et seq.

16 NET REVENUE

Net revenue breaks down into the following revenue categories:

millions of €

	2017	2016	2015
Revenue from the rendering of services	62,532	61,362	59,033
Revenue from the sale of goods and merchandise	11,079	9,901	9,460
Revenue from the use of entity assets by others	1,336	1,832	735
	74,947	**73,095**	**69,228**

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report, page 49 et seq.

17 OTHER OPERATING INCOME

millions of €

	2017	2016	2015
Income from the reversal of impairment losses on non-current assets	1,665	17	14
Of which: IFRS 5	3	8	6
Income from the disposal of non-current assets	310	650	290
Income from insurance compensation	71	88	66
Income from reimbursements	197	223	272
Income from ancillary services	33	36	49
Miscellaneous other operating income	1,543	3,166	1,317
Of which: income from divestitures and from the sale of stakes accounted for using the equity method	763	2,598	585
	3,819	**4,180**	**2,008**

Income from the reversal of impairment losses on non-current assets mainly comprises the partial reversal in the third quarter of 2017 of impairment losses on spectrum licenses at T-Mobile US, increasing their carrying amount by EUR 1.7 billion before deferred taxes (for further information, please refer to Note 5 "Intangible assets," page 180 et seq.). Income from the disposal of non-current assets decreased by EUR 0.3 billion compared with the prior year. This was attributable to income of EUR 0.5 billion recognized in the prior year from transactions for the exchange of spectrum licenses between T-Mobile US and two telecommunications companies. Total income of EUR 0.2 billion was recorded in 2017 from transactions for the exchange of spectrum licenses completed between T-Mobile US and telecommunications companies. Miscellaneous other operating income decreased by EUR 1.6 billion year-on-year. The main items posted in 2017 were income of EUR 0.5 billion from the divestiture of Strato AG, income of EUR 0.2 billion from a payment received in connection with the settlement agreement concluded with BT in July 2017, and income of EUR 0.2 billion from the sale of the remaining shares in Scout24 AG, which had been accounted for using the equity method. In the prior year, income from the sale of stakes accounted for using the equity method included EUR 2.5 billion from the sale of the stake in the EE joint venture. Around EUR 0.9 billion of this amount was accounted for by effects recognized directly in equity in previous years.

18 OWN CAPITALIZED COSTS

Own capitalized costs amounted to EUR 2.3 billion in the reporting year (2016: EUR 2.1 billion; 2015: EUR 2.0 billion) and mainly relate to investments in network build-out and the development of platforms for cell sites.

19 GOODS AND SERVICES PURCHASED

millions of €

	2017	2016	2015
Expenses for raw materials and supplies	1,960	2,397	2,308
Expenses for merchandise	14,618	13,516	12,479
Expenses for services purchased	21,583	21,171	20,919
	38,161	**37,084**	**35,706**

20 AVERAGE NUMBER OF EMPLOYEES AND PERSONNEL COSTS

	2017	2016	2015
GROUP (TOTAL)	**216,454**	**220,582**	**226,332**
Domestic	103,174	107,793	113,277
International	113,280	112,790	113,055
Non-civil servants	200,673	203,110	207,153
Civil servants (domestic, active service relationship)	15,781	17,472	19,179
Trainees and students on cooperative degree courses	6,559	7,510	7,942
PERSONNEL COSTS millions of €	**15,504**	**16,463**	**15,856**

The average headcount decreased by 1.9 percent compared with the prior year. This trend is largely attributable to a lower average domestic headcount, which was down by 4.3 percent. Staff restructuring measures in the Germany operating segment and the Group Headquarters & Group Services segment in particular contributed to this trend. In addition, Strato

AG was deconsolidated from the Group Development operating segment as of March 31, 2017.

Outside of Germany, the average number of employees increased in total slightly by 0.4 percent due to staff increases both in the United States and the Europe operating segments as well as in the Group Headquarters & Group Services segment.

Personnel costs decreased by 5.8 percent year-on-year, due to the high restructuring expenses in connection with the early retirement arrangements for civil servants in the prior year and the lower average headcount in Germany. By contrast, higher average salaries of employees resulted in an increase in personnel costs.

21 OTHER OPERATING EXPENSES

millions of €

	2017	2016	2015
Legal and audit fees	265	212	230
Losses from asset disposals	207	157	187
Expenses from measurement of receivables	692	819	905
Other taxes	432	407	373
Cash and guarantee transaction costs	344	305	377
Insurance expenses	87	92	88
Miscellaneous other operating expenses	1,417	1,292	1,156
	3,444	**3,284**	**3,316**

Other operating expenses increased year-on-year by EUR 0.2 billion. Miscellaneous other operating expenses comprise a large number of low-value individual items, including other administrative expenses and fees totaling EUR 217 million (2016: EUR 189 million; 2015: EUR 240 million).

22 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

The following table provides a breakdown of depreciation, amortization and impairment losses:

millions of €

	2017	2016	2015
AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS	**6,193**	**4,602**	**4,109**
Of which: Goodwill impairment losses	2,071	471	43
Amortization of mobile licenses	1,038	949	898
Impairment losses on mobile licenses	4	–	–
DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	**8,393**	**8,778**	**7,251**
Of which: Impairment losses recognized on property, plant and equipment	81	221	101
	14,586	**13,380**	**11,360**

Impairment losses break down as follows:

millions of €

	2017	2016	2015
INTANGIBLE ASSETS	**2,077**	**472**	**61**
Of which: Goodwill from the year-end impairment test	829	471	43
Goodwill in connection with ad hoc impairment testing in the Systems Solutions operating segment	1,242	–	–
FCC licenses	4	–	–
PROPERTY, PLANT AND EQUIPMENT	**81**	**221**	**101**
Of which: From the year-end impairment test	37	128	–
	2,158	**693**	**162**

Depreciation, amortization and impairment losses increased by EUR 1.2 billion year-on-year, mainly as a result of the impairment losses recognized on goodwill in the Systems Solutions operating segment of EUR 1.2 billion and in the Europe operating segment in the national companies in Poland, Romania, and Albania of EUR 0.8 billion in total. Furthermore, impairment losses of EUR 0.1 billion were recognized on property, plant and equipment following scheduled and ad hoc impairment testing at the cash-generating units. Impairment losses on property, plant and equipment related mainly to the asset category of land and equivalent rights, and buildings including buildings on land owned by third parties and technical equipment and machinery. Depreciation and amortization were down slightly on the prior-year period. Depreciation and amortization relating primarily to the build-out of the 4G/LTE network in the United States operating segment increased this item. This was partially offset by lower depreciation in connection with terminal equipment leased as part of the JUMP! On Demand program.

For further details, please refer to Note 5 "Intangible assets," page 180 et seq., and Note 6 "Property, plant and equipment," pages 186 and 187.

23 FINANCE COSTS

millions of €

	2017	2016	2015
Interest income	320	223	246
Interest expense	(2,517)	(2,715)	(2,609)
	(2,197)	**(2,492)**	**(2,363)**
Of which: from financial instruments relating to categories in accordance with IAS 39			
Loans and receivables (LaR)	32	25	34
Held-to-maturity investments (HtM)	–	–	–
Available-for-sale financial assets (AfS)	15	12	7
Financial liabilities measured at amortized cost (FLAC)[a]	(2,091)	(2,383)	(2,288)

[a] Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives recognized in the reporting period that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2017: interest income of EUR 260 million and interest expense of EUR 165 million, 2016: interest income of EUR 175 million and interest expense of EUR 109 million, 2015: interest income of EUR 182 million and interest expense of EUR 89 million).

The year-on-year decrease in finance costs is mainly attributable to the decrease in external funding of T-Mobile US.

EUR 176 million (2016: EUR 164 million; 2015: EUR 217 million) was capitalized as part of acquisition costs in the financial year. The amount was calculated on the basis of an interest rate in the average range between 4.4 percent at the start of the year and 3.9 percent at the end of the year (2016: between 3.5 and 4.4 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 4.0 billion (2016: EUR 3.6 billion; 2015: EUR 3.7 billion) were made in the financial year.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

24 SHARE OF PROFIT/LOSS OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

millions of €

	2017	2016	2015
Share of profit (loss) of joint ventures	12	(5)	(1)
Share of profit (loss) of associates	64	(48)	25
	76	**(53)**	**24**

The share of profit/loss of associates and joint ventures included in the consolidated financial statements using the equity method increased by EUR 0.1 billion compared with the prior year. The main factor in this was the full reversal in the reporting year of an impairment of EUR 50 million recognized in 2016 on the carrying amount of Ströer SE & Co. KGaA.

25 OTHER FINANCIAL INCOME/EXPENSE

millions of €

	2017	2016	2015
Income from investments	179	346	436
Gains (losses) from financial instruments	(2,270)	(2,136)	(75)
Interest component from measurement of provisions and liabilities	(178)	(282)	(272)
	(2,269)	**(2,072)**	**89**

All income/expense components including interest income and expense from financial instruments classified as held for trading in accordance with IAS 39 are reported under other financial income/expense.

Income from investments includes the dividends of around EUR 0.2 billion received from the financial stake in BT (2016: EUR 0.2 billion). In the prior year, this item also included a final dividend of around EUR 0.2 billion received in connection with the sale of our stake in the EE joint venture. The dividend payments recognized in profit or loss related to the reclassification (to non-current assets and disposal groups held for sale) of the stake held in the joint venture; this reclassification was effected prior to sale.

Gains/losses from financial instruments comprise currency translation effects, including gains/losses of EUR –198 million (2016: gains of EUR 45 million; 2015: losses of EUR –295 million) from derivatives used as hedges in foreign-currency hedge accounting and gains/losses from other derivatives as well as measurements of equity investments totaling EUR –2,072 million (2016: losses of EUR –2,181 million; 2015: gains of EUR 220 million). Of the gains/losses from the measurement of equity investments recognized in the financial year, the amount of EUR 1.5 billion was attributable to impairments of the financial stake in BT recognized in profit or loss. These impairments comprise both the share price effect and the exchange rate effect. For further information, please refer to the explanations in Note 36 “Financial instruments and risk management” in the notes to the consolidated financial statements, page 230 et seq.

26 INCOME TAXES

INCOME TAXES IN THE CONSOLIDATED INCOME STATEMENT

In the 2017 financial year, with a profit before income tax of EUR 5.0 billion, the tax benefit totaled EUR 0.6 billion. This tax benefit is mainly attributable to the reduction in the U.S. federal tax rate from 35 percent to 21 percent, which resulted in non-cash deferred tax benefits of EUR 2.7 billion at T-Mobile US arising from the remeasurement of the surplus amount of deferred tax liabilities. In addition, deferred tax assets of EUR 0.2 billion were recognized on federal loss carryforwards in the United States. In Germany, there was a tax benefit of a similar amount for previous years.

By contrast, the effective tax rate was increased by impairment losses on the financial stakes in BT and on goodwill in the Systems Solutions and Europe operating segments, which did not reduce the tax expense, and were only partially offset by tax-free proceeds from the disposal of interests in Strato and Scout24 AG.

In the prior year, a tax expense of EUR 1.4 billion was recorded, corresponding to an effective tax rate of 32 percent.

The following table provides a breakdown of income taxes in Germany and internationally:

millions of €

	2017	2016	2015
CURRENT TAXES	**569**	**468**	**249**
Germany	219	161	(16)
International	350	307	265
DEFERRED TAXES	**(1,127)**	**975**	**1,027**
Germany	116	91	831
International	(1,243)	884	196
	(558)	**1,443**	**1,276**

Deutsche Telekom's combined income tax rate for 2017 amounts to 31.4 percent (2016: 31.1 percent; 2015: 31.1 percent). It consists of corporate income tax at a rate of 15.0 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade tax at an average multiplier of 445 percent (2016: 436 percent; 2015: 436 percent).

Reconciliation of the effective tax rate. Income taxes of EUR 558 million (as benefit) in the reporting year, 2016: EUR –1,443 million (as expense), 2015: EUR –1,276 million (as expense) are derived as follows from the expected income tax expense/benefit that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit/loss before income taxes:

millions of €

		2017	2016	2015
PROFIT BEFORE INCOME TAXES		**4,994**	**4,547**	**4,778**
Expected income tax expense (benefit) (income tax rate applicable to Deutsche Telekom AG: 2017: 31.4 %, 2016: 31.1 %, 2015: 31.1 %)		1,568	1,414	1,486
ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)				
Effect of changes in statutory tax rates		(2,738)	(49)	(3)
Tax effects from prior years		(132)	(58)	(112)
Tax effects from other income taxes		(141)	122	70
Non-taxable income		(329)	(75)	(154)
Tax effects from equity investments		(81)	(850)	(191)
Non-deductible expenses		591	790	98
Permanent differences		83	158	(27)
Goodwill impairment losses		620	133	(12)
Tax effects from loss carryforwards		(11)	(237)	34
Tax effects from additions to and reductions of local taxes		72	59	65
Adjustment of taxes to different foreign tax rates		(59)	26	24
Other tax effects		(1)	10	(2)
INCOME TAX (BENEFIT) EXPENSE ACCORDING TO THE CONSOLIDATED INCOME STATEMENT		**(558)**	**1,443**	**1,276**
Effective income tax rate	%	(11)	32	27

Current income taxes in the consolidated income statement

The following table provides a breakdown of current income taxes:

millions of €

	2017	2016	2015
CURRENT INCOME TAXES	**569**	**468**	**249**
Of which: Current tax expense	741	494	347
Prior-period tax expense	(172)	(26)	(98)

Deferred taxes in the consolidated income statement

Deferred taxes developed as follows:

millions of €

	2017	2016	2015
DEFERRED TAX EXPENSE (BENEFIT)	**(1,127)**	**975**	**1,027**
Of which: From temporary differences	(765)	567	154
From loss carryforwards	(381)	339	917
From tax credits	19	69	(44)

INCOME TAXES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current income taxes in the consolidated statement of financial position:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Recoverable taxes	236	218
Tax liabilities	(224)	(222)
Current taxes recognized in other comprehensive income: Hedging instruments	(267)	(203)

Deferred taxes in the consolidated statement of financial position:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Deferred tax assets	4,013	5,210
Deferred tax liabilities	(6,967)	(10,007)
	(2,954)	**(4,797)**
Of which: Recognized in other comprehensive income: Gain (loss) from the remeasurement of defined benefit plans	1,280	1,300
Revaluation surplus	–	–
Hedging instruments	17	10
RECOGNIZED IN OTHER COMPREHENSIVE INCOME BEFORE NON-CONTROLLING INTERESTS	**1,297**	**1,310**
Non-controlling interests	(12)	(12)
	1,285	**1,298**

Development of deferred taxes:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Deferred taxes recognized in the statement of financial position	(2,954)	(4,797)
Difference to prior year	1,843	(840)
Of which: Recognized in income statement	1,127	(975)
Recognized in other comprehensive income	(13)	257
Recognized in capital reserves	(56)	96
Acquisitions (disposals) (including assets and disposal groups held for sale)	11	2
Currency translation adjustments	774	(220)

Development of deferred taxes on loss carryforwards:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Deferred taxes on loss carryforwards before allowances	2,251	2,357
Difference to prior year	(106)	(576)
Of which: Recognition (derecognition)	88	(538)
Acquisitions (disposals) (including assets and disposal groups held for sale)	(6)	(24)
Currency translation adjustments	(188)	(14)

Deferred taxes relate to the following key items in the statement of financial position, loss carryforwards, and tax credits:

millions of €

	Dec. 31, 2017		Dec. 31, 2016[a]	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
CURRENT ASSETS	**1,255**	**(423)**	**1,124**	**(429)**
Trade and other receivables	497	(132)	520	(130)
Inventories	100	(16)	82	(2)
Other assets	658	(275)	522	(297)
NON-CURRENT ASSETS	**2,964**	**(10,803)**	**3,297**	**(13,992)**
Intangible assets	502	(6,339)	602	(8,803)
Property, plant and equipment	636	(3,236)	772	(3,129)
Other financial assets	1,826	(1,228)	1,923	(2,060)
CURRENT LIABILITIES	**925**	**(613)**	**1,364**	**(630)**
Financial liabilities	206	(384)	424	(371)
Trade and other payables	55	(11)	67	(40)
Other provisions	286	(58)	346	(53)
Other liabilities	378	(160)	527	(166)
NON-CURRENT LIABILITIES	**4,746**	**(2,859)**	**5,949**	**(3,172)**
Financial liabilities	1,288	(1,249)	1,876	(1,669)
Provisions for pensions and other employee benefits	1,735	(1,398)	1,687	(1,292)
Other provisions	693	(187)	897	(179)
Other liabilities	1,030	(25)	1,489	(32)
RETAINED EARNINGS		**(67)**		**–**
TAX CREDITS	**236**	**–**	**290**	**–**
LOSS CARRYFORWARDS	**1,537**	**–**	**1,144**	**–**
INTEREST CARRYFORWARDS	**148**	**–**	**258**	**–**
TOTAL	**11,811**	**(14,765)**	**13,426**	**(18,223)**
Of which: non-current	9,798	(13,738)	10,773	(17,124)
Netting	(7,798)	7,798	(8,216)	8,216
RECOGNITION	**4,013**	**(6,967)**	**5,210**	**(10,007)**

[a] Contrary to the previous presentation, Deutsche Telekom states the deferred taxes for each kind of deductible difference and tax loss carryforward as net amounts instead of as gross amounts as hitherto. The prior-year comparatives were adjusted retrospectively.

The loss carryforwards amount to:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**6,473**	**5,275**
Expiry within		
1 year	89	147
2 years	29	121
3 years	55	46
4 years	18	55
5 years	711	32
After 5 years	3,629	2,444
Unlimited carryforward period	1,942	2,430

Loss carryforwards and temporary differences for which no deferred taxes were recorded amount to:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	**1,034**	**1,407**
Expiry within		
1 year	79	147
2 years	5	121
3 years	37	32
4 years	12	48
5 years	42	20
After 5 years	63	135
Unlimited carryforward period	796	904
TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX	**665**	**490**

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 19 million (December 31, 2016: EUR 33 million) and on temporary differences for trade tax purposes in the amount of EUR 5 million (December 31, 2016: EUR 3 million). Furthermore, apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 522 million (December 31, 2016: EUR 817 million) were recognized for other foreign income tax loss carryforwards and, apart from temporary differences for trade tax purposes, no deferred taxes in the amount of EUR 6 million (December 31, 2016: EUR 34 million) were recognized for other foreign income taxes.

No deferred tax assets were recognized on the aforementioned tax loss carryforwards and temporary differences as it is not probable that taxable profit will be available in the foreseeable future against which these tax loss carryforwards can be utilized.

A positive tax effect in the amount of EUR 25 million (2016: EUR 28 million; 2015: EUR 16 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded in the reporting year.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 558 million (December 31, 2016: EUR 309 million) as it is unlikely that these differences will be reversed in the near future.

Disclosure of tax effects relating to each component of other comprehensive income:

millions of €

	2017			2016			2015		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Items not reclassified to the income statement retrospectively									
Gain (loss) from the remeasurement of defined benefit plans	116	(19)	97	(660)	205	(455)	230	(60)	170
Share of profit (loss) of investments accounted for using the equity method	0	0	0	0	0	0	0	0	0
	116	**(19)**	**97**	**(660)**	**205**	**(455)**	**230**	**(60)**	**170**
Items reclassified to the income statement retrospectively, if certain reasons are given									
Exchange differences on translating foreign operations									
Recognition of other comprehensive income in income statement	0	0	0	(948)	0	(948)	4	(1)	3
Change in other comprehensive income (not recognized in income statement)	(2,196)	0	(2,196)	395	0	395	2,000	0	2,000
Available-for-sale financial assets									
Recognition of other comprehensive income in income statement	7	(2)	5	2,282	(1)	2,281	0	0	0
Change in other comprehensive income (not recognized in income statement)	27	0	27	(2,323)	0	(2,323)	31	0	31
Gains (losses) from hedging instruments									
Recognition of other comprehensive income in income statement	450	(141)	309	328	(102)	226	(255)	79	(176)
Change in other comprehensive income (not recognized in income statement)	(270)	85	(185)	(457)	142	(315)	653	(205)	448
Share of profit (loss) of investments accounted for using the equity method									
Recognition of other comprehensive income in income statement	0	0	0	7	0	7	0	0	0
Change in other comprehensive income (not recognized in income statement)	0	0	0	1	0	1	25	0	25
	(1,982)	**(58)**	**(2,040)**	**(715)**	**39**	**(676)**	**2,458**	**(127)**	**2,331**
OTHER COMPREHENSIVE INCOME	**(1,866)**	**(77)**	**(1,943)**	**(1,375)**	**244**	**(1,131)**	**2,688**	**(187)**	**2,501**
Profit (loss)			5,551			3,104			3,502
TOTAL COMPREHENSIVE INCOME			**3,608**			**1,973**			**6,003**

27 PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

millions of €

	2017	2016	2015
T-Mobile US	1,933	400	186
Hrvatski Telekom	48	55	69
Hellenic Telecommunications Organization (OTE)	49	(129)	(63)
Magyar Telekom	56	84	50
Slovak Telekom	–	–	6
Other	4	19	0
	2,090	**429**	**248**

28 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated in accordance with IAS 33 as follows:

		2017	2016	2015
Profit attributable to the owners of the parent (net profit (loss))	millions of €	3,461	2,675	3,254
Adjustment	millions of €	–	–	–
ADJUSTED BASIC/ DILUTED NET PROFIT (LOSS)	millions of €	**3,461**	**2,675**	**3,254**
Number of ordinary shares issued	millions	4,722	4,645	4,574
Treasury shares	millions	(19)	(20)	(21)
ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC/DILUTED)	millions	**4,703**	**4,625**	**4,553**
BASIC/DILUTED EARNINGS PER SHARE	€	**0.74**	**0.58**	**0.71**

The calculation of basic earnings per share is based on the time-weighted number of all ordinary shares outstanding. Furthermore, the weighted average number of ordinary shares outstanding is determined by deducting the weighted average number of treasury shares held by Deutsche Telekom AG. There are currently no diluting shares.

29 DIVIDEND PER SHARE

For the 2017 financial year, the Board of Management proposes a dividend of EUR 0.65 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 3,082 million would be appropriated to the no par value shares carrying dividend rights as of February 13, 2018. The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

A dividend of EUR 0.60 for the 2016 financial year for each no par value share carrying dividend rights was paid out in 2017. The shareholders had the choice between payment in cash or, alternatively, the conversion of their dividend entitlement into Deutsche Telekom AG shares (dividend in kind). Dividend entitlements amounting to EUR 1.4 billion for shares from authorized capital were contributed in June 2017 and thus did not have an impact on cash flows (see Note 15 "Shareholders' equity," page 206 et seq.).

OTHER DISCLOSURES

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

NET CASH FROM OPERATING ACTIVITIES

Net cash from operating activities increased by EUR 1.7 billion year-on-year to EUR 17.2 billion, mainly as a result of the positive business development of the United States operating segment. During the reporting period, factoring agreements were concluded concerning monthly revolving sales of trade receivables. Factoring agreements resulted in positive effects of EUR 0.3 billion on net cash from operating activities in the reporting period. This mainly relates to factoring agreements in the United States and Germany operating segments. The effect from factoring agreements in the prior-year period totaled EUR 0.8 billion. In 2016, cash inflows from the cancellation of or changes in the terms of interest rate derivatives had a negative effect of EUR 0.3 billion, as did a EUR 0.1 billion increase in income tax payments. The dividend payments received from BT amounted to EUR 0.2 billion compared with the prior year in which dividend payments comprised EUR 0.1 billion from BT and EUR 0.2 billion from the former joint venture EE. A EUR 0.1 billion decrease in net interest payments compared with the prior year had a positive effect on the trend in net cash from operating activities.

Deutsche Telekom's working capital measures are focused on improvements in the area of liabilities as well as in the management of receivables and inventories. However, they are not used for active liquidity management. The negative effect on the change in assets carried as working capital can be attributed to the acquisition of mobile devices in connection with the JUMP! On Demand business model and to the increase in trade receivables as a result of net customer additions in the United States, mainly from agreements under the Equipment Installment Plan (EIP). Stockpiling of new terminal equipment models, especially in the United States, also had a negative effect on working capital. Cash inflows from factoring agreements had a positive effect. For further explanations on individual assets carried as working capital, please refer to Note 2 “Trade and other receivables,” pages 176 and 177, and Note 3 “Inventories,” page 177. Liabilities carried as working capital increased mainly as a result of the rise in trade payables in connection with the stockpiling of new terminal equipment models, especially in the United States. By contrast, cash outflows for severance payments had a negative impact on other liabilities carried as working capital. For further explanations, please refer to Note 11 “Trade and other payables,” page 197.

The amounts included under other non-cash transactions in the reporting period mainly relate to the partial reversal of impairment losses on spectrum licenses previously acquired by T-Mobile US, accounting for EUR 1.7 billion.

Net cash used in investing activities
millions of €

	2017	2016	2015
Cash capex			
Germany operating segment	(4,214)	(4,031)	(5,459)
United States operating segment	(11,932)	(5,855)	(6,381)
Europe operating segment	(1,874)	(2,600)	(1,469)
Systems Solutions operating segment	(383)	(402)	(432)
Group Development operating segment	(290)	(271)	(373)
Group Headquarters & Group Services	(1,005)	(936)	(983)
Reconciliation	204	455	484
	(19,494)	**(13,640)**	**(14,613)**
Net cash flows for collateral deposited and hedging transactions [a]	1,390	(3,015)	1,785
Cash inflows from the sale of the shares in Scout24 AG	319	135	390
Proceeds from the disposal of intangible assets and property, plant and equipment	400	364	367
Cash flows from the loss of control of subsidiaries and associates [b]	528	4	(58)
Allocation under contractual trust agreement (CTA) on pension commitments	–	(250)	(250)
Acquisition/sale of government bonds, net	5	2,873	(2,759)
Other [c]	38	(79)	123
	(16,814)	**(13,608)**	**(15,015)**

[a] EUR 2.0 billion of which relates to a cash deposit placed in the first half of 2016 for the U.S. spectrum auction concluded in April 2017.
[b] In 2017, EUR 600 million of this relates to the cash inflows from purchase price payments and EUR 72 million to outflows of cash and cash equivalents. In 2015, these mainly included outflows of cash and cash equivalents.
[c] EUR 201 million of this relates to a payment received from BT in connection with a settlement agreement.

Cash capex increased by EUR 5.9 billion to EUR 19.5 billion. In the reporting period, the United States operating segment acquired spectrum licenses for a total amount of EUR 7.3 billion. In the prior-year period, the United States and Germany operating segments in particular had acquired mobile spectrum licenses for EUR 2.7 billion in total. Excluding spectrum investment, cash capex increased by EUR 1.1 billion year-on-year, mainly in the United States, Germany, and Europe operating segments. Cash outflows relate to network modernization and the continued network build-out, including build-out of the 4G/LTE network and the broadband/fiber-optic build-out.

Interest payments (including capitalized interest) of EUR 4.0 billion (2016: EUR 3.6 billion, 2015: EUR 3.7 billion) were made in the 2017 financial year. Capitalized interest was reported within cash capex in net cash used in investing activities, together with the associated assets.

Net cash used in financing activities
millions of €

	2017	2016	2015
Repayment of bonds	(10,992)	(3,255)	(4,056)
Dividends (including to non-controlling interests)	(1,559)	(1,596)	(1,256)
Repayment of financial liabilities from financed capex and opex	(266)	(225)	(846)
Repayment of EIB loans	(374)	(830)	(412)
Net cash flows for collateral deposited and hedging transactions	39	605	(254)
Repayment of lease liabilities	(715)	(374)	(224)
Repayment of financial liabilities for media broadcasting rights	(259)	(215)	(192)
Cash deposits from the EE joint venture, net	–	(220)	(16)
Deutsche Telekom AG share buy-back	–	–	(15)
Cash flows from continuing involvement factoring, net	1	(12)	30
Sale of Deutsche Telekom AG treasury shares	–	–	31
Loans taken out with the EIB	825	889	1,199
Promissory notes, net	317	(582)	1,655
Secured loans	(1,863)	–	–
Issuance of bonds	10,189	8,631	2,208
Commercial paper, net	735	(3,658)	2,645
Cash inflows from transactions with non-controlling entities			
T-Mobile US stock options	18	26	43
	18	**26**	**43**
Cash outflows from transactions with non-controlling entities			
Acquisition of the remaining shares in Slovak Telekom	–	–	(900)
T-Mobile US share buy-backs	(511)	(112)	(141)
Other	(11)	(2)	–
	(522)	**(114)**	**(1,041)**
Other	(168)	(392)	(375)
	(4,594)	**(1,322)**	**(876)**

NON-CASH TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

In June 2017, dividend entitlements of Deutsche Telekom AG shareholders in the amount of EUR 1.4 billion did not have an effect on net cash used in/from financing activities when fulfilled; rather, they were substituted by shares from authorized capital (please refer to Note 15 "Shareholders' equity," page 206 et seq.). The dividend entitlements of Deutsche Telekom AG shareholders having an effect on cash flows also totaled EUR 1.4 billion. In the previous year, dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.0 billion did not have an impact on cash flows, while dividend entitlements of EUR 1.5 billion did have an effect on cash flows.

In the 2017 financial year, Deutsche Telekom chose financing options totaling EUR 0.3 billion under which the payments for trade payables from operating and investing activities primarily become due at a later point in time by involving banks in the process (2016: EUR 0.2 billion). These payables will subsequently be recognized under financial liabilities in the statement of financial position. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In 2017, Deutsche Telekom leased network equipment (classified as a finance lease) for a total of EUR 1.0 billion (2016: EUR 0.9 billion) in particular in the United States operating segment. The finance lease is then also shown under financial liabilities in the statement of financial position. Future repayments of the liabilities will be recognized in net cash used in/from financing activities.

Consideration for the acquisition of broadcasting rights will be paid by Deutsche Telekom in accordance with the terms of the contract on the date of its conclusion or spread over the term of the contract. Financial liabilities of EUR 0.4 billion were recognized in the 2017 financial year for future consideration for acquired broadcasting rights (2016: EUR 0.3 billion). As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In the United States operating segment, mobile devices amounting to EUR 1.0 billion (2016: EUR 1.5 billion) were recognized under property, plant and equipment in the reporting period. These relate to the terminal equipment lease model JUMP! On Demand introduced at T-Mobile US in 2015 under which customers no longer purchase the device but lease it. The payments are presented under net cash from operating activities.

In the United States operating segment, the exchange of spectrum licenses agreed between T-Mobile US and a telecommunications company in the third quarter of 2016 was completed in March 2017 and spectrum licenses with a value of EUR 0.1 billion were acquired in a non-cash transaction. In September 2017, another exchange of spectrum licenses was completed in the United States operating segment and spectrum licenses with a value of EUR 0.1 billion were acquired in a non-cash transaction. In December 2017, another exchange of spectrum licenses was completed in the United States operating segment and spectrum licenses with a value of EUR 0.3 billion were acquired in a non-cash transaction.

In December 2017, the Mandatory Convertible Preferred Stock issued by T-Mobile US in December 2014 was converted into T-Mobile US ordinary shares. Up until the conversion date, the preferred stock was recognized under financial liabilities. In total, EUR 1.7 billion was reclassified from financial liabilities as well as the associated embedded conversion rights to capital reserves in a non-cash transaction.

The carrying amounts of the financial liabilities disclosed in net cash used in/from financing activities, divided into carrying amount changes having and not having an effect on cash flows, developed as follows in the reporting year:

millions of €

	Carrying amount changes having an effect on cash flows			
	As of January 1, 2017	Of which to be disclosed in net cash (used in) from financing activities	Total carrying amount changes having an effect on cash flows	Changes in the composition of the Group
Bonds and other securitized liabilities	50,090	50,090	(69)	5
Liabilities to banks	4,097	3,402	832	16
	54,187	**53,492**	**763**	**21**
Finance lease liabilities	2,547	2,547	(715)	0
Liabilities to non-banks from promissory notes	535	535	(35)	–
Liabilities with the right of creditors to priority repayment in the event of default	1,866	1,866	(1,863)	–
Other interest-bearing liabilities	1,823	975	(719)	4
Other non-interest-bearing liabilities	1,958	3	1	–
Derivative financial liabilities	1,734	590	(203)	–
	10,463	**6,516**	**(3,534)**	**4**
FINANCIAL LIABILITIES	**64,650**	**60,008**	**(2,771)**	**25**
Derivative financial assets	2,379	288	(242)	–
DERIVATIVE FINANCIAL ASSETS	**2,379**	**288**	**(242)**	**–**

Total carrying amount changes having an effect on cash flows disclosed in net cash used in/from financing activities of EUR 2.5 billion deviate from the net cash used in financing activities of EUR 4.6 billion due in particular to the dividend entitlements of Deutsche Telekom AG shareholders having an effect on cash flows and the T-Mobile US share buy-back program begun in December 2017. Other carrying amount changes not having an effect on cash flows mainly relate to the derecognition of financial liabilities of EUR 0.8 billion in connection with the conversion of T-Mobile US preferred stock into ordinary shares, and additions to financial liabilities in connection with the recognition of leased network equipment of EUR 1.0 billion and of broadcasting rights of EUR 0.4 billion. This item also includes additions to financial liabilities of EUR 0.3 billion relating to selected financing options under which payments for trade payables become due at a later point in time by involving banks in the process. For further explanations, please refer to the passage entitled “Non-cash transactions in the consolidated statement of cash flows.”

31 SEGMENT REPORTING

Deutsche Telekom reports on five operating segments, as well as on the Group Headquarters & Group Services segment. Three operating segments are distinguished by region (Germany, United States, Europe), one by customers and products (System Solutions), and another by tasks (Group Development). For three operating segments, business activities are assigned by customer and product (Germany, Systems Solutions, United States), while one operating segment allocates its activities on a regional basis (Europe) and another allocates them by equity investment (Group Development).

The **Germany** operating segment comprises all fixed-network and mobile activities for consumers and business customers in Germany. In addition, it provides wholesale telecommunications services for the Group’s other operating segments. The **United States** operating segment comprises all mobile activities in the U.S. market. The **Europe** operating segment encompasses all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. In addition to consumer business, most of the national companies also offer ICT solutions for business customers. On January 1, 2017, management of the Netherlands subsidiary was transferred to the Group Development operating segment. Also, the new Technology and Innovation Board department is now responsible for the GNF (Global Network Factory) and Group Technology units as well as the Pan-Net companies; this new Board department is part of the **Group Headquarters & Group Services** segment. International Carrier Sales & Solutions (ICSS) will remain in the Europe operating segment. As part of the international wholesale business, the Europe operating segment sells wholesale telecommunications services to the operating segments as well as to third parties. On January 1, 2016, the business customer operations at Magyar Telekom, which had previously been assigned to the **Systems Solutions** operating segment, was integrated into the Europe operating segment. The Systems Solutions operating segment offers business customers integrated solutions for fixed and mobile networks, highly secure data centers, and a unique comprehensive cloud ecosystem made up of standardized platforms and global partnerships. Since January 1, 2017, Deutsche Telekom has reported on the **Group Development** operating segment: This includes T-Mobile Netherlands (previously in the Europe operating segment), Deutsche Funkturm (DFMG, previously in the Germany operating segment), Deutsche Telekom Capital

Carrying amount changes not having an effect on cash flows						
Currency translation	Fair value	Change in carrying amount according to the effective interest method	Other	Total carrying amount changes not having an effect on cash flows	As of December 31, 2017 disclosed in net cash (used in) from financing activities	As of December 31, 2017
(3,438)	(255)	(13)	(867)	(4,568)	45,453	45,453
(20)	(3)	26	(10)	9	4,243	4,974
(3,458)	**(258)**	**13**	**(877)**	**(4,559)**	**49,696**	**50,427**
(200)	–	–	1,003	803	2,635	2,635
(21)	–	0	1	(20)	480	480
(15)	–	13	(1)	(3)	–	–
(8)	–	38	723	757	1,013	1,598
0	–	–	–	–	4	1,443
–	420	–	–	420	807	946
(244)	**420**	**51**	**1,726**	**1,957**	**4,939**	**7,102**
(3,702)	**162**	**64**	**849**	**(2,602)**	**54,635**	**57,529**
–	241	–	–	241	287	1,317
–	**241**	**–**	**–**	**241**	**287**	**1,317**

Partners (DTCP), and the equity investments in BT plc and Ströer SE & Co. KGaA, as well as Strato AG, which was sold in March 2017, and the stake in Scout24 AG, which was sold in June 2017 (all previously in the Group Headquarters & Group Services segment). The Group functions of Mergers & Acquisitions and Strategic Portfolio Management have also been assigned to Group Development. The Group Headquarters & Group Services segment comprises all Group units that cannot be allocated directly to one of the operating segments. Since January 1, 2017, the segment also reports on the new Technology and Innovation Board department. Group Services provides services to the entire Group; in addition to typical services such as financial accounting, human resources services, and operational procurement, Group Services also includes agency services provided by the Group's personnel service provider, Vivento. Further units are Group Supply Services (GSUS) for real estate management and strategic procurement, and MobilitySolutions, which is a full-service provider for fleet management and mobility services. The EE joint venture was sold to the UK company BT on January 29, 2016.

Comparative figures have been adjusted retrospectively in segment reporting.

The business segments shown are reviewed at regular intervals by the Deutsche Telekom Board of Management in terms of the allocation of resources and their earnings performance.

The measurement principles for Deutsche Telekom's segment reporting structure are primarily based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on revenue and profit or loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices. Services provided by Deutsche Telekom IT are generally charged at cost. Development services commissioned after January 1, 2016 are not charged but capitalized at segment level in accordance with the internal control logic. Segment assets and liabilities include all assets and liabilities that are carried in the financial statements prepared by the segments and included in the consolidated financial statements. Segment investments include additions to intangible assets and property, plant and equipment. Where entities accounted for using the equity method are directly allocable to a segment, their shares of profit or loss after income taxes and their carrying amounts are reported in this segment's accounts. The performance indicators are exclusively presented from the segments' perspective: The effects of intersegment transactions are eliminated and presented in aggregate form in the reconciliation line. The following table shows the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

millions of €

		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Depreciation and amortization	Impairment losses	Interest income	Interest expense	Share of profit (loss) of associates and joint ventures accounted for using the equity method
Germany	2017	20,552	1,379	21,931	4,334	(3,822)	(6)	6	(142)	6
	2016	20,405	1,369	21,774	3,624	(3,690)	(13)	4	(166)	2
	2015	20,801	1,384	22,185	4,081	(3,637)	(9)	13	(221)	3
United States	2017	35,735	1	35,736	5,930	(5,015)	(4)	14	(1,434)	(1)
	2016	33,736	2	33,738	3,685	(5,282)	0	11	(1,367)	(6)
	2015	28,924	1	28,925	2,454	(3,774)	(1)	5	(1,284)	(12)
Europe	2017	11,218	371	11,589	462	(2,283)	(874)	6	(260)	2
	2016	11,111	343	11,454	1,184	(2,352)	(237)	10	(284)	(2)
	2015	11,395	279	11,674	1,342	(2,347)	(48)	18	(302)	2
Systems Solutions	2017	5,504	1,414	6,918	(1,356)	(394)	(1,242)	13	(10)	14
	2016	5,678	1,315	6,993	(150)	(428)	0	12	(10)	2
	2015	5,826	1,011	6,837	(373)	(450)	(23)	16	(9)	5
Group Development	2017	1,660	603	2,263	1,504	(304)	0	0	(11)	57
	2016	1,744	603	2,347	2,730	(345)	(415)	0	(17)	(48)
	2015	1,857	571	2,428	1,264	(342)	0	1	(19)	28
Group Headquarters & Group Services	2017	278	2,665	2,943	(1,495)	(626)	(31)	1,150	(1,526)	(1)
	2016	421	3,046	3,467	(1,919)	(648)	(28)	836	(1,545)	(1)
	2015	426	2,929	3,355	(1,750)	(699)	(81)	1,041	(1,620)	(2)
TOTAL	**2017**	**74,947**	**6,433**	**81,380**	**9,379**	**(12,444)**	**(2,157)**	**1,189**	**(3,383)**	**77**
	2016	**73,095**	**6,678**	**79,773**	**9,154**	**(12,745)**	**(693)**	**873**	**(3,389)**	**(53)**
	2015	**69,228**	**6,175**	**75,404**	**7,018**	**(11,249)**	**(162)**	**1,094**	**(3,455)**	**24**
Reconciliation	2017	–	(6,433)	(6,433)	4	16	(1)	(869)	866	(1)
	2016	–	(6,678)	(6,678)	10	58	–	(650)	674	–
	2015	–	(6,176)	(6,176)	10	51	–	(848)	846	–
GROUP	**2017**	**74,947**	**–**	**74,947**	**9,383**	**(12,428)**	**(2,158)**	**320**	**(2,517)**	**76**
	2016	**73,095**	**–**	**73,095**	**9,164**	**(12,687)**	**(693)**	**223**	**(2,715)**	**(53)**
	2015	**69,228**	**–**	**69,228**	**7,028**	**(11,198)**	**(162)**	**246**	**(2,609)**	**24**

[a] Group Headquarters & Group Services segment: Deutsche Telekom AG shareholders made use of the option of receiving part of their dividend entitlement for the financial years 2015 and 2016 in the form of shares in Deutsche Telekom AG. As a result, this dividend in kind had no impact on cash flows (see Note 15 "Shareholders' equity," page 206 et seq.).

[b] Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment as shown in the statement of cash flows.

Information on geographic areas. The Group's non-current assets and net revenue are shown by region: Germany, Europe (excluding Germany), North America, and Other countries. The North America region comprises the United States and Canada. The Europe (excluding Germany) region covers the entire European Union (excluding Germany) and the other countries in Europe. Other countries include all countries that are not Germany or in Europe (excluding Germany) or North America. Non-current assets are allocated to the regions according to the location of the assets in question. Non-current assets encompass intangible assets; property, plant and equipment; investments accounted for using the equity method; as well as other non-current assets. Net revenue is allocated according to the location of the respective customers' operations.

Income taxes	Segment assets [a]	Segment liabilities [a]	Segment investments	Investments accounted for using the equity method [a]	Net cash from operating activities	Net cash (used in) from investing activities	Of which: cash capex [b]	Net cash (used in) from financing activities [a]	Average number of employees
0	33,667	26,566	4,786	12	8,520	(4,246)	(4,214)	(4,041)	64,569
0	32,017	25,594	4,830	20	8,043	(4,106)	(4,031)	(5,253)	67,276
0	32,301	25,494	6,136	20	7,572	(5,579)	(5,459)	(4,445)	68,734
1,444	64,931	42,003	14,811	189	6,847	(9,948)	(11,932)	(966)	43,935
(1,109)	68,349	49,791	9,970	216	5,586	(5,174)	(5,855)	354	43,699
(360)	62,534	46,087	10,164	215	5,327	(8,624)	(6,381)	2,935	41,669
(281)	25,746	10,206	2,052	62	2,863	(1,761)	(1,874)	(1,067)	47,416
18	26,600	10,991	3,077	59	3,038	(2,640)	(2,600)	(482)	47,220
(248)	25,470	10,279	1,862	61	3,070	(1,329)	(1,469)	(2,199)	49,986
(28)	6,408	5,061	471	31	326	(422)	(383)	253	37,745
(59)	7,462	5,243	419	21	400	(687)	(402)	298	37,312
(34)	7,312	5,135	455	21	70	(556)	(432)	740	37,984
(36)	9,997	5,549	335	346	1,000	673	(290)	(4,656)	2,127
(27)	11,221	2,417	385	397	1,041	(168)	(271)	(999)	2,704
(68)	12,667	2,657	420	488	1,488	521	(373)	(1,442)	2,725
(541)	46,956	55,867	1,018	11	6,651	(10,016)	(1,005)	5,750	20,663
(261)	37,702	50,483	956	12	2,525	(879)	(936)	(320)	22,372
(565)	38,111	50,585	1,068	16	3,701	(607)	(983)	(2,276)	25,234
558	**187,705**	**145,252**	**23,473**	**651**	**26,207**	**(25,720)**	**(19,698)**	**(4,727)**	**216,454**
(1,438)	**183,351**	**144,519**	**19,637**	**725**	**20,633**	**(13,654)**	**(14,095)**	**(6,402)**	**220,582**
(1,275)	**178,395**	**140,237**	**20,105**	**821**	**21,228**	**(16,174)**	**(15,097)**	**(6,687)**	**226,332**
–	(46,371)	(46,388)	(332)	–	(9,011)	8,906	204	133	–
(5)	(34,866)	(34,879)	(742)	–	(5,100)	46	455	5,080	–
(1)	(34,475)	(34,467)	(738)	1	(6,231)	1,159	484	5,811	–
558	**141,334**	**98,864**	**23,141**	**651**	**17,196**	**(16,814)**	**(19,494)**	**(4,594)**	**216,454**
(1,443)	**148,485**	**109,640**	**18,895**	**725**	**15,533**	**(13,608)**	**(13,640)**	**(1,322)**	**220,582**
(1,276)	**143,920**	**105,770**	**19,367**	**822**	**14,997**	**(15,015)**	**(14,613)**	**(876)**	**226,332**

millions of €

	Non-current assets			Net revenue		
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015	2017	2016	2015
Germany	37,248	37,756	37,280	24,556	24,657	25,078
International	73,965	70,995	65,678	50,391	48,438	44,150
Of which: Europe (excluding Germany)	20,172	20,961	21,099	13,913	13,910	14,431
North America	53,724	49,948	44,505	35,897	33,915	29,224
Other countries	69	86	74	580	613	495
GROUP	**111,213**	**108,751**	**102,958**	**74,947**	**73,095**	**69,228**

Information on products and services. Revenue generated with external customers for groups of comparable products and services developed as follows:

millions of €

	Net revenue		
	2017	2016	2015
Telecommunications	67,688	66,048	61,769
ICT solutions	6,735	6,501	6,833
Other	524	546	626
	74,947	**73,095**	**69,228**

32 CONTINGENCIES

As part of its ordinary business activities, Deutsche Telekom is involved in various proceedings both in and out of court with government agencies, competitors, and other parties, the outcome of which often cannot be reliably anticipated. As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 0.4 billion (December 31, 2016: EUR 0.4 billion) and to contingent assets amounting to EUR 0.1 billion (December 31, 2016: EUR 0.0 billion) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities or assets in the statement of financial position. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group. In addition to individual cases that do not have any significant impact on their own, the aforementioned total contingent liabilities include the following items, the sequence of which does not imply an evaluation of their probability of occurrence or potential damage. In the event that in extremely rare cases disclosures required by IAS 37 are not made, Deutsche Telekom comes to the conclusion that these disclosures could seriously undermine the outcome of the relevant proceedings.

CONTINGENT LIABILITIES

Prospectus liability proceedings (third public offering or DT3). There are around 2,600 ongoing lawsuits from some 16,000 alleged buyers of T-Shares sold on the basis of the prospectus published on May 26, 2000. The plaintiffs assert that individual figures given in this prospectus were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million plus interest. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled that there were no errors in Deutsche Telekom AG's prospectus. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. On November 30, 2016, the Frankfurt/Main Higher Regional Court ruled that the mistake in the prospectus identified by the Federal Court of Justice could result in liability on the part of Deutsche Telekom AG, although the details of that liability would have to be established in the initial proceedings. Both Deutsche Telekom AG and some of the individual plaintiffs in the model proceedings have brought an appeal before the Federal Court of Justice against this decision. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages.

Claims by partnering publishers of telephone directories. Several publishers that had set up joint ventures with the then DeTeMedien GmbH – formerly a wholly owned subsidiary of Deutsche Telekom AG and now named Deutsche Tele Medien GmbH – to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The plaintiffs are claiming damages or a refund from Deutsche Tele Medien GmbH and, to a certain extent, from Deutsche Telekom AG as joint and several debtor alongside Deutsche Tele Medien GmbH. The plaintiffs base their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. The amounts claimed by the 81 original plaintiffs totaled around EUR 470 million plus interest at the end of 2014. After an agreement was reached with the majority of the publishers in October 2015 to settle the disputes and a number of claims were since dismissed conclusively, 13 actions are still pending for a remaining amount in dispute of around EUR 99 million plus interest. In ten of these proceedings, the plaintiffs lodged appeals with the Federal Court of Justice after the claims were dismissed by the court of appeal. The remaining three claims have been suspended. Five publishers whose civil actions are still pending have been pursuing their claims in parallel since June 2016 through administrative court actions against the Federal Network Agency. Two of these actions were dismissed by the court of first instance.

Likewise, on the basis of the information and estimates available, the following issues do not fulfill the requirements for recognition as liabilities in the statement of financial position. As, however, the Group is unable to estimate the amount of the contingent liabilities or the group of contingent liabilities with sufficient reliability in each case due to the uncertainties described below, they have not been included in the aforementioned total contingent liabilities.

Toll Collect arbitration proceedings. The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom AG. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. The Federal Republic is claiming some EUR 3.33 billion in lost toll revenues plus interest due to the delayed commencement of operations as well as contractual penalties in the amount of around EUR 1.65 billion plus interest. The Federal Republic's main claims – including contractual penalty claims – thus total around EUR 4.98 billion plus interest. In spring 2017, the principal shareholders asserted counterclaims based on breaches of duty by the Federal Republic of Germany in relation to the delay in the start of toll collection. Following hearings in 2014, the proceedings were reassessed, Deutsche Telekom's share of the amount at risk updated, and adequate provisions for the risk recognized in the statement of financial position. Further hearings were held in the following years, none of which prompted us to change the provisions recognized in 2014. Deutsche Telekom AG believes that a claim arising from the joint and several liability is unlikely to be made in excess of Deutsche Telekom's share of the risk.

- **Bank loans guarantee.** Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 100 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on October 15, 2018.

- **Equity maintenance undertaking.** The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2018, or earlier if the operating agreement is terminated prematurely. The amount of a potential settlement attributable to the equity maintenance undertaking cannot be estimated because of uncertainties.

In June 2006, the Federal Republic of Germany began to partially offset its monthly advance payments for operating fees to Toll Collect GmbH of EUR 8 million against the contractual penalty claims that are already the subject of the aforementioned arbitration proceedings.

The risks and obligations of Compagnie Financière et Industrielle des Autoroutes S.A., Sèvres Cedex (Cofiroute, which holds a 10-percent stake in Toll Collect) are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims.

Claims relating to charges for the shared use of cable ducts. In 2012, Kabel Deutschland Vertrieb und Service GmbH – now Vodafone Kabel Deutschland GmbH (VKDG) – filed a claim against Telekom Deutschland GmbH to reduce the annual charge for the rights to use cable duct capacities in the future and gain a partial refund of the payments made in this connection since 2004. According to its latest estimates, VKDG's claims amounted to around EUR 540 million along with around EUR 11 million for the alleged benefit from additional interest, plus interest in each case. Claims prior to 2009 are no longer being asserted by VKDG. After the Frankfurt/Main Regional Court had dismissed the complaint in 2013, the Frankfurt/Main Higher Regional Court also rejected the appeal in December 2014. In the ruling dated January 24, 2017, the Federal Court of Justice reversed the appeal ruling and referred the case back to the Frankfurt/Main Higher Regional Court for further consideration. In similar proceedings, Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH and Kabel BW GmbH demanded in January 2013 that Telekom Deutschland GmbH cease charging the plaintiffs more than a specific and precisely stated amount for the shared use of cable ducts. The plaintiffs are now demanding a refund of around EUR 570 million plus interest. The claim was dismissed in the first instance by the Cologne Regional Court on October 11, 2016. The plaintiffs have appealed against this decision.

Claim for damages in Malaysia despite an earlier, contrary, legally binding arbitration ruling. Celcom Malaysia Berhad (Celcom) and Technology Resources Industries Berhad are pursuing actions with the state courts in Kuala Lumpur, Malaysia, against eleven defendants in total, including DeTeAsia Holding GmbH, a subsidiary of Deutsche Telekom AG. The plaintiffs are demanding damages and compensation of USD 232 million plus interest. DeTeAsia Holding GmbH had enforced this amount against Celcom in 2005 on the basis of a final ruling in its favor. The main proceedings in the court of first instance began in January 2018.

Patents and licenses. Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that Deutsche Telekom may have to pay license fees and/or compensation; Deutsche Telekom is also exposed to a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

Anti-trust and consumer protection proceedings. Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to proceedings under competition law in various jurisdictions, which may also lead to civil follow-on claims. Looking at each of the proceedings individually, none has a material impact. Deutsche Telekom believes the respective allegations and claims for damages are unfounded. The outcome of the proceedings cannot be foreseen at this point in time.

Claims for damages against Slovak Telekom following the European Commission's decision to impose fines. The European Commission decided on October 15, 2014 that Slovak Telekom had abused its market power on the Slovak broadband market and as a result imposed fines on Slovak Telekom and Deutsche Telekom. The fines were paid in January 2015. Slovak Telekom and Deutsche Telekom challenged the European Commission's decision on December 29, 2014 before the Court of the European Union. Following the decision of the European Commission, competitors filed damage actions against Slovak Telekom with the civil court in Bratislava. These claims seek compensation for alleged damages due to Slovak Telekom's abuse of a dominant market position, as determined by the European Commission. At present, three claims totaling EUR 174 million plus interest are still pending.

Tax risks. In many countries, Deutsche Telekom is subject to the applicable legal tax regulations. Risks can arise from changes in local taxation laws or case law and different interpretations of existing provisions. As a result, they can affect Deutsche Telekom's tax expense and benefit as well as tax receivables and liabilities.

CONTINGENT ASSETS

Impact of hurricanes in the United States. In August and September 2017, three hurricanes in Texas, Florida, and Puerto Rico inflicted substantial damage on network infrastructure and T-Mobile shops and interrupted operations. The negative impact in 2017 from lost revenue, assets damaged or destroyed, and other hurricane related costs incurred at T-Mobile US was approximately EUR 250 million. The majority of the damages are expected to be recovered through insurance compensation.

33 LEASES

DEUTSCHE TELEKOM AS LESSEE

Finance leases. When a lease transfers substantially all risks and rewards to Deutsche Telekom as lessee, Deutsche Telekom initially recognizes the leased assets in the statement of financial position at the lower of fair value or present value of the future minimum lease payments. Most of the leased assets carried in the statement of financial position as part of finance leases relate to long-term rental and lease agreements for office buildings and technical fixed-network or mobile facilities. The average lease term is 16 years. The agreements include extension and purchase options. The following table shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

millions of €

	Dec. 31, 2017	Of which: sale and leaseback transactions	Dec. 31, 2016	Of which: sale and leaseback transactions
Land and buildings	430	199	490	246
Technical equipment and machinery	2,012	0	1,631	0
Other	6	0	14	0
NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED	**2,448**	**199**	**2,135**	**246**

The increase in technical equipment and machinery is primarily a result of new finance leases for network upgrades at T-Mobile US totaling EUR 0.3 billion.

At the inception of the lease term, Deutsche Telekom recognizes a lease liability equal to the carrying amount of the leased asset. In subsequent periods, the liability decreases by the amount of lease payments made to the lessors using the effective interest method. The interest component of the lease payments is recognized in the income statement.

The following table provides a breakdown of these amounts:

millions of €

	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback transactions	Total	Of which: sale and leaseback transactions	Total	Of which: sale and leaseback transactions
Dec. 31, 2017						
MATURITY						
Within 1 year	868	100	117	32	751	68
In 1 to 3 years	1,211	128	162	50	1,049	78
In 3 to 5 years	345	61	110	40	235	21
After 5 years	814	278	214	98	600	180
	3,238	**567**	**603**	**220**	**2,635**	**347**
Dec. 31, 2016						
MATURITY						
Within 1 year	711	102	126	38	585	64
In 1 to 3 years	1,067	183	190	58	877	125
In 3 to 5 years	528	73	130	43	398	30
After 5 years	948	304	261	116	687	188
	3,254	**662**	**707**	**255**	**2,547**	**407**

Operating leases. Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. The lessor recognizes the leased asset in its statement of financial position. Deutsche Telekom recognizes the lease payments made during the term of the operating lease in profit or loss. Deutsche Telekom's obligations arising from operating leases are mainly related to long-term rental or lease agreements for cell sites, network infrastructure, and real estate.

Some leases include extension options and provide for stepped rents. Most of these leases relate to cell sites in the United States.

The operating lease expenses recognized in profit or loss amounted to EUR 3.9 billion in the 2017 financial year (2016: EUR 3.9 billion; 2015: EUR 3.2 billion). The following table provides a breakdown of future obligations arising from operating leases that are deemed to be reasonably certain:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
MATURITY		
Within 1 year	3,209	3,388
In 1 to 3 years	5,159	5,304
In 3 to 5 years	3,457	3,641
After 5 years	3,307	3,686
	15,132	**16,019**

The decline in expected future minimum lease payments from operating leases as of December 31, 2017 is mainly a result of exchange rate effects in the United States operating segment.

A need to adjust the disclosures on obligations arising from operating leases as of December 31, 2016 was identified at T-Mobile US in 2017. Certain network capacity agreements had been recognized both as purchasing obligation and as lease liability. As a result, the lease liabilities disclosed were EUR 0.5 billion too high, because the agreements concerned were service agreements and the resulting obligations are only to be regarded as future purchasing obligations (please also refer to Note 34 "Other financial obligations," page 228.) The disclosures on obligations arising from operating leases for the prior period were therefore adjusted retrospectively as of December 31, 2017.

DEUTSCHE TELEKOM AS LESSOR

Finance leases. Deutsche Telekom is a lessor in connection with finance leases. Essentially, these relate to the leasing of routers and other hardware, which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. The lease payments made by the lessees are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as finance income in the income statement. The following table shows how the amount of the net investment in a finance lease is determined:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Minimum lease payments	157	190
Unguaranteed residual value	2	3
Gross investment	159	193
Unearned finance income	(6)	(11)
NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)	**153**	**182**

The following table presents the gross investment amounts and the present value of payable minimum lease payments:

millions of €

	Dec. 31, 2017		Dec. 31, 2016	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
MATURITY				
Within 1 year	84	81	91	87
In 1 to 3 years	62	58	86	80
In 3 to 5 years	13	12	14	13
After 5 years	1	2	2	2
	160	**153**	**193**	**182**

Operating leases. If Deutsche Telekom is a lessor in connection with operating leases, it continues to recognize the leased assets in its statement of financial position. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of cell sites, building space, and terminal equipment, and have an average term of 12 years. The future minimum lease payments arising from non-cancelable operating leases are as follows:

millions of €

	Dec. 31, 2017	Dec. 31, 2016
MATURITY		
Within 1 year	748	1,006
In 1 to 3 years	496	477
In 3 to 5 years	336	321
After 5 years	536	496
	2,116	**2,300**

The reduction in future minimum lease payments is mainly the result of a decline in the expected lease payments from the lease of mobile terminal equipment at T-Mobile US. In 2017, sales of mobile terminal equipment under installment plans increased.

34 OTHER FINANCIAL OBLIGATIONS

The following table provides an overview of Deutsche Telekom's other financial obligations:

millions of €

	Dec. 31, 2017			
	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
Purchase commitments regarding property, plant and equipment	2,837	2,595	211	31
Purchase commitments regarding intangible assets	520	422	97	1
Firm purchase commitments for inventories	5,134	2,969	2,165	–
Other purchase commitments and similar obligations	11,821	5,671	5,302	848
Payment obligations to the Civil Service Pension Fund	3,099	404	1,304	1,391
Purchase commitments for interests in other companies	2,386	2,386	–	–
Miscellaneous other obligations	15	–	15	–
	25,812	**14,447**	**9,094**	**2,271**

Purchase commitments for interests in other companies mainly comprise the contractual commitments from the company acquisitions agreed in the fourth quarter of 2017. Commitments of EUR 1.9 billion arose from the agreed acquisition of UPC Austria GmbH, while commitments of USD 325 million (around EUR 271 million) arose from the agreed acquisition of Layer3 TV Inc. Furthermore, the agreed acquisition of Tele2 Netherlands Holding N.V. results in a commitment of EUR 190 million for the cash component to be paid. For additional explanations on agreed corporate transactions, please refer to the section "Summary of accounting policies – Changes in the composition of the Group and other transactions," page 171 et seq.

35 SHARE-BASED PAYMENT

SHARE MATCHING PLAN

Since the 2011 financial year, specific executives have been contractually obligated to invest a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG will award one additional share for every share acquired as part of this executive's aforementioned personal investment (Share Matching Plan). These shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period.

Since the 2015 financial year, executives who are not contractually obligated to participate in the Share Matching Plan have been given the opportunity to participate on a voluntary basis. To participate, the executives invested a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG will award additional shares for every share acquired as part of this executive's aforementioned personal investment (Share Matching Plan). Participation in the Share Matching Plan and the number of additional shares granted are contingent on the executive's individual performance. The additional shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period. The offer to executives to participate voluntarily in the Share Matching Plan is only made in the years in which the previous year's free cash flow target was achieved.

The individual Share Matching Plans are each recognized for the first time at fair value on the grant date. To determine the fair value, the expected dividend entitlements are deducted from Deutsche Telekom AG's share price, as there are no dividend entitlements until the matching shares have been allocated. In the 2017 financial year, a total of 0.5 million (2016: 0.6 million) matching shares were allocated to beneficiaries of the plan at a weighted average fair value of EUR 14.05 (2016: EUR 12.97). The cost is to be recognized against the capital reserves pro rata temporis until the end of the service period and amounted to EUR 5.1 million in total for all tranches as of December 31, 2017 (December 31, 2016: EUR 3.4 million). In the reporting period, reserves were reduced by transfers of shares to plan participants in a total value of EUR 5.5 million. The capital reserves recognized for the Share Matching Plan as of December 31, 2017 amounted to EUR 11.1 million (December 31, 2016: EUR 11.5 million).

For the compensation system of Board of Management members who also participate in the Share Matching Plan, please refer to the "Compensation report" in the combined management report, page 131 et seq.

LONG-TERM INCENTIVE PLAN

In the 2015 financial year, executives who had not yet made a contractual commitment to participate in the long-term incentive plan were given the first-time opportunity to participate. The participating executives receive a package of virtual shares at the inception of the plan. The number of virtual shares is contingent on the participant's management group assignment, individual performance, and annual target salary. Taking these factors into account, the value of the package of virtual shares at the inception of the plan is between 10 and 43 percent of the participant's annual target salary.

Over the term of the four-year plan, the value of the virtual shares changes in line with Deutsche Telekom AG's share price development. The number of virtual shares will change on achievement of the targets for four equally weighted performance indicators (return on capital employed, adjusted earnings per share, employee satisfaction, and customer satisfaction), to be determined at the end of each year. At the end of the four-year plan, the results of each of the four years will be added together and the virtual shares will be converted on the basis of a share price calculated in a reference period and paid out in cash.

The long-term incentive plan was measured at fair value on the grant date. The fair value of the plan is calculated by multiplying the number of virtual shares by Deutsche Telekom AG's share price discounted to the reporting date. In the 2017 financial year, a total of 3.17 million (2016: 3.3 million) virtual shares were granted at a weighted average fair value of EUR 16.15 (2016: EUR 16.50). The plan must be remeasured at every reporting date until the end of the service period and expensed pro rata temporis. As of December 31, 2017, the cost of the long-term incentive plan amounted to EUR 42 million in total for all tranches (December 31, 2016: EUR 29 million). The provision totaled EUR 89 million as of December 31, 2017 (December 31, 2016: EUR 47 million).

SHARE-BASED PAYMENT AT T-MOBILE US

T-Mobile US maintains the 2013 Omnibus Incentive Plan, which authorized the issuance of up to 63 million shares of common stock of T-Mobile US. Under the incentive plan, the company may grant stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), and performance awards to employees, consultants, advisors, and non-employee directors. As of December 31, 2017, there were 15 million T-Mobile US shares of common stock (December 31, 2016: 22 million shares) available for future grants under the incentive plan.

T-Mobile US grants RSUs to eligible employees and certain non-employee directors, and performance stock units (PSUs) to eligible key executives of the company. RSUs entitle the grantee to receive shares of T-Mobile US common stock at the end of a vesting period up to three years. PSUs entitle the holder to receive shares of T-Mobile US common stock at the end of a vesting period up to three years if a specific performance goal is achieved. The number of shares ultimately received is dependent on the actual performance of T-Mobile US measured against a defined performance target.

The RSU and PSU plans resulted in the following share-related development:

	Number of shares	Weighted average fair value at grant date USD
Non-vested as of January 1, 2017	**15,715,391**	**37.93**
Granted	7,133,359	60.21
Vested	(8,338,271)	35.47
Forfeited	(814,936)	49.02
Non-vested as of December 31, 2017	**13,695,543**	**50.38**

The program is measured at fair value on the grant date and recognized as expense, net of expected forfeitures, following a graded vesting schedule over the related service period. The fair value of stock awards for the RSUs is based on the closing price of T-Mobile US' common stock on the date of grant. The fair value of stock awards for the PSUs was determined using the Monte Carlo model. Stock-based compensation expense was EUR 330 million as of December 31, 2017 (December 31, 2016: EUR 255 million).

Prior to the business combination, MetroPCS had established various stock option plans (predecessor plans). The MetroPCS stock options were adjusted in connection with the business combination. Following stockholder approval of T-Mobile US' 2013 Omnibus Incentive Plan, no new awards may be granted under the predecessor plan.

The plan resulted in the following development of the T-Mobile US stock options:

	Number of shares	Weighted average exercise price USD	Weighted average remaining contractual life (years)
Stock options outstanding/exercisable at January 1, 2017	**833,931**	**31.75**	**2.3**
Exercised	(450,873)	44.18	
Forfeited	(9,900)	45.76	
Stock options outstanding/exercisable at December 31, 2017	**373,158**	**16.36**	**2.8**

The exercise of stock options generated cash inflows of EUR 18 million (USD 21 million) in the 2017 financial year (2016: EUR 26 million (USD 29 million)).

36 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Carrying amounts, amounts recognized, and fair values by class and measurement category
millions of €

	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2017	Amounts recognized in the statement of financial position in accordance with IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
ASSETS						
Cash and cash equivalents	LaR	3,312	3,312			
Trade receivables	LaR	9,553	9,553			
Originated loans and receivables	LaR/n. a.	3,507	3,354			
Of which: collateral paid	LaR	504	504			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	5	5			
Available-for-sale financial assets [a]	AfS	4,216		187	4,029	
Derivative financial assets [b]						
Derivatives without a hedging relationship	FAHfT	1,103				1,103
Of which: termination rights embedded in bonds issued	FAHfT	351				351
Of which: energy forward agreements embedded in renewable energy purchase agreements	FAHfT	–				
Derivatives with a hedging relationship	n. a.	214			42	172
LIABILITIES [c]						
Trade payables	FLAC	10,934	10,934			
Bonds and other securitized liabilities	FLAC	45,453	45,453			
Liabilities to banks	FLAC	4,974	4,974			
Liabilities to non-banks from promissory notes	FLAC	480	480			
Liabilities with the right of creditors to priority repayment in the event of default	FLAC	–	–			
Other interest-bearing liabilities	FLAC	1,598	1,598			
Of which: collateral received	FLAC	569	569			
Other non-interest-bearing liabilities	FLAC	1,443	1,443			
Finance lease liabilities	n. a.	2,635	2,635			
Derivative financial liabilities [b]						
Derivatives without a hedging relationship	FLHfT	337				337
Of which: conversion rights embedded in Mandatory Convertible Preferred Stock	FLHfT	–				
Of which: options granted to third parties for the purchase of shares in subsidiaries and associates	FLHfT	10				10
Of which: energy forward agreements embedded in renewable energy purchase agreements	FLHfT	46				46
Derivatives with a hedging relationship	n. a.	609			168	441
Derivative financial liabilities directly associated with non-current assets and disposal groups held for sale	FLHfT	–				
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	16,219	16,219			
Held-to-maturity investments	HtM	5	5			
Available-for-sale financial assets [a]	AfS	4,216		187	4,029	
Financial assets held for trading	FAHfT	1,103				1,103
Financial liabilities measured at amortized cost	FLAC	64,882	64,882			
Financial liabilities held for trading	FLHfT	337				337

[a] For details, please refer to Note 8 “Other financial assets,” page 191 and 192.
[b] For details, please refer to the derivatives table in this Note, page 241.
[c] For financial guarantees and loan commitments existing at the reporting date, please refer to the additional information provided in this section, pages 239 and 240.
[d] The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

				Amounts recognized in the statement of financial position in accordance with IAS 39					
Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31, 2017[d]	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2016	Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss	Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31, 2016[d]
		LaR	7,747	7,747					–
		LaR	9,179	9,179					–
153	3,539	LaR/n. a.	5,664	5,482				182	5,701
		LaR	235	235					–
		HtM	8	8					–
	4,029	AfS	5,548		126	5,422			5,422
	1,103	FAHfT	1,881				1,881		1,881
	351	FAHfT	915				915		915
		FAHfT	–						–
	214	n. a.	498			268	230		498
		FLAC	10,388	10,388					–
	50,472	FLAC	50,090	50,090					55,547
	5,062	FLAC	4,097	4,097					4,186
	582	FLAC	535	535					662
	–	FLAC	1,866	1,866					1,921
	1,629	FLAC	1,823	1,823					1,859
	–	FLAC	829	829					–
	–	FLAC	1,958	1,958					–
2,635	2,893	n. a.	2,547					2,547	2,852
	337	FLHfT	1,607				1,607		1,607
	–	FLHfT	837				837		837
	10	FLHfT	–						–
	46	FLHfT	–						–
	609	n. a.	127			48	79		127
	–	FLHfT	50				50		50
	3,386	LaR	22,408	22,408					5,519
	–	HtM	8	8					–
	4,029	AfS	5,548		126	5,422			5,422
	1,103	FAHfT	1,881				1,881		1,881
	57,745	FLAC	70,757	70,757					64,175
	337	FLHfT	1,657				1,657		1,657

Trade receivables include receivables amounting to EUR 1.6 billion (December 31, 2016: EUR 1.5 billion) due in more than one year. The fair value generally equals the carrying amount.

Financial instruments not measured at fair value, the fair values of which are disclosed nevertheless

millions of €

	Dec. 31, 2017				Dec. 31, 2016			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable[a]	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
ASSETS								
Originated loans and receivables		3,539		**3,539**		5,701		**5,701**
LIABILITIES								
Financial liabilities measured at amortized cost (FLAC)	41,233	16,161	351	**57,745**	49,043	15,054	78	**64,175**
Of which: bonds and other securitized liabilities	41,233	8,888	351	**50,472**	49,043	6,426	78	**55,547**
Of which: liabilities to banks		5,062		**5,062**		4,186		**4,186**
Of which: liabilities to non-banks from promissory notes		582		**582**		662		**662**
Of which: liabilities with the right of creditors to priority repayment in the event of default		–		**–**		1,921		**1,921**
Of which: other interest-bearing liabilities		1,629		**1,629**		1,859		**1,859**
Finance lease liabilities		2,893		**2,893**		2,852		**2,852**

[a] Separation of embedded derivatives; the fair value of the entire instrument must be categorized as Level 1.

Financial instruments measured at fair value

millions of €

	Dec. 31, 2017				Dec. 31, 2016			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
ASSETS								
Available-for-sale financial assets (AfS)	3,752		277	**4,029**	5,212		210	**5,422**
Financial assets held for trading (FAHfT)		752	351	**1,103**		966	915	**1,881**
Derivative financial assets with a hedging relationship		214		**214**		498		**498**
LIABILITIES								
Financial liabilities held for trading (FLHfT)		281	56	**337**		770	887	**1,657**
Derivative financial liabilities with a hedging relationship		609		**609**		127		**127**

Of the available-for-sale financial assets (AfS) presented under other non-derivative financial assets, the instruments presented in the different levels constitute separate classes of financial instruments. In each case, the fair values of the total volume of instruments recognized as Level 1 are the price quotations at the reporting date. The total volume of instruments recognized as Level 1 in the amount of EUR 3,752 million (December 31, 2016: EUR 5,212 million) comprises a strategic financial stake of 12 percent in BT with a carrying amount equivalent to around EUR 3.7 billion (prior year: EUR 5.1 billion). In 2017, impairments of this financial stake equivalent to around EUR 1.5 billion were recognized in profit or loss. The impairment covers the entire decline in fair value in the reporting period and includes both the share price effect and the exchange rate effect up to December 31, 2017. The financial stake will continue to be measured at the current share value translated into euros. Under IFRS 9, future changes in value will be recognized in full (i.e., share price effect and exchange rate effect) directly in the consolidated income statement.

Development of the carrying amounts of the financial assets and financial liabilities assigned to Level 3
millions of €

	Available-for-sale financial assets (AfS)	Financial assets held for trading (FAHfT): Early redemption options embedded in bonds	Financial assets held for trading (FAHfT): energy forward agreements embedded in renewable energy purchase agreements	Financial liabilities held for trading (FLHfT): Conversion rights embedded in Mandatory Convertible Preferred Stock	Financial liabilities held for trading (FLHfT): energy forward agreements embedded in renewable energy purchase agreements
Carrying amount as of January 1, 2017	**210**	**915**	**–**	**(837)**	**–**
Additions (including first-time categorization as Level 3)	101	16	0	–	0
Value decreases recognized in profit/loss (including losses on disposal)	(43)	(311)	(3)	(246)	(50)
Value increases recognized in profit/loss (including gains on disposal)	17	152	3	117	4
Value decreases recognized directly in equity	(50)	–	–	–	–
Value increases recognized directly in equity	70	–	–	–	–
Disposals	(28)	(353)	–	864	–
Currency translation effects recognized directly in equity	–	(68)	0	102	0
CARRYING AMOUNT AS OF DECEMBER 31, 2017	**277**	**351**	**0**	**0**	**(46)**

The available-for-sale financial assets assigned to Level 3 that are carried under other non-derivative financial assets are equity investments with a carrying amount of EUR 277 million measured using the best information available at the reporting date. As a rule, Deutsche Telekom considers transactions involving shares in those companies to have the greatest relevance. Transactions involving shares in comparable companies are also considered. The closeness of the transaction in question to the reporting date and the question of whether the transaction was at arm's length are relevant for the decision on which information will ultimately be used for the measurement. Furthermore, the degree of similarity between the object being measured and comparable companies must be taken into consideration. Based on Deutsche Telekom's own assessment, the fair values of the equity investments at the reporting date could be determined with sufficient reliability. In the case of investments with a carrying amount of EUR 180 million, transactions involving shares in these companies took place at arm's length sufficiently close to the reporting date, which is why the share prices agreed in the transactions were to be used without adjustment for the measurement as of December 31, 2017. In the case of investments with a carrying amount of EUR 28 million, although the last arm's length transactions relating to shares in these companies took place some time ago, based on the analysis of operational development (in particular revenue, EBIT, and liquidity), the previous carrying amount nevertheless corresponds to the fair value and, due to limited comparability, is preferable to measurement on the basis of transactions executed more recently relating to shares in comparable companies. In the case of investments with a carrying amount of EUR 69 million, for which the last arm's length transactions relating to shares in these companies took place some time ago, measurement executed more recently relating to shares in comparable companies provides the most reliable representation of the fair values. Here, multiples to the reference variable of net revenue (ranging between 0.9 and 5.4) were taken, using the respective median. In certain cases, due to specific circumstances, valuation discounts need to be applied to the respective multiples. If the value of the respective 2/3-quantile (1/3-quantile) had been used as a multiple with no change in the reference variables, the fair value of the investments at the reporting date would have been EUR 27 million higher (EUR 15 million lower). If the reference variables had been 10 percent higher (lower) with no change in the multiples, the fair value of the investments at the reporting date would have been EUR 6 million higher (EUR 6 million lower). In the reporting period, net expense of EUR 43 million was recognized in other financial income/expense for unrealized losses for the investments in the portfolio at the reporting date. Please refer to the table above for the development of the carrying amounts in the reporting period. No plans existed as of the reporting date to sell these investments.

The listed bonds and other securitized liabilities are assigned to Level 1 or Level 2 depending on the market liquidity of the relevant instrument. As a rule, issues denominated in euros or U.S. dollars with relatively large nominal amounts are to be classified as Level 1, the rest as Level 2. The fair values of the instruments assigned to Level 1 equal the nominal amounts multiplied by the price quotations at the reporting date. The fair values of the instruments assigned to Level 2 are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

The fair values of liabilities to banks, liabilities to non-banks from promissory notes, other interest-bearing liabilities, and finance lease liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

Since there are no market prices available for the derivative financial instruments in the portfolio assigned to Level 2 due to the fact that they are not listed on the market, the fair values are calculated using standard financial valuation models, based entirely on observable inputs. The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were transferred at the reporting date. Interest rates of contractual partners relevant as of the reporting date are used in this respect. The middle rates applicable as of the reporting date are used as exchange rates. 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.

The financial assets held for trading assigned to Level 3 that are carried under other derivative financial assets relate to options embedded in bonds issued by T-Mobile US with a carrying amount of EUR 351 million when translated into euros. The options, which can be exercised by T-Mobile US at any time, allow early redemption of the bonds at fixed exercise prices. Observable market prices are available regularly and also at the reporting date for the bonds as entire instruments, but not for the options embedded therein. The termination rights were measured using an option pricing model. Historical interest rate volatilities of bonds issued by T-Mobile US and comparable issuers are used for the measurement because these provide a more reliable estimate for these unobservable inputs at the reporting date than current market interest rate volatilities. The absolute figure used for the interest rate volatility at the current reporting date was between 0.9 and 1.1 percent. The significant decline in this value compared with the prior year is mainly attributable to the improvement in the rating of T-Mobile US in the reporting period. The spread curve, which is also unobservable, was derived on the basis of current market prices of bonds issued by T-Mobile US and debt instruments of comparable issuers. The spreads used at the current reporting date were between 2.2 and 2.5 percent for the maturities of the bonds and between 0.7 and 1.8 percent for shorter terms. In Deutsche Telekom's opinion, 10 percent constituted the best estimate for the mean reversion, another unobservable input. If 10 percent higher (lower) interest rate volatilities in absolute terms had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 19 million higher (EUR 4 million lower) when translated into euros. If spreads of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 184 million lower (EUR 259 million higher) when translated into euros. If a mean reversion of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 4 million higher (EUR 7 million higher) when translated into euros. In the reporting period, a net expense of EUR 9 million when translated into euros was recognized under the Level 3 measurement in other financial income/expense for unrealized losses for the options in the portfolio at the reporting date. In the reporting period, several options were exercised and the relevant bonds canceled prematurely. At the time of termination, the options and their total carrying amount of EUR 353 million when translated into euros were expensed and derecognized. Please refer to the table on page 233 for the development of the carrying amounts in the reporting period. The changes in value recognized in profit or loss in the reporting period were mainly attributable to fluctuations in the interest rates and historical interest rate volatilities in absolute terms that are relevant for measurement. Due to their distinctiveness, these instruments constitute a separate class of financial instruments.

With a carrying amount of EUR 46 million when translated into euros, the financial liabilities held for trading assigned to Level 3 that are carried under derivative financial liabilities relate to energy forward agreements embedded in renewable energy purchase agreements entered into by T-Mobile US. Each renewable energy purchase agreement consists of two components: the energy forward agreement and the acquisition of renewable energy certificates by T-Mobile US. The agreements were entered into with energy producers in 2017 and will run for terms of between 12 and 15 years from the commencement of commercial operation. For one energy forward agreement, commercial operations began at the end of 2017, for another, they are set to begin at the end of 2018. The respective settlement period of the energy forward agreement, which is accounted for separately as a derivative, also starts when the facility begins commercial operation. Under the energy forward agreements, T-Mobile US receives variable amounts based on the facility's actual energy output and the then current energy prices, and pays fixed amounts per unit of energy generated throughout the term of the contract. The energy forward agreements are measured using valuation models because no observable market prices are available. The value of the derivative is significantly influenced by the facility's future energy output, for which T-Mobile US estimated a value of 1,314 gigawatt hours per year at the reporting date. The value of the derivatives is also significantly influenced by future energy prices, which are not observable for the period beyond five years. Further, the value of the derivatives is significantly influenced by the future prices for renewable energy certificates, which are also not observable. For the unobservable portion of the term, T-Mobile US used on-peak energy prices between EUR 20.08/MWh and EUR 33.15/MWh when translated into euros and off-peak prices between EUR 15.51/MWh and EUR 22.83/MWh when translated into euros. An average off-peak/on-peak ratio of 57 percent was used. If 10 percent higher (lower) future energy prices had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the derivatives from T-Mobile US' perspective would have been EUR 27 million higher (EUR 27 million lower) when translated into euros. If a 5 percent higher (lower) future energy output had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the derivatives from T-Mobile US' perspective would have been EUR 6 million higher (EUR 6 million lower) when translated into euros. If the future prices for renewable energy certificates had been doubled for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the derivatives from T-Mobile US' perspective would have been EUR 6 million higher when translated into euros. If the future prices for renewable energy certificates had been set to zero for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the derivative from T-Mobile US' perspective would have been EUR 6 million lower when translated into euros. If spreads of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the derivatives from T-Mobile US' perspective would have been EUR 4 million lower (EUR 5 million higher) when translated into euros. In the reporting period, a net expense of EUR 46 million (when translated into euros) was recognized under the Level 3 measurement in other operating income/expense for unrealized losses for the derivatives. Please refer to the table on page 233 for the development of the carrying amounts in the reporting period. The market-price changes are largely attributable to changes in observable and unobservable energy prices. As of June 30, 2017, the value of the portfolio was still slightly positive from Deutsche Telekom's perspective (carrying amount EUR 3 million), which is why it had to be disclosed as an asset. Due to their distinctiveness, these instruments constitute a separate class of financial instruments. Measurement of the derivatives on initial recognition resulted in a positive value from T-Mobile US' perspective of EUR 112 million when translated into euros. In the view of T-Mobile US, the contracts were entered into at current market conditions, and the most appropriate parameters for the unobservable inputs were used for measurement purposes. The transaction price at inception was zero in each case. Since the unobservable inputs have a material influence on the measurement of the derivatives, the respective amount resulting from initial measurement was not carried on initial recognition. Instead, these amounts are amortized in profit or loss on a straight-line basis over the period of commercial energy generation (for a total amount of EUR 8 million per year when translated into euros). This amortization adjusts the effects from measuring the derivatives in each accounting period using the respective valuation models and updated parameters. All amounts from the measurement of the derivatives are presented in net terms in the statement of financial position (other derivative financial assets/liabilities) and in the income statement (other operating income/expenses). The difference yet to be amortized in the income statement developed as follows during the reporting period:

Energy forward agreements: development of the not-yet-amortized measurement amounts on initial recognition
millions of €

Measurement amount on initial recognition	**112**
Measurement amounts amortized in profit or loss in the current reporting period	–
Currency translation adjustments	(5)
MEASUREMENT AMOUNTS NOT AMORTIZED AS OF DECEMBER 31, 2017	**107**

The financial liabilities held for trading assigned to Level 3 that are presented under financial liabilities include derivative financial liabilities with a carrying amount of EUR 10 million resulting from an option granted to third parties in the reporting period for the purchase of shares in an associate of Deutsche Telekom. The option was granted in connection with a sale of shares in this associate, and no notable fluctuations in value are expected. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

Until December 2017, the financial liabilities held for trading assigned to Level 3 that are presented under financial liabilities included conversion rights embedded in the Mandatory Convertible Preferred Stock issued by T-Mobile US. The Mandatory Convertible Preferred Stock was converted into ordinary shares in T-Mobile US on the maturity date in 2017 as planned. The embedded conversion rights were recognized for a final time on their maturity date through profit or loss in the consolidated income statement and were then derecognized with no effect on the income statement as part of the share issue.

As of December 31, 2016, the financial liabilities assigned to Level 3 included derivative financial liabilities with a carrying amount of EUR 50 million resulting from an option granted to third parties in the 2015 financial year for the purchase of shares in a subsidiary of Deutsche Telekom. Due to its distinctiveness, this instrument constituted a separate class of financial instruments. It was reported under derivative financial liabilities directly associated with non-current assets and disposal groups held for sale. The exercise period came to an end during the reporting period and the option was exercised in full. It was derecognized and the carrying amount transferred to the income statement on completion of the sale.

Net gain/loss by measurement category
millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances	At fair value		2017
Loans and receivables (LaR)	31		(3,152)	(581)			**(3,702)**
Held-to-maturity investments (HtM)	–						**–**
Available-for-sale financial assets (AfS)	224			(1,514)	34	16	**(1,240)**
Financial instruments held for trading (FAHfT and FLHfT)	n. a.	(632)					**(632)**
Financial liabilities measured at amortized cost (FLAC)	(2,186)		2,981				**795**
	(1,931)	**(632)**	**(171)**	**(2,095)**	**34**	**16**	**(4,779)**

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances	At fair value		2016
Loans and receivables (LaR)	25		183	(687)		2	**(477)**
Held-to-maturity investments (HtM)	–						**–**
Available-for-sale financial assets (AfS)	220			(2,282)	(41)	20	**(2,083)**
Financial instruments held for trading (FAHfT and FLHfT)	n. a.	27					**27**
Financial liabilities measured at amortized cost (FLAC)	(2,449)		(149)				**(2,598)**
	(2,204)	**27**	**34**	**(2,969)**	**(41)**	**22**	**(5,131)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to Note 23 "Finance costs," page 211, and Note 25 "Other financial income/expense," page 211). The other components of the net gain/loss are recognized in other financial income/expense, except for allowances on trade receivables (please also refer to Note 2 "Trade and other receivables," pages 176 and 177) that are classified as loans and receivables, which are reported under other operating expenses. The net loss from the subsequent measurement for financial instruments held for trading (EUR 632 million) also includes interest and currency translation effects. The currency translation losses on financial assets classified as loans and receivables (EUR 3,152 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B.V., on the capital market. These were offset by corresponding currency translation gains on capital market liabilities of EUR 2,981 million. These include currency translation losses from derivatives that Deutsche Telekom used as hedges for hedge accounting in foreign currency (EUR 544 million; 2016: currency translation losses of EUR 98 million). Finance costs from financial liabilities measured at amortized cost (expense of EUR 2,186 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please also refer to Note 23 "Finance costs," page 211).

Principles of risk management. Deutsche Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments (hedging transactions) are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are exclusively used as hedging instruments, i.e., not for trading or other speculative purposes. To reduce the credit risk, hedging instruments are generally only concluded with leading financial institutions whose credit rating is at least BBB+/ Baa1. In addition, the credit risk for derivatives with a positive market value is minimized through collateral agreements with all core banks. Furthermore, the limits for deposits are also set and monitored on a daily basis depending on the rating, share price performance, and credit default swap level of the counterparty.

The fundamentals of Deutsche Telekom's financial policy are established by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management. Certain transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure.

Treasury regards effective management of the market risk as one of its main tasks. The main risks relate to foreign currencies and interest rates.

Currency risks. Deutsche Telekom is exposed to currency risks from its investing, financing, and operating activities. Risks from foreign currencies are hedged to the extent that they influence the Group's cash flows. Foreign-currency risks that do not influence the Group's cash flows (i.e., the risks resulting from the translation of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. Deutsche Telekom may nevertheless also hedge this foreign-currency risk under certain circumstances.

Foreign-currency risks in the area of investment result, for example, from the acquisition and disposal of investments in foreign companies. Deutsche Telekom hedges these risks. If the risk position exceeds EUR 100 million, the Board of Management must make a special decision on how the risk shall be hedged. If the risk position is below EUR 100 million, Group Treasury performs the currency hedging itself. At the reporting date, Deutsche Telekom was not exposed to any significant risks from foreign-currency transactions in the field of investments.

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. Group Treasury hedges these risks in full. Cross-currency swaps and currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies.

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds in pounds sterling, Hong Kong dollars, Japanese yen, Norwegian kroner, and U.S. dollars. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks in the area of financing at the reporting date.

The Group entities predominantly execute their operating activities in their respective functional currencies. Payments made in a currency other than the respective functional currency result in foreign-currency risks in the Group. These relate in particular to payments for the procurement of network equipment and mobile handsets as well as payments to international telecommunications companies for the provision of access services. Deutsche Telekom generally uses currency derivatives for hedging purposes. On account of these hedging activities, Deutsche Telekom was not exposed to any significant exchange rate risks from its operating activities at the reporting date.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. In addition to currency risks, Deutsche Telekom is exposed to interest rate risks and price risks in its investments. 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 risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which Deutsche Telekom has contracted financial instruments.

The currency sensitivity analyses are based on the following assumptions: Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing securities and/or debt instruments held, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. Exchange rate fluctuations therefore have no effects on profit or loss, or shareholders' equity.

Non-interest-bearing securities or equity instruments held are of a non-monetary nature and therefore are not exposed to a currency risk as defined by IFRS 7.

Interest income and interest expense from financial instruments are also either recorded directly in the functional currency or transferred to the functional currency using derivatives. For this reason, there can be no effects on the variables considered in this connection.

In the case of fair value hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging transaction attributable to exchange rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

In the case of net investment hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging instrument attributable to exchange rate movements balance out completely in shareholders' equity in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

Cross-currency swaps are always assigned to non-derivative hedged items, so these instruments do not have any currency effects, either.

Deutsche Telekom is therefore only exposed to currency risks from specific currency derivatives. Some of these are currency derivatives that are part of an effective cash flow hedge for hedging payment fluctuations resulting from exchange rate movements in accordance with IAS 39. Exchange rate fluctuations of the currencies on which these transactions are based affect the hedging reserve in shareholders' equity and the fair value of these hedging instruments. Others are currency derivatives that are neither part of one of the hedges defined in IAS 39 nor part of a natural hedge. These derivatives are used to hedge planned transactions. Exchange rate fluctuations of the currencies on which such financial instruments are based affect other financial income or expense (net gain/loss from remeasurement of financial assets and liabilities to fair value).

If the euro had gained (lost) 10 percent against all currencies at December 31, 2017, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 80 million higher (lower) (December 31, 2016: EUR 85 million higher (lower)). The hypothetical effect of EUR 80 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 91 million and EUR/GBP: EUR –10 million. If the euro had gained (lost) 10 percent against all currencies at December 31, 2017, other financial income and the fair value of the hedging instruments before taxes would have been EUR 90 million higher (lower) (December 31, 2016: EUR 79 million higher (lower)). The hypothetical effect of EUR 90 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 73 million, EUR/GBP: EUR 39 million, and EUR/HRK: EUR –11 million.

Interest rate risks. Deutsche Telekom is exposed to interest rate risks, mainly in the euro zone and in the United States. The interest risks are managed as part of the interest rate management activities, in the course of which the maximum permissible negative deviation from the planned finance costs (the risk budget) is determined. The composition of the liabilities portfolio (ratio of fixed to variable and average fixed-interest period) is managed by issuing primary (non-derivative) financial instruments and, where necessary, also deploying derivative financial instruments, so as to ensure compliance with the risk budget. Regular reports are submitted to the Board of Management and Supervisory Board.

Including derivative hedging instruments, an average of 39 percent (2016: 43 percent) of net debt in 2017 denominated in euros had a fixed rate of interest. In U.S. dollars, the fixed-rate percentage decreased compared with 2016, but as in prior years, stands slightly above 100 percent on average, taking into account the assets, on account of the high fixed-rate percentage at T-Mobile US, which is in any case standard in the market for high-yield issuers. The interest rate exposure of net debt denominated in euros remained almost constant in the reporting period, whereas it increased steadily for net debt denominated in U.S. dollars until shortly before the end of the year.

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, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions: Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

In the case of fair value hedges designed for hedging interest rate risks, the changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements balance out almost completely in the income statement in the same period. This means that interest-rate-based changes in the measurement of the hedged item and the hedging instrument largely do not affect income and are therefore not subject to interest rate risk.

In the case of interest rate derivatives in fair value hedges, however, changes in market interest rates affect the amount of interest payments. As a consequence, they have an effect on interest income and are therefore included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserve in shareholders' equity and are therefore taken into consideration in the equity-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect other financial income or expense and are therefore taken into consideration in the income-related sensitivity calculations. Currency derivatives are not exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

If the market interest rates had been 100 basis points higher at December 31, 2017, profit or loss before taxes would have been EUR 134 million (December 31, 2016: EUR 423 million) lower. If the market interest rates had been 100 basis points lower at December 31, 2017, profit or loss before taxes would have been EUR 209 million (December 31, 2016: EUR 504 million) higher. This simulation includes the effects from the financial instruments assigned to Level 3 described above. The hypothetical effect of EUR 209 million/EUR –134 million on income primarily results from the potential effects of EUR 169 million/EUR –94 million from interest rate derivatives, and EUR 40 million/EUR –40 million from non-derivative, variable-interest financial liabilities. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments, which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2017, the hedging reserve in equity before taxes would have been EUR 32 million higher (lower) (December 31, 2016: EUR 10 million lower (higher)), and gains and losses recognized in equity from the remeasurement of available-for-sale financial assets before taxes would have been less than EUR 1 million lower (higher) (December 31, 2016: less than EUR 1 million lower (higher)).

Other price risks. As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices or indexes.

If the BT share price had been 10 percent lower (higher) on December 31, 2017, other financial income and the fair value of the financial stake in BT before taxes would have been EUR 366 million lower (higher) (December 31, 2016: EUR 513 million lower (higher)).

Furthermore, aside from the value-creating factors in the financial instruments assigned to Level 3 described above, there were no other price risks as of December 31, 2017, as was also the case at December 31, 2016.

Credit risk. Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. As a rule, transactions with regard to financing activities are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i.e., locally. Credit risks are taken into account through individual and collective allowances.

The solvency of the business with corporate customers, especially international carriers, is monitored separately. In terms of the overall risk exposure from the credit risk, however, the receivables from these counterparties are not so extensive as to justify extraordinary concentrations of risk.

millions of €

	Dec. 31, 2017			
	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	383	439	966	890
Amounts set off in the statement of financial position in accordance with IAS 32.42	(121)	(121)	–	–
Net amounts presented in the statement of financial position	**262**	**318**	**966**	**890**
Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42	**(29)**	**(29)**	**(936)**	**(870)**
Of which: amounts related to recognized financial instruments	(29)	(29)	(370)	(370)
Of which: amounts related to financial collateral (including cash collateral)	–	–	(566)	(500)
NET AMOUNTS	**233**	**289**	**30**	**20**

millions of €

	Dec. 31, 2016			
	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	398	492	1,464	897
Amounts set off in the statement of financial position in accordance with IAS 32.42	(117)	(117)	–	–
Net amounts presented in the statement of financial position	**281**	**375**	**1,464**	**897**
Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42	**(65)**	**(65)**	**(1,453)**	**(881)**
Of which: amounts related to recognized financial instruments	(65)	(65)	(672)	(672)
Of which: amounts related to financial collateral (including cash collateral)	–	–	(781)	(209)
NET AMOUNTS	**216**	**310**	**11**	**16**

Offsetting is applied in particular to receivables and liabilities at Deutsche Telekom AG and Telekom Deutschland GmbH for the routing of international calls via the fixed network and for roaming fees in the mobile network.

In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. The net amounts are normally recalculated every bank working day and offset against each other.

When the netting of the positive and negative fair values of all derivatives was positive from Deutsche Telekom’s perspective, the counterparty provided Deutsche Telekom with cash pursuant to the collateral contracts mentioned in Note 1 “Cash and cash equivalents,” page 176. The credit risk was thus further reduced.

When the netting of the positive and negative fair values of all derivatives was negative from Deutsche Telekom’s perspective, Deutsche Telekom provided cash collateral to counterparties pursuant to collateral agreements. The net amounts are normally recalculated every bank working day and offset against each other. The cash collateral paid (please also refer to Note 8 “Other financial assets,” pages 191 and 192) is offset by corresponding negative net derivative positions of EUR 500 million at the reporting date, which is why it was not exposed to any credit risks in this amount as of the reporting date. The collateral paid is reported under originated loans and receivables within other financial assets. On account of its close connection to the corresponding derivatives, the collateral paid constitutes a separate class of financial assets. Likewise, the collateral received, which is reported as other interest-bearing liabilities under financial liabilities, constitutes a separate class of financial liabilities on account of its close connection to the corresponding derivatives.

In accordance with the terms of bonds issued by a Deutsche Telekom subsidiary, this subsidiary has the right to terminate the bonds prematurely under specific conditions. The rights of termination constitute embedded derivatives and are recognized separately as derivative financial assets in the consolidated statement of financial position. Since they are not exposed to any credit risk, they constitute a separate class of financial instruments.

No other significant agreements reducing the maximum exposure to the credit risks of financial assets existed. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts.

In addition, Deutsche Telekom would be exposed to a credit risk if financial guarantees were granted. No guarantees had been pledged as of the reporting date (December 31, 2016: EUR 75 million), such that no credit risk arose from such instruments.

Risks from financing and loan commitments. There were no risks from financing and loan commitments as of the reporting date.

Liquidity risk. Please also refer to Note 10 “Financial liabilities,” page 192 et seq.

HEDGE ACCOUNTING

Fair value hedges. To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom primarily used interest rate swaps and forward interest rate swaps (pay variable, receive fixed) denominated in EUR, GBP, and USD. Fixed-income bonds denominated in EUR, GBP, and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the Euribor, GBP Libor, or USD Libor swap rate are offset against the changes in the value of these interest rate swaps. In addition, cross-currency swaps (EUR/HKD, EUR/NOK, and EUR/USD) are designated as fair value hedges, which convert fixed-income foreign currency bonds into variable-interest EUR securities to hedge the interest rate and currency risk. The changes in the fair value of the hedged items resulting from changes in the HKD HIBOR, NOK OIBOR, and USD LIBOR swap rate as well as the HKD, NOK, and USD exchange rate, are offset against the changes in the value of these cross-currency and interest rate swaps. The aim of the fair value hedges is thus to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value (interest rate risk and currency risk) of these financial liabilities. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date using statistical methods in the form of a regression analysis. All hedging relationships were sufficiently effective as of the reporting date.

In the reporting period, new fair value hedges with a total nominal volume of EUR 8.1 billion were designated for reducing the fair value risk.

As the list of the fair values of derivatives shows (see table, page 241), Deutsche Telekom had interest rate derivatives with a net fair value of EUR –0.3 billion (December 31, 2016: EUR 0.2 billion) designated as fair value hedges at December 31, 2017. The remeasurement of the hedged items resulted in gains of EUR 189 million being recorded in other financial income/expense in the 2017 financial year (2016: EUR 47 million); the changes in the fair values of the hedging transactions resulted in losses of EUR 175 million (2016: EUR 25 million) being recorded in other financial income/expense.

Cash flow hedges – interest rate risks. Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (pay fixed, receive variable) to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis.

As of the reporting date, no more hedging relationships of this kind are designated. Although the hedged cash flows are still expected to occur, the hedging instruments were de-designated in the reporting period. The hedged cash flows are expected to occur between 2018 and 2019 and to be recognized in profit or loss.

As the list of the fair values of derivatives shows (see table, page 241), as in the prior year, Deutsche Telekom had no interest rate derivatives designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2017.

The recognition directly in equity of the change in the fair value of the hedging instruments did not result in any gains or losses in shareholders' equity in the 2017 financial year (2016: losses of EUR 1 million). Losses amounting to EUR 119 million (2016: losses of EUR 109 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2017 financial year.

Cash flow hedges – currency risks. Deutsche Telekom entered into currency derivative and cross-currency swap agreements to hedge cash flows not denominated in a functional currency. The payments in foreign currency to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The terms of the hedging relationships will end in the years 2018 through 2033. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. All designated hedging relationships were sufficiently effective as of the reporting date.

No new cash flow hedges of this kind were designated in the reporting period.

In the 2017 financial year, losses (before taxes) totaling EUR 270 million (2016: losses of EUR 457 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. In the 2017 financial year, losses totaling EUR 318 million recognized directly in equity were reclassified to other financial income/expense and losses totaling EUR 13 million were reclassified to profit/loss from operations (2016: losses of EUR 189 million were reclassified to other financial income/expense and losses of EUR 30 million to profit/loss from operations). Ineffectiveness of EUR 16 million (income) was recognized in profit or loss under other financial income/expense in the reporting year (2016: income of EUR 7 million).

As the list of the fair values of derivatives shows (see table on the right-hand side), Deutsche Telekom had currency forwards of a net fair value of EUR 34 million (December 31, 2016: EUR –11 million), that are the result of foreign currency purchases totaling EUR 0.4 billion and foreign currency sales totaling EUR 1.1 billion (December 31, 2016: foreign currency purchases of EUR 0.6 billion and foreign currency sales of EUR 1.3 billion), as well as cross-currency swaps of a net fair value of EUR –0.2 billion (December 31, 2016: EUR 0.2 billion) and a total volume of EUR 3.2 billion (December 31, 2016: EUR 3.2 billion) designated as hedging instruments for cash flow hedges as of December 31, 2017.

Hedging of a net investment. The hedge of the net investment in T-Mobile US against fluctuations in the U.S. dollar spot rate de-designated in 2012 did not generate any effects in 2017. The level of gains/losses recognized directly in equity (total other comprehensive income) remained unchanged at EUR –0.4 billion (before taxes).

Derivatives. The following table shows the fair values of the various derivatives. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge, net investment hedge) or not. Other derivatives can also be embedded, i.e., a component of a composite instrument that contains a non-derivative host contract. The following table also includes derivative financial liabilities directly associated with non-current assets and disposal groups held for sale.

millions of €

	Net carrying amounts Dec. 31, 2017	Net carrying amounts Dec. 31, 2016
ASSETS		
Interest rate swaps		
Without a hedging relationship	83	116
In connection with fair value hedges	172	217
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Without a hedging relationship	49	131
In connection with cash flow hedges	37	25
Cross-currency swaps		
Without a hedging relationship	619	716
In connection with fair value hedges	–	13
In connection with cash flow hedges	5	243
Other derivatives in connection with cash flow hedges	–	–
Other derivatives without a hedging relationship	1	3
Embedded derivatives	351	915
LIABILITIES		
Interest rate swaps		
Without a hedging relationship	65	243
In connection with fair value hedges	114	38
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Without a hedging relationship	59	249
In connection with cash flow hedges	3	36
In connection with net investment hedges	–	–
Cross-currency swaps		
Without a hedging relationship	154	273
In connection with fair value hedges	328	41
In connection with cash flow hedges	164	12
Other derivatives in connection with cash flow hedges	–	–
Other derivatives without a hedging relationship	3	5
Embedded derivatives	56	837
Derivative financial liabilities directly associated with non-current assets and disposal groups held for sale (without a hedging relationship)	–	50

Transfer of financial assets

Factoring transactions with substantially all risks and rewards being transferred. A factoring transaction is in place under which a buyer of receivables is required to purchase current trade receivables. The bank's purchase obligation revolves on a monthly basis and covers a maximum receivables amount of EUR 250 million when translated into euros. Sales exceeding this amount must be agreed on a case-by-case basis. The agreement runs until 2022, giving Deutsche Telekom the freedom to decide whether receivables will be sold and in which revolving nominal volume. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late-payment risk). The credit risk represents substantially all the risks and rewards of ownership of the receivables and is transferred to the buyer of the receivables in full in return for payment of a fixed purchase price discount. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from late-payment risk relating to the receivables sold and derecognized as of December 31, 2017 (nominal volume EUR 272 million) is EUR 1 million. At the derecognition date, the fixed purchase price discount and the fair value of the expected loss resulting from the late-payment risk was expensed. The expected loss resulting from the late-payment risk recognized under financial liabilities represents Deutsche Telekom's entire continuing involvement; as of December 31, 2017, the carrying amount and fair value each amounted to less than EUR 1 million. Deutsche Telekom expensed EUR 40 million in total in the 2017 financial year from its continuing involvement to account for purchase price discounts and program fees (interest and bank margin) and has expensed a total amount of EUR 169 million since the beginning of the transaction. The volume of receivables sold during the financial year amounted to between EUR 154 million and EUR 309 million. As of December 31, 2017, a total provision of EUR 3 million was recognized for the receivables management to be performed by Deutsche Telekom.

There are also factoring agreements with terms ending between 2020 and 2022, under which Deutsche Telekom is entitled to the monthly revolving sale of trade receivables up to a maximum receivables amount of EUR 196 million when translated into euros. An agreement recognized in the prior year as a factoring transaction involving the splitting of significant risks and rewards with control remaining at Deutsche Telekom was restructured such that in 2017, it was recognized as a factoring transaction with substantially all risks and rewards being transferred. Another agreement was concluded in the financial year. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late-payment risk). Both risks are transferred to the buyers of the receivables in full in return for payment of a fixed program fee. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 33 million and thus reduces the exposure to loss. The volume of receivables sold during the financial year amounted to between EUR 69 million and EUR 131 million when translated into euros. As of December 31, 2017, receivables of EUR 105 million when translated into euros were sold and derecognized. In financial year 2017, Deutsche Telekom expensed program fees of less than EUR 1 million when translated into euros and has expensed a total amount of EUR 2 million since the beginning of the transaction. As of December 31, 2017, a provision of less than EUR 1 million was recognized for the receivables management to be performed by Deutsche Telekom.

Deutsche Telekom recognizes the purchase price payments received from the buyers under cash generated from operations. Please also refer to Note 30 "Notes to the consolidated statement of cash flows," page 217 et seq.

Factoring transactions involving the splitting of significant risks and rewards as well as the transfer of control. Factoring transactions are in place under which banks are required to purchase trade receivables. The receivables sold entail both charges already due and charges from sales of handsets payable over a period of up to two years. The banks' purchase obligation revolves on a monthly basis and covers a maximum receivables amount of EUR 675 million when translated into euros. Sales exceeding this amount must be agreed on a case-by-case basis. The purchase price up to a maximum amount of EUR 445 million will be paid out immediately upon sale; remaining portions of the purchase price will only be paid to the extent that the volume of receivables sold decreases further accordingly. The term of the agreements ends between 2018 and 2020, giving Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late-payment risk). The purchase price corresponds to the nominal amount. The maximum credit risk from the various tranches to be borne by Deutsche Telekom amounts to EUR 123 million. The other credit risk-related losses are borne by the banks. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 150 million and thus reduces the exposure to loss. The late-payment risk continues to be borne almost entirely by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold as of December 31, 2017 (nominal volume EUR 394 million when translated into euros), excluding loan insurance coverage, is EUR 128 million. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks between Deutsche Telekom and the bank). Control of the receivables sold was transferred to the banks because these have the practical ability to resell the receivables. All receivables sold as of December 31, 2017 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2017, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 1 million and its fair value was EUR 1 million. Deutsche Telekom expensed EUR 10 million, including credit-risk discounts and loss allocations to cover monthly credit risks, in the financial year from its continuing involvement including program fees (interest and bank margin), and has expensed a total amount of EUR 63 million since the beginning of the transaction. A factoring agreement that was still active in the prior period was completed and settled as of the reporting date. Deutsche Telekom recognized the purchase price payments received from the buyers under cash generated from operations. Please also refer to Note 30 "Notes to the consolidated statement of cash flows," page 217 et seq. The bank has the right to sell back all overdue receivables to Deutsche Telekom. For some of the transactions, the purchase price corresponds to the nominal amount and is payable in the month following the buy-back (outstanding receivables volume as of December 31, 2017: EUR 337 million when translated into euros). In other transactions, the purchase price equals the actual proceeds from collection or disposal, and is payable in the month after Deutsche Telekom receives these proceeds from collection or disposal (outstanding receivables volume as of December 31, 2017: EUR 57 million when translated into euros). Such buy-backs would not affect the allocation of the credit risk-related losses in any way, not even in the event of buy-back at nominal amount, as such losses would be passed back to the bank in line with the agreed risk allocation. The volume of receivables sold was not subject to major fluctuations since the beginning of the transaction. The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2017 for the receivables management to be performed is less than EUR 1 million.

Factoring transactions involving the splitting of significant risks and rewards with control remaining at Deutsche Telekom. Deutsche Telekom is party to factoring agreements under which it sells trade receivables on a revolving basis. The receivables are sold on a daily basis and settled on a monthly basis. The receivables sold entail both charges already due and charges from sales of handsets payable over a period of up to two years. The debtors are consumers as well as business customers. In none of the transactions is Deutsche Telekom exposed to risks other than the credit risk and late-payment risk resulting from the sold receivables agreed in the respective agreement. The term of the agreements ends between 2018 and 2022.

In one factoring agreement, the buyers have a monthly revolving purchase obligation that covers a maximum receivables amount of EUR 1,583 million when translated into euros. The purchase price up to a maximum of EUR 792 million when translated into euros will be paid out immediately upon sale; remaining portions of the purchase price will only be paid to the extent that the volume of receivables sold decreases further accordingly. As part of this transaction, subsidiaries of Deutsche Telekom sell receivables to a structured entity that is also a subsidiary of Deutsche Telekom and was established for the sole purpose of this factoring agreement. The structured entity has no assets and liabilities other than those resulting from the purchase and sale of the receivables under the factoring agreement. It resells the receivables to another structured entity. Deutsche Telekom does not consolidate this other structured entity because it has no ability to direct this entity's relevant activities. This other structured entity sells the ownership interests in the receivables to two banks and one structured entity on a pro-rata basis. Deutsche Telekom does not consolidate this structured entity either because it has no ability to direct this entity's relevant activities. The required funding is provided to the structured entity consolidated by Deutsche Telekom in the context of Deutsche Telekom's general Group financing. The structured entities not consolidated by Deutsche Telekom are financed by the external buyers of the receivables. All receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. The cash flows resulting from the buy-backs would occur in the month following the buy-back. Such buy-backs of receivables would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 1,176 million as of the reporting date when translated into euros.

In another factoring agreement, the buyers have a monthly revolving purchase obligation. Here the amount of the purchase price to be paid immediately is determined on the basis of the characteristics of the receivables. The buyers' purchase obligation covers a receivables amount that leads to an immediate purchase price payment of EUR 1,083 million when translated into euros. The remaining purchase price is only paid if the volume of the receivables sold decreases accordingly or the characteristics of the receivables change. As part of this transaction, subsidiaries of Deutsche Telekom sell receivables to a structured entity that is also a subsidiary of Deutsche Telekom and was established for the sole purpose of this factoring agreement. The required funding is provided to this structured entity in the context of Deutsche Telekom's general Group financing. It has no assets and liabilities other than those resulting from the purchase and sale of the receivables under the factoring agreement. The structured entity transfers the legal role of creditor for the receivables to a bank that performs this role on behalf of the investors who have beneficial ownership of the receivables (administrative agent). These investors are a bank and two structured entities. Deutsche Telekom does not consolidate these structured entities because it has no ability to direct these entities' relevant activities. The structured entities are financed through the issue of commercial paper to third parties outside the Group or, alternatively, through a credit facility provided by a bank. All receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. Such buy-backs would not result in any cash outflow, but rather would correspondingly reduce the retained portions of the purchase price payable to Deutsche Telekom in the future. The buy-backs would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 1,631 million as of the reporting date when translated into euros.

Another factoring agreement has a maximum program volume of EUR 150 million. If the buyer agrees to purchase receivables beyond this amount, the purchase price payment shall be deferred until the maximum program volume decreases again by the corresponding amount. With this structure, there is no structured entity consolidated by Deutsche Telekom. Rather, the receivables are sold directly to a structured entity that is not consolidated by Deutsche Telekom due to the lack of ability to direct the entity's relevant activities. This structured entity holds the receivables and allocates the risks and rewards resulting from these to Deutsche Telekom and a bank on the basis of contractual arrangements. The structured entity is financed through the issue of commercial paper to third parties outside the Group or, alternatively, through a credit facility provided by a bank. In one receivables portfolio, the receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. In another receivables portfolio, the structured entity has the freedom to decide whether and which receivables will be purchased, though purchase of the agreed minimum volume is imperative. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. The cash flows resulting from the buy-backs would occur in the month following the buy-back. Such buy-backs of receivables would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 119 million as of the reporting date. None of the structured entities has business activities other than the purchase or sale of trade receivables or other investments.

Under another factoring agreement with a maximum volume of receivables of EUR 725 million, Deutsche Telekom sells the receivables directly to the purchasers outside the Group without using structured entities as intermediaries. If more receivables are purchased, the purchase price payment is deferred until the maximum program volume accordingly falls again. Deutsche Telekom has the freedom to decide whether receivables can be sold and in which volume. Receivables for which a write-down is imminent are sold back to Deutsche Telekom. Here the purchase price corresponds to the actual proceeds from collection or disposal and is payable in the month after Deutsche Telekom receives these proceeds from collection or disposal. As such, these buy-backs would affect neither the allocation of the credit risk-related losses nor Deutsche Telekom's liquidity situation.

Under another factoring agreement with a maximum volume of receivables of EUR 50 million, Deutsche Telekom sells the receivables directly to the purchasers outside the Group without using structured entities as intermediaries. Deutsche Telekom has the freedom to decide whether receivables can be sold and in which volume. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 17 million and thus reduces the exposure to loss. An agreement recognized in the prior year as a factoring transaction involving the splitting of significant risks and rewards with control remaining at Deutsche Telekom was restructured such that in 2017, it was recognized as a factoring transaction with substantially all risks and rewards being transferred.

Under another factoring agreement with a maximum volume of receivables of EUR 150 million, Deutsche Telekom also sells the receivables directly to the purchasers outside the Group without using structured entities as intermediaries. Deutsche Telekom has the freedom to decide whether receivables can be sold and in which volume.

The nominal volume of the receivables sold by Deutsche Telekom under the factoring agreements and not yet settled by the debtors was EUR 3,973 million as of the reporting date when translated into euros. The risks relevant for the risk assessment with respect to the sold receivables are based on the credit risk and the risk of late payments (late-payment risk). The maximum credit risk to be borne by Deutsche Telekom amounts to EUR 622 million as of the reporting date when translated into euros and is largely attributable to transactions involving structured entities. The other credit risk-related losses are borne by the buyers. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss for Deutsche Telekom resulting from credit risk and late-payment risk relating to the receivables sold at the reporting date is EUR 704 million when translated into euros and is largely attributable to transactions involving structured entities. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks and rewards between Deutsche Telekom and the buyers). Deutsche Telekom continues to perform servicing for the receivables sold. Under the factoring agreements in which structured entities are engaged, buyers have the right to transfer the servicing to third parties for no specific reason. Although Deutsche Telekom is not authorized to use the receivables sold other than in its capacity as servicer, it retains control over the receivables sold because the buyers and the structured entities do not have the practical ability to resell the purchased receivables. At the time the receivables are sold, the fair value of the expected losses is expensed. Expected future payments are presented as a component of the associated liability. In transactions with structured entities, certain portions of the purchase price are initially held back and, depending on the amount of the actual defaults, are only paid to Deutsche Telekom at a later date. To the extent that such portions of the purchase price are expected to be received in the future, they are recognized at fair value. Deutsche Telekom continues to recognize the trade receivables sold to the extent of its continuing involvement, i.e., in the maximum amount with which it is still liable for the credit risk and late-payment risk inherent in the receivables sold, and recognizes a corresponding associated liability presented in liabilities to banks. The receivables and the associated liability are then derecognized in the extent to which Deutsche Telekom's continuing involvement is reduced (particularly when payment is made by the customer). The carrying amount of the receivables is subsequently reduced by the extent to which the actual losses to be borne by Deutsche Telekom resulting from the credit risk and the late-payment risk exceed the losses initially expected. This amount is recognized as an expense. Deutsche Telekom's continuing involvement as of December 31, 2017 amounted to EUR 704 million when translated into euros, and the carrying amount of the associated liability was EUR 705 million when translated into euros. Deutsche Telekom presents the purchase price payments received from the buyers under cash generated from operations where these relate to the derecognized portion of the receivables, and under net cash from/used in financing activities where they relate to the portion of the receivables that is still recognized. Please also refer to Note 30 "Notes to the consolidated statement of cash flows," page 217 et seq. The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2017 for the receivables management to be performed is EUR 4 million. The volume of receivables sold was not subject to major fluctuations since the beginning of the respective transaction.

37 CAPITAL MANAGEMENT

Disclosures on capital management. The overriding aim of Deutsche Telekom's capital management is to strike a balance between the contrasting expectations of the following four stakeholders:

- Shareholders
- Providers of debt capital
- Employees
- "Entrepreneurs within the enterprise"

For further information, please refer to the section "Management of the Group," page 38 et seq., in the combined management report.

An important key performance indicator for the capital market communication with investors, analysts, and rating agencies is relative debt, i.e., net debt to adjusted EBITDA. This ratio stood at 2.3 at December 31, 2017 (December 31, 2016: 2.3). The target corridor for relative debt is between 2.0 and 2.5. Net debt is a non-GAAP figure not governed by International Financial Reporting Standards, and its definition and calculation may vary from one company to another. A further essential key performance indicator is the equity ratio, i.e., the ratio of shareholders' equity to total assets as shown in the consolidated statement of financial position. The equity ratio was 30.0 percent as of December 31, 2017 (December 31, 2016: 26.2 percent). The target corridor is between 25 and 35 percent. In addition, Deutsche Telekom maintains a liquidity reserve covering all maturities of the next 24 months.

Calculation of net debt; shareholders' equity
millions of €

	Dec. 31, 2017	Dec. 31, 2016
Financial liabilities (current)	8,358	14,422
Financial liabilities (non-current)	49,171	50,228
FINANCIAL LIABILITIES	**57,529**	**64,650**
Accrued interest	(692)	(955)
Other	(781)	(1,029)
GROSS DEBT	**56,056**	**62,666**
Cash and cash equivalents	3,312	7,747
Available-for-sale financial assets/ financial assets held for trading	7	10
Derivative financial assets	1,317	2,379
Other financial assets	629	2,571
NET DEBT	**50,791**	**49,959**
SHAREHOLDERS' EQUITY	**42,470**	**38,845**

38 SERVICE CONCESSION ARRANGEMENTS

Satellic NV, Machelen, Belgium, is a fully consolidated subsidiary of Deutsche Telekom and on July 25, 2014 signed a contractual arrangement with Viapass, the public agency responsible for toll collection in Belgium, for the set-up, operation, and financing of an electronic toll collection system. After Viapass accepted the system on March 30, 2016, the set-up phase was completed on March 31, 2016. The operation phase that follows will have a duration of twelve years, with the additional option for Viapass to extend the term three times by one year. Satellic has no entitlement to the toll revenue collected but will receive contractually agreed fees for setting up and operating the system. Viapass is authorized to terminate the arrangement giving notice of six months with payment of reasonable compensation. In the event of regular or premature termination of the agreement, Satellic has an obligation to hand over to Viapass, on request, material assets for the operation of the toll collection system that have not yet passed to the ownership of Viapass; in such an event, however, the software platform for toll collection would not be handed over to Viapass. The agreement was classified as a service concession arrangement within the meaning of IFRIC 12. During the phase of setting up the system, revenue from long-term construction contracts was recognized pursuant to IAS 11 and a financial asset carried in accordance with IFRIC 12. The percentage of completion was determined as the percentage of cost incurred up until the reporting date relative to the total estimated cost (cost-to-cost method). As a result of the completion of the set-up phase, income of EUR 0.1 billion from the construction contract was recognized as of March 31, 2016. Since the start of the operation phase on April 1, 2016, the separate fees for operation and maintenance services have been recognized as revenue in the respective periods in accordance with the provisions of IAS 18. Net revenue of EUR 75 million was recorded in the reporting year. Of the total revenue in the amount of EUR 0.3 billion recognized by Satellic NV in the previous year, EUR 68 million was posted after the start of the operation phase.

39 RELATED-PARTY DISCLOSURES

Federal Republic of Germany and other related parties. The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 31.9 percent (December 31, 2016: 32.0 percent) of the share capital of Deutsche Telekom AG. In the last few years, this has resulted in the Federal Republic of Germany representing a solid majority at the shareholders' meetings of Deutsche Telekom AG due to its level of attendance, giving it control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic, or companies over which the Federal Republic can exercise a significant influence, are classified as related parties of Deutsche Telekom. In the course of business, Deutsche Telekom deals directly with the individual companies, authorities, and other government agencies as mutually independent parties. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum through licenses may result in build-out requirements stipulated by the Agency.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the Recreation Service (Erholungswerk), the Deutsche Bundespost Institution for Supplementary Retirement Pensions for Salaried Employees and Wage Earners (Versorgungsanstalt der Deutschen Bundespost), and the Welfare Service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The coordination and administrative tasks are performed on the basis of agency agreements. Up to and including the 2012 reporting year, Deutsche Telekom maintained a joint pension fund, Bundes-Pensions-Service für Post und Telekommunikation e.V., Bonn (Federal Pension Service for Post and Telecommunications – BPS-PT), together with Deutsche Post AG and Deutsche Postbank AG for civil-servant pension plans. The German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil-servant pensions (organized within the Civil Service Pension Fund) to the existing Federal Agency effective January 1, 2013. The civil-servant pension functions are therefore performed by the Civil Service Pension Fund as an integral part of the Federal Agency. This joint Civil Service Pension Fund works for the funds of all three companies and also handles the financial administration of the pension plan for the Federal Republic on a trust basis. For the 2017 financial year, Deutsche Telekom made payments in the amount of EUR 94 million (2016: EUR 84 million; 2015: EUR 85 million). Furthermore, payments are made to the Civil Service Pension Fund in accordance with the provisions of the Act on the Reorganization of the Civil Service Pension Fund (please also refer to Note 12 "Provisions for pensions and other employee benefits," page 197 et seq.).

The Federal Republic and the companies controlled by the Federal Republic, or companies over which the Federal Republic can exercise a significant influence are customers or suppliers of Deutsche Telekom and as such have mutual contractual relationships with Deutsche Telekom.

The Federal Republic of Germany and KfW Bankengruppe requested their dividend entitlements for the 2016 financial year relating to shares held in Deutsche Telekom AG be paid out partly in cash and partly in shares from authorized capital. In this connection, 12,630 thousand shares were transferred to the Federal Republic and 10,186 thousand shares to KfW Bankengruppe in June 2017. As of December 31, 2017, the Federal Republic held a share of 14.5 percent and KfW Bankengruppe a share of 17.4 percent in Deutsche Telekom AG. Otherwise, Deutsche Telekom did not execute any individually material transactions in the 2017 financial year at off-market terms and conditions or, as described, outside of its normal business activities.

Joint ventures. Revenue generated with Toll Collect totaled EUR 57 million (2016: EUR 52 million; 2015: EUR 83 million), in particular from data processing and telecommunications services as well as consulting services. As of December 31, 2017, there were also receivables in the amount of EUR 15 million (December 31, 2016: EUR 15 million), liabilities of EUR 1 million (December 31, 2016: EUR 0 million), an equity maintenance undertaking, and loan guarantees granted to banks. For further details, please refer to Note 32 "Contingencies," page 224 et seq.

Associates. The remaining direct stake of 9.26 percent in Scout24 AG was sold with effect from June 23, 2017, generating income of EUR 226 million (Dec. 31, 2016: EUR 96 million; Dec. 31, 2015: EUR 298 million).

There are otherwise no material revenues, receivables or liabilities in relation to joint ventures or associates.

Related individuals. In the reporting period, expenses for short-term benefits payable to members of the Board of Management and the Supervisory Board amounted to EUR 17.1 million (2016: EUR 15.9 million) and expenses for other long-term benefits amounted to EUR 5.3 million (2016: EUR 4.8 million). Service cost of EUR 3.6 million (2016: EUR 3.1 million) was recorded for Board of Management benefits. In addition, expenses for share-based payment for Board of Management members were incurred in the amount of EUR 1.3 million (2016: EUR 1.2 million). EUR 4.3 million (2016: EUR 0.0 million) was paid for termination benefits and recognized as an expense.

As of December 31, 2017, Deutsche Telekom recognized provisions for Board of Management compensation from short-term benefits of EUR 7.2 million (2016: EUR 6.5 million) and from other long-term benefits of EUR 12.4 million (2016: EUR 9.4 million). Furthermore, the present value of the defined benefit obligation (DBO) from the Board of Management pension amounts to EUR 29.1 million (2016: EUR 25.6 million).

The compensation of the Board of Management and the Supervisory Board totaled EUR 32.7 million in the reporting year (2016: EUR 25.0 million).

For further information, please refer to the "Compensation report" in the combined management report, page 131 et seq., and Note 40 "Compensation of the Board of Management and the Supervisory Board," pages 246 and 247.

Employees elected to the Supervisory Board of Deutsche Telekom continue to be entitled to a regular salary as part of their employment contract. The amount of the salary is the adequate compensation for their job or activity within the Company. Besides this, no major transactions took place with related individuals.

The members of the Board of Management and Supervisory Board of Deutsche Telekom AG are members of supervisory boards or management boards of other companies or are shareholders of other companies with which Deutsche Telekom AG maintains relations in the ordinary course of business. All related party transactions are performed on an arm's length basis.

40 COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

COMPENSATION OF THE BOARD OF MANAGEMENT

The presentation of the system used for compensation of the Board of Management and the disclosures required in accordance with § 314 (1) No. 6a sentences 5–8 HGB are a component of the combined management report, page 131 et seq.

Board of Management compensation for the 2017 financial year

Total compensation of the members of the Board of Management for the 2017 financial year amounted to EUR 21.3 million (2016: EUR 16.7 million). This includes a total of 116,808 entitlements to matching shares with a fair value of EUR 1.6 million on the date granted (2016: EUR 1.5 million).

Former members of the Board of Management

Total compensation included EUR 11.3 million (2016: EUR 7.2 million) for payments to and entitlements for former members of the Board of Management and those who left in the reporting year as well as any surviving dependents. Provisions (measured in accordance with IAS 19) totaling EUR 195.4 million (2016: EUR 201.6 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

Other

The Company has not granted any advances or loans to current or former Board of Management members, nor were any other financial obligations to the benefit of this group of people entered into.

COMPENSATION OF THE SUPERVISORY BOARD

The main features of the compensation system and the disclosure of the compensation of the individual members of the Supervisory Board are a component of the combined management report, pages 140 and 141.

Total compensation of the members of the Supervisory Board for 2017 amounted to EUR 2,899,500.00 (plus VAT) and is comprised of fixed annual remuneration plus meeting attendance fees.

The Company has not granted any advances or loans to current or former Supervisory Board members, nor were any other financial obligations to the benefit of this group of people entered into.

41 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH § 161 AktG

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of Deutsche Telekom AG have submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom AG's website. The full text of the Declaration of Conformity can be found on the Deutsche Telekom website (www.telekom.com) under Investor Relations in the Management & Corporate Governance section.

42 EVENTS AFTER THE REPORTING PERIOD

Acquisition of Layer3 TV. On November 9, 2017, T-Mobile US signed an agreement to acquire 100 percent of the shares in online TV provider Layer3 TV, Inc. The agreement includes a cash purchase price of around USD 325 million. The transaction was completed on January 22, 2018. T-Mobile US expects the acquisition to further strengthen its TV and video portfolio and its plans include rolling out its own TV service in 2018.

U.S. dollar bond issue by T-Mobile US. In January 2018, T-Mobile US placed fixed-interest U.S. dollar bonds with a volume of USD 2.5 billion with institutional investors: an 8-year bond with a volume of USD 1.0 billion and a coupon of 4.500 percent and a 10-year bond with a volume of USD 1.5 billion and a coupon of 4.750 percent.

Share buy-back program at T-Mobile US. Under the share buy-back program begun in December 2017, T-Mobile US has bought back further ordinary shares in its own company in a volume of USD 0.4 billion on the capital market since the beginning of 2018. Together with the ordinary shares bought back in December 2017, the total volume of shares bought back so far amounts to USD 0.8 billion. Under the program, T-Mobile US may, until the end of 2018, buy back its own ordinary shares in the capital markets for a total amount of up to USD 1.5 billion.

43 AUDITOR'S FEES AND SERVICES IN ACCORDANCE WITH § 314 HGB

PricewaterhouseCoopers Gesellschaft mit beschränkter Haftung, Wirtschaftsprüfungsgesellschaft (PwC) Frankfurt/Main, member of the German Chamber of Public Accountants in Berlin, has audited the consolidated financial statements of Deutsche Telekom since the Company's listing in 1996. Following a change within PwC in 2015, Thomas Tandetzki has been the responsible auditor in charge at PwC.

The following table provides a breakdown of the auditor's professional fees recognized as expenses in the 2017 financial year:

PricewaterhouseCoopers Gesellschaft mit beschränkter Haftung, Wirtschaftsprüfungsgesellschaft
millions of €

	2017
Auditing services	12
Other assurance services	4
Tax advisory services	0
Other non-audit services	1
	18

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements and the subsidiaries included in the consolidated financial statements, the review of the interim financial statements, auditing activities in connection with the implementation of new accounting provisions, and the auditing of information systems and processes, as well as fees for other auditing services.

The fees recognized under other assurance services relate primarily to services in connection with regulatory requirements stipulated by the Federal Network Agency.

Other non-audit services mainly relate to services in connection with fundamental business issues for the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities and services for the strategic support.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which is combined with the management report of Deutsche Telekom AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, February 13, 2018

Deutsche Telekom AG
Board of Management

Timotheus Höttges

Adel Al-Saleh

Thomas Dannenfeldt

Srini Gopalan

Dr. Christian P. Illek

Dr. Thomas Kremer

Claudia Nemat

Dr. Dirk Wössner

INDEPENDENT AUDITOR'S REPORT

To Deutsche Telekom Aktiengesellschaft, Bonn

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Deutsche Telekom Ak-tiengesellschaft, Bonn, and its subsidiaries (the Group), which comprise the consol-idated statement of financial position as at December 31, 2017, and the consolidat-ed income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the con-solidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Deutsche Telekom Aktiengesellschaft, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 | Recoverability of goodwill

2 | Appropriateness of revenue recognition and disclosures on the expected impact of the initial application of IFRS 15

3 | Reversal of impairment loss recognized on intangible assets of the cash-generating unit "USA"

4 | Accounting treatment of the Toll Collect Legal Dispute

Our presentation of these key audit matters has been structured in each case as follows:

1 | Matter and issue

2 | Audit approach and findings

3 | Reference to further information

Hereinafter we present the key audit matters:

1 | Recoverability of goodwill

1 | Goodwill in an amount of EUR 12.3 billion (8.7 % of consolidated total assets) is reported under the line item "Intangible assets" of the consolidated statement of financial position in the consolidated financial statements of Deutsche Telekom Aktiengesellschaft. The Company tests goodwill for impairment (impairment test) once a year or if there are indications that goodwill may be impaired. The carrying amount of the relevant cash-generating unit or group of cash-generating units (referred to subsequently as "unit" or "units"), in each case including allocated goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. These measurements are generally based on the present value of future cash flows of the unit to which the respective goodwill is allocated. The recoverability of the unit "USA" is determined on the basis of the listed share price of T-Mobile US, Inc. The other measurements are based on budget projections of the individual units, which in turn are based on the financial budgets approved by management. The discount rate used is the weighted average cost of capital for the relevant unit. The impairment tests of the units "Market Unit" (Systems Solutions), "Poland", "Romania" and "Albania" led to impairment losses on goodwill totaling EUR 2.1 billion in the financial year 2017.

The result of these measurements depends particularly on management's assumptions of future cash inflows and the discount rate used. The measurements are therefore subject to uncertainty. Against this background and due to the complex nature of the measurement, this matter was of particular significance in the context of our audit.

2 | We assessed whether the future cash inflows underlying the measurements and the discount rates used on the whole provide a proper basis for the impairment tests of the individual units. As part of our assessment, we relied, among other things, on a comparison with general and sector-specific market expectations as well as the management's detailed explanations regarding key planning value drivers. In this context, we also assessed whether the costs of Group functions were properly included in the impairment tests of the respective cash-generating units. With the knowledge that even relatively small changes in the discount rate applied can in some cases have material effects on values, we also focused our testing on the parameters used to determine the discount rate applied, and evaluated the measurement model. We also conducted our own sensitivity analyses for the units with a low carrying amount to present value ratio in order to estimate any potential impairment risk related to any potential changes in key assumptions of the measurement. In our view, the measurement inputs and assumptions used by management were properly derived for conducting impairment tests.

3 | The Company's disclosures pertaining to impairment tests are contained in the "Accounting policies" section of the "Summary of accounting policies" chapter and in section "5 – Intangible assets" of the notes to the consolidated financial statements.

2 | Appropriateness of revenue recognition and disclosures on the expected impact of the initial application of IFRS 15

1 | Revenue of EUR 74.9 billion is recognized in the consolidated income statement in the consolidated financial statements of Deutsche Telekom Aktiengesellschaft. This material item is subject to considerable inherent risk due to the complexity of the systems necessary for properly recording and identifying revenue and the impact of everchanging business, price and tariff models (including tariff structures, customer discounts, incentives). Against this background, the proper application of the accounting standards is considered to be complex and to a certain extent based on estimates and assumptions made by management.

In addition, the application of the new standard on revenue recognition, "International Financial Reporting Standard 15 – Revenue from Contracts with Customers" (IFRS 15), will have a significant impact from the financial year 2018 onward, which already has to be presented in the notes to the consolidated financial statements for the financial year 2017. Deutsche Telekom Aktiengesellschaft will exercise the option on initial application to recognize the cumulative effect of the transition directly in equity as of January 1, 2018 in accordance with the transitional provisions. It therefore expects that, in particular, the initial recognition of contract assets and the costs of obtaining contracts will lead to an increase in retained earnings under equity of around EUR 2.2 billion to EUR 2.6 billion (before accounting for deferred taxes) as of January 1, 2018. It anticipates moreover that the implementation of IFRS 15 will lead to a decline in the share of revenue from the provision of services and an increase in the share of revenue from the sale of goods and merchandise of total revenue of around 2 percentage points. In view of the expected material impact and the complexity of the Groupwide implementation of the new standard, the presentation of the expected impact was of particular importance for our audit.

2 | In light of the fact that the high degree of complexity and estimates and assumptions give rise to an increased risk of accounting misstatements, we assessed the Group's processes and controls for recognizing revenue as part of our audit. Furthermore, in order to mitigate the inherent risk in this audit area, we ensured that audit procedures were consistently carried out throughout the Group by issuing the relevant instructions to the component auditors. Our audit approach included testing of the controls and substantive audit procedures, including:

- Assessing the environment of the IT systems related to invoicing and measurement as well as other relevant systems supporting the accounting of revenue, including the implemented controls of system changes.

- Assessing the invoicing and measurement systems up to entries in the general ledger.

- Examining customer invoices and receipts of payment on a test basis.

Furthermore, we assessed the accounting effects of new business and price models. We assured ourselves of the appropriateness of the systems, processes, and controls in place and that the estimates and assumptions made by management are sufficiently documented and substantiated to ensure that revenue is properly recognized.

With regard to the expected impact of the initial application of IFRS 15 from the financial year 2018 onward, we assessed the impact determined during the Groupwide project for implementing the new standard. In order to take account of the complexity of implementing the new standard, we ensured that audit procedures were consistently carried out throughout the Group by issuing the relevant instructions to the component auditors. Our audit approach included, among other items:

- Assessing the impact analysis and the accounting estimates made for the different business models of the Group companies.

- Assessing the design of the processes set up to account for the transactions in accordance with the new standard and of the IT systems to support the implementation of the new requirements.

- Assessing the appropriateness of the methods used to determine the expected impact of the initial application of IFRS 15.

We assured ourselves that the systems and processes set up by management and the estimates and assumptions made are sufficiently documented and substantiated to ensure that the expected impact of initial application is properly presented.

3 | The Company's disclosures pertaining to the particularities surrounding the recognition of revenue in the consolidated financial statements of Deutsche Telekom Aktiengesellschaft are contained in the comments on the accounting policies found in the “Accounting policies” and “Judgments and estimates” sections of the “Summary of accounting policies” chapter of the notes to the consolidated financial statements. The expected impact of the initial application of IFRS 15 is presented in the section entitled “Standards, interpretations, and amendments issued, but not yet to be applied” in the “Summary of accounting policies” chapter in the notes to the consolidated financial statements.

3 | Reversal of impairment loss recognized on intangible assets of the cash-generating unit "USA"

1 | Mobile communications licenses granted by the Federal Communications Commission in the USA (“FCC licenses”) in an amount of EUR 34.3 billion (24.3 % of consolidated total assets) are reported under the line item “Intangible assets” of the consolidated statement of financial position in the consolidated financial statements of Deutsche Telekom Aktiengesellschaft. As part of an impairment test of the cash-generating unit “USA” triggered by indications of impairment as of September 30, 2012, impairment losses had been recognized in particular on certain FCC licenses. Since then, these impaired FCC licenses had to be tested regularly to establish whether the reasons for impairment have ceased to apply – at least in part. In this context, limits applied on the reversal of impairment losses pursuant to IAS 36, which stipulated that, when reversing impairment losses, the carrying amount of an asset could not be increased above the lower of (a) its recoverable amount and (b) the carrying amount that would have been determined if no impairment losses had been recognized in prior periods. The fair value less costs to sell of the cash-generating unit “USA” has increased since 2012 as a result of a rise in the share price of T-Mobile US, Inc. In previous financial years, the recoverable amount of the abovementioned FCC licenses was below their carrying amount; as a result, the limits on the reversal of impairment losses had to be observed. The results of the 600 MHz auction of the Federal Communications Commission available in the third quarter of 2017 provided the indication in the financial year 2017 that the impairment losses on the FCC licenses may have to be reversed.

In response, the license portfolio was remeasured using the discounted cash flow method. The total value was subsequently allocated to the FCC licenses, on which impairment losses had previously been recognized. The measurement revealed a fair value of USD 16.1 billion for the FCC licenses that had to be tested as to whether the impairment loss may have decreased. The last carrying amount prior to that was USD 14.1 billion, and this resulted in a partial reversal of the impairment loss and an increase in the carrying amount of the FCC licenses by USD 2.0 billion (EUR 1.7 billion) being recognized through other operating income.

Due to the material impact on profit or loss and management’s judgments and estimates made in assessing the reversal of the impairment loss, this matter was of particular importance for our audit.

2 | As part of our audit, we assessed, among other things, whether the future cash inflows underlying the measurements and the discount rate used on the whole provide a proper basis for measuring the license portfolio of T-Mobile US, Inc. As part of our assessment, we relied, among other things, on a comparison with general and sector-specific market expectations as well as the management’s detailed explanations regarding key planning value drivers. With the knowledge that even relatively small changes in the discount rate applied can in some cases have material effects on values, we also focused our testing on the parameters used to determine the discount rate applied, and evaluated the measurement model. In addition, we assessed the plausibility of the allocation of the total value to the FCC licenses which were impaired at the time, and verified the measurement model. From our point of view, the measurement and allocation method used by management was properly applied and the valuation inputs and assumptions were logically derived.

3 | The Company's disclosures pertaining to the partial reversal of impairment losses on the FCC licenses are contained in sections "5 – Intangible assets" and "17 – Other operating income" of the notes to the consolidated financial statements.

4 | Accounting treatment of the Toll Collect Legal Dispute

1 | Deutsche Telekom Aktiengesellschaft is a party in court and out-of-court proceedings with authorities, competitors, and other parties. The determination of whether or not a provision should be recognized to cover the risks, and if so, in what amount, is subject to a high degree of uncertainty. The following action brought by the Federal Republic of Germany against, among others, Deutsche Telekom Aktiengesellschaft is of particular importance for our audit, due primarily to the high monetary value of the asserted claims.

In 2004, the Federal Republic of Germany initiated arbitration proceedings in connection with the establishment and operation of a toll system. This arbitration is, among others, directed against Deutsche Telekom Aktiengesellschaft and its investment Toll Collect GbR ("Toll Collect Legal Dispute"). Claims for damages are asserted for lost toll proceeds and contractual penalties due to breaches of contract. Deutsche Telekom Aktiengesellschaft recognized a provision for the risks stemming from the legal dispute under other provisions in its consolidated financial statements.

2 | As part of our audit, we assessed the process established by Deutsche Telekom Aktiengesellschaft to ensure that a legal dispute is reported, its risks are assessed, and the dispute is accounted for. This assessment also included a substantive review of the material legal risks, including the Toll Collect Legal Dispute. Our assessment took into account the knowledge gained in the course of our regular meetings with Deutsche Telekom Aktiengesellschaft's legal department as well as from the assessments provided to us in writing on the outcomes of the respective proceedings. Furthermore, an external legal opinion on the Toll Collect Legal Dispute was obtained as of the balance sheet date, which upholds Deutsche Telekom Aktiengesellschaft's risk assessment. We assessed and deem appropriate the presentation of the legal dispute and the associated risk provision in the consolidated financial statements.

3 | The aforementioned legal dispute is disclosed in section "13 – Other provisions" of the chapter "Notes to the consolidated statement of financial position" as well as in section "32 – Contingencies" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Other Disclosures – Corporate Governance Statement in accordance with §§ 289f, 315d HGB" of the group management report
- the non-financial statement pursuant to § 289b Abs. 1 HGB and § 315b Abs. 1 HGB included in section "Corporate Responsibility and Non-Financial Statement" of the group management report

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also: Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group’s position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 31, 2017. We were engaged by the supervisory board on August 2, 2017. We have been the group auditor of Deutsche Telekom Aktiengesellschaft, Bonn, without interruption since the Company first met the requirements as a Public Interest Entity in accordance with § 319a Abs. 1 Satz 1 HGB in the financial year 1996.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Thomas Tandetzki.

Frankfurt am Main, February 13, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Dr. Peter Bartels (German Public Auditor)	sgd. Thomas Tandetzki (German Public Auditor)

MEMBERS OF THE SUPERVISORY BOARD OF DEUTSCHE TELEKOM AG IN 2017

PROF. DR. ULRICH LEHNER

Member of the Supervisory Board since April 17, 2008
Chairman of the Supervisory Board since April 25, 2008
Member of the Shareholders' Committee of
Henkel AG & Co. KGaA, Düsseldorf

Seats on the supervisory bodies of other companies:
- E.ON SE, Düsseldorf (since 4/2003)
- Porsche Automobil Holding SE, Stuttgart (since 11/2007)
- thyssenkrupp AG, Duisburg and Essen (since 1/2008), Chairman of the Supervisory Board (since 3/2013)

LOTHAR SCHRÖDER

Member of the Supervisory Board since June 22, 2006
Deputy Chairman of the Supervisory Board since June 29, 2006
Member of the ver.di National Executive Board, Berlin

Seats on the supervisory bodies of other companies:
- Vereinigte Postversicherung VVaG, Stuttgart (since 6/2011)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:
- Deutsche Telekom Services Europe GmbH, Bonn, Deputy Chairman of the Supervisory Board (since 9/2016)

SARI BALDAUF

Member of the Supervisory Board since November 1, 2012
Non-Executive Director and Chairwoman of the Board of Directors
of Fortum Oyj, Espoo, Finland

Seats on the supervisory bodies of other companies:
- Akzo Nobel N.V., Amsterdam, Netherlands (4/2012 to 12/2017)
- Daimler AG, Stuttgart (since 2/2008)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Vexve Holding Oyj, Sastamala, Finland, Chairwoman of the Board of Directors (since 6/2016)

JOSEF BEDNARSKI

Member of the Supervisory Board since November 26, 2013
Chairman of the Group Works Council at Deutsche Telekom AG, Bonn
– No other seats –

MONIKA BRANDL

Member of the Supervisory Board since November 6, 2002
Chairwoman of the Central Works Council at Deutsche Telekom AG, Bonn
– No other seats –

ODYSSEUS D. CHATZIDIS

Member of the Supervisory Board since January 3, 2018
Chairman of the European Works Council of the
Deutsche Telekom Group, Bonn
– No other seats –

JOHANNES GEISMANN

Member of the Supervisory Board since February 6, 2014
State Secretary, Federal Ministry of Finance, Berlin
– No other seats –

KLAUS-DIETER HANAS

Member of the Supervisory Board since June 1, 2012
Chairman of the Works Council at Deutsche Telekom Service GmbH, Bonn, Central-Eastern District (until 9/2017)
Deputy Chairman of the Works Council at Deutsche Telekom Service GmbH, Bonn, Central-Eastern District (since 9/2017)

Seats on the supervisory bodies of other companies:
- PSD-Bank Braunschweig eG, Braunschweig (since 11/1999), Deputy Chairman of the Supervisory Board (since 7/2011)

LARS HINRICHS

Member of the Supervisory Board since October 1, 2013
CEO of Cinco Capital GmbH, Hamburg

Seats on the supervisory bodies of other companies:
- xbAV AG, Munich, Chairman of the Supervisory Board (since 1/2016)

DR. HELGA JUNG

Member of the Supervisory Board since May 25, 2016
Member of the Board of Management of Allianz SE, Munich

Seats on the supervisory bodies of other companies:
- Allianz Asset Management AG, Munich, Chairwoman of the Supervisory Board (2/2015 to 4/2017)[a]
- Allianz Deutschland AG, Munich (since 3/2016)[a]
- Allianz Global Corporate & Specialty SE, Munich, Deputy Chairwoman of the Supervisory Board (since 5/2013)[a]

Member of comparable supervisory bodies of companies in Germany or abroad:
- Allianz Compañia de Seguros y Reaseguros S.A., Barcelona, Spain, Member of the Board of Directors (since 5/2012)[a]
- Companhia de Seguros Allianz Portugal S.A., Lisbon, Portugal, Member of the Board of Directors (since 3/2012)[a]

[a] Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) sentence 2 AktG (German Stock Corporation Act)

PROF. DR. MICHAEL KASCHKE

Member of the Supervisory Board since April 22, 2015
CEO & President of Carl Zeiss AG, Oberkochen

Seats on the supervisory bodies of other companies:

- Carl Zeiss Meditec AG, Jena, Chairman of the Supervisory Board (since 3/2010)[a]
- Carl Zeiss Microscopy GmbH, Jena, Chairman of the Supervisory Board (since 10/2006)[a]
- Carl Zeiss Industrielle Messtechnik GmbH, Oberkochen, Chairman of the Supervisory Board (since 1/2014)[a]
- Carl Zeiss SMT GmbH, Oberkochen, Chairman of the Supervisory Board (since 1/2011)[a]
- Henkel AG & Co. KGaA, Düsseldorf (since 4/2008)
- Robert Bosch GmbH, Stuttgart (since 4/2016)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Carl Zeiss Co., Ltd., Seoul, South Korea, Chairman of the Board of Directors (since 1/2017)[a]
- Carl Zeiss Far East Co., Ltd., Hong Kong, China, Chairman of the Board of Directors (since 4/2002)[a]
- Carl Zeiss Inc., Thornwood, United States, Chairman of the Board of Directors (5/2016 to 12/2017)[a]
- Carl Zeiss India (Bangalore) Private Ltd., Bangalore, India, Chairman of the Board of Directors (since 12/2009)[a]
- Carl Zeiss Pte. Ltd., Singapore, Singapore, Member of the Board of Directors (since 4/2002)[a]
- Carl Zeiss Pty. Ltd., North Ryde, Australia, Chairman of the Board of Directors (since 7/2001)[a]
- Carl Zeiss Pty. Ltd., Randburg, South Africa, Chairman of the Board of Directors (10/2003 to 12/2017)[a]

NICOLE KOCH

Member of the Supervisory Board since January 1, 2016
Deputy Chairwoman of the Group Works Council at Deutsche Telekom AG, Bonn
Chairwoman of the Works Council at Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn
(formerly Telekom Shop Vertriebsgesellschaft mbH, Bonn)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn (since 6/2004) (formerly Telekom Shop Vertriebsgesellschaft mbH, Bonn)

DAGMAR P. KOLLMANN

Member of the Supervisory Board since May 24, 2012
Entrepreneur, member of several supervisory boards and advisory boards as well as the Monopolies Commission
Former CEO of Morgan Stanley Bank, Frankfurt/Main
Former Member of the Board of Directors of Morgan Stanley Bank International Limited, London, United Kingdom

Seats on the supervisory bodies of other companies:

- Deutsche Pfandbriefbank AG, Unterschleißheim, Deputy Chairwoman of the Supervisory Board (since 8/2009)
- KfW IPEX-Bank GmbH, Frankfurt/Main (since 5/2012)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Bank Gutmann Aktiengesellschaft, Vienna, Austria, Member of the Supervisory Board (since 9/2010)
- Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (regional state bank/development bank of Baden-Württemberg), Karlsruhe, agency under public law (not a commercial enterprise within the meaning of § 100 (2), sentence 1, no. 1 AktG), Member of the Advisory Board, purely advisory body (since 7/2004)
- Unibail-Rodamco SE, Paris, France, Member of the Supervisory Board (since 5/2014)

PETRA STEFFI KREUSEL

Member of the Supervisory Board since January 1, 2013
Senior Vice President, Partner Management and Corporate Development TC at T-Systems International GmbH, Frankfurt/Main
Deputy Chairwoman of the Group Executive Staff Representation Committee of Deutsche Telekom AG, Bonn
Chairwoman of the Executive Staff Representation Committee of T-Systems International GmbH, Frankfurt/Main

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (since 12/2010)

DR. ULRICH SCHRÖDER

Member of the Supervisory Board from October 1, 2008 to February 6, 2018
CEO of the Executive Board of KfW, Frankfurt/Main, until December 31, 2017

Seats on the supervisory bodies of other companies:

- DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne (10/2009 to 1/2018)[a]
- Deutsche Post AG, Bonn (9/2008 to 2/2018)
- 2020 European Fund for Energy, Climate Change and Infrastructure ("Marguerite Fund"), Luxembourg, Luxembourg (11/2009 to 2/2018)

[a] Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) sentence 2 AktG (German Stock Corporation Act)

MICHAEL SOMMER

Member of the Supervisory Board since April 15, 2000
Trade Union Secretary, former Chairman of the German Confederation of Trade Unions (DGB), Berlin

Seats on the supervisory bodies of other companies:

- ZDF Enterprises GmbH, Mainz (since 10/2017)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Zweites Deutsches Fernsehen, Mainz, Member of the Board of Supervisory Directors (since 4/2016)

SIBYLLE SPOO

Member of the Supervisory Board since May 4, 2010
Lawyer, Trade Union Secretary at the ver.di Federal Administration, Berlin
– No other seats –

KARL-HEINZ STREIBICH

Member of the Supervisory Board since October 1, 2013
CEO of Software AG, Darmstadt

Seats on the supervisory bodies of other companies:

- Deutsche Messe AG, Hanover (since 1/2013)
- Dürr AG, Bietigheim-Bissingen (since 5/2011), Deputy Chairman of Supervisory Board (until 12/2017), Chairman of the Supervisory Board (since 1/2018)
- WITTENSTEIN SE, Igersheim (since 9/2017)

MARGRET SUCKALE

Member of the Supervisory Board since September 28, 2017
Former Member of the Board of Executive Directors of BASF SE, Ludwigshafen

Seats on the supervisory bodies of other companies:

- HeidelbergCement AG, Heidelberg (since 8/2017)

KARIN TOPEL

Member of the Supervisory Board since July 1, 2017
Chairwoman of the Works Council at Deutsche Telekom Technik GmbH, Bonn, Technical Branch Office, Eastern District
– No other seats –

Supervisory Board members who left in 2017:

DR. WULF H. BERNOTAT

Member of the Supervisory Board from January 1, 2010 to August 27, 2017 (†)
Managing Director and partner of Bernotat & Cie. GmbH, Essen (until 8/2017)
Former Chairman of the Board of Management of E.ON AG, Düsseldorf

Seats on the supervisory bodies of other companies:

- Allianz SE, Munich (4/2003 to 5/2017)
- Bertelsmann SE & Co. KGaA, Gütersloh (5/2006 to 8/2017)
- Bertelsmann Management SE, Gütersloh (5/2012 to 8/2017)
- Vonovia SE, Bochum, Chairman of the Supervisory Board (6/2013 to 8/2017)

SYLVIA HAUKE

Member of the Supervisory Board from May 3, 2007 to June 30, 2017
Chairwoman of the Central Works Council at Telekom Deutschland GmbH, Bonn (until 6/2017)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Telekom Deutschland GmbH, Bonn (1/2011 to 6/2017)

HANS-JÜRGEN KALLMEIER

Member of the Supervisory Board from October 15, 2008 to December 31, 2017
Chairman of the Central Works Council at T-Systems International GmbH, Frankfurt/Main (until 8/2017)
Member of the Central Works Council at T-Systems International GmbH, Frankfurt/Main (until 12/2017)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (12/2010 to 12/2017)

MEMBERS OF THE BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG IN 2017

TIMOTHEUS HÖTTGES
Chairman of the Board of Management since January 1, 2014

Seats on the supervisory bodies of other companies:
- FC Bayern München AG, Munich (since 2/2010)
- Henkel AG & Co. KGaA, Düsseldorf (since 4/2016)

Member of comparable supervisory bodies of companies in Germany or abroad:
- BT Group plc, London, United Kingdom, Member of the Board of Directors (since 1/2016)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:
- Telekom Deutschland GmbH, Bonn (since 4/2005), Chairman of the Supervisory Board (since 7/2009)
- T-Mobile US, Inc., Bellevue, United States, Chairman of the Board of Directors (since 5/2013)

ADEL AL-SALEH
Board member responsible for T-Systems since January 1, 2018
– No other seats –

THOMAS DANNENFELDT
Board member responsible for Finance since January 1, 2014

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:
- BUYIN S.A., Brussels, Belgium, Member of the Board of Directors (since 2/2014), Chairman of the Board of Directors (1/2017 to 12/2017)
- Deutsche Telekom Services Europe GmbH, Bonn, Chairman of the Supervisory Board (since 1/2016)
- T-Mobile US, Inc., Bellevue, United States, Member of the Board of Directors (since 11/2013)

SRINI GOPALAN
Board member responsible for Europe since January 1, 2017

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Marousi, Athens, Greece (since 1/2017)
- T-Mobile Polska S.A., Warsaw, Poland (since 1/2017), Chairman of the Supervisory Board (since 1/2017)

DR. CHRISTIAN P. ILLEK
Board member responsible for Human Resources and Labor Director since April 1, 2015

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:
- Telekom Deutschland GmbH, Bonn (since 5/2015)
- T-Systems International GmbH, Frankfurt/Main (since 5/2015), Chairman of the Supervisory Board (since 11/2016)

DR. THOMAS KREMER
Board member responsible for Data Privacy, Legal Affairs and Compliance since June 1, 2012

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:
- T-Systems International GmbH, Frankfurt/Main (since 5/2015)

CLAUDIA NEMAT
Board member responsible for Technology and Innovation since January 1, 2017

Seats on the supervisory bodies of other companies:
- Airbus Group SE, Leiden, Netherlands (since 5/2016)
- Airbus Defence and Space GmbH, Ottobrunn (since 5/2016)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:
- BUYIN S.A., Brussels, Belgium (2/2012 to 1/2017), Chairwoman of the Board of Directors (1/2015 to 1/2017)
- Deutsche Telekom IT GmbH, Bonn, Chairwoman of the Supervisory Board (since 6/2017)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Marousi, Athens, Greece (10/2011 to 1/2017)

DR. DIRK WÖSSNER

Board member responsible for Germany since January 1, 2018

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Außendienst GmbH, Bonn (since 1/2018), Chairman of the Supervisory Board (since 1/2018)
- Deutsche Telekom Geschäftskunden-Vertrieb GmbH, Bonn (since 1/2018), Chairman of the Supervisory Board (since 2/2018) (formerly Rho Telekommunikationsdienste GmbH, Bonn)
- Deutsche Telekom Service GmbH, Bonn (since 1/2018)
- Deutsche Telekom Technik GmbH, Bonn (since 1/2018), Chairman of the Supervisory Board (since 1/2018)
- Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn (since 1/2018), Chairman of the Supervisory Board (since 1/2018) (formerly Telekom Shop Vertriebsgesellschaft mbH, Bonn)

Board of Management members who left in 2017:

REINHARD CLEMENS

Board member responsible for T-Systems from December 1, 2007 to December 31, 2017
– No other seats –

NIEK JAN VAN DAMME

Board member responsible for Germany from July 1, 2009 to December 31, 2017

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Außendienst GmbH, Bonn (9/2009 to 12/2017), Chairman of the Supervisory Board (12/2009 to 12/2017)
- Deutsche Telekom Service GmbH, Bonn (8/2009 to 12/2017)
- Deutsche Telekom Technik GmbH, Bonn (9/2016 to 12/2017), Chairman of the Supervisory Board (9/2016 to 12/2017)
- Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn (8/2009 to 12/2017), Chairman of the Supervisory Board (9/2009 to 12/2017) (formerly Telekom Shop Vertriebsgesellschaft mbH, Bonn)
- T-Mobile Netherlands Holding B.V., The Hague, Netherlands, Chairman of the Supervisory Board (4/2014 to 12/2017)

GLOSSARY

4G. Refers to the fourth-generation mobile communications standard that supports higher transmission rates (see LTE).

5G. New communications standards, which offers data rates in the gigabit range, converges fixed-network and mobile communications, and supports the Internet of Things, to be launched from 2020 onwards.

All IP – All Internet Protocol. An all-IP network makes services such as VoIP (Voice over IP), IPTV (Internet Protocol Television), data transfer, etc. available to all users anywhere at all times. The data is transmitted in switched packets using the Internet Protocol (IP).

AT&T transaction. For details on the AT&T transaction relating to T-Mobile US and the effects of the termination of the agreement on the sale of the former T-Mobile US to AT&T, please refer to the 2011 Annual Report (in particular pages 76 and 182–183).

Bitstream access. Wholesale service used by alternative telephone companies to provide broadband lines.

BNG – Broadband Network Gateway. BNG makes it possible to gradually implement a flat end-to-end production architecture for all-IP business customer and consumer services. Network elements (AGS1, AGS2, LER, DSR and BRAS) and configuration nodes are aggregated to simplify network management.

Bot. A bot (short for robot) is a computer program that processes repetitive tasks in a largely autonomous manner without the need for interaction with a human user.

Carrier. A telecommunications network operator.

Cloud computing. Refers to the dynamic provision of infrastructure, software, or platform services online. Apart from a high level of automation and virtualization, the services provided have to be multi-client-capable and include standardized hardware and software. Customers source these services on demand and pay based on actual usage. The communication infrastructure may be the Internet (public cloud), a corporate network (private cloud), or a mix of the two (hybrid cloud). Dynamic Services is a T-Systems product for the flexible procurement of ICT resources and services.

Contingent model. Contract concluded over a long period of time with defined advance payment and minimum purchase requirement. In return, the resellers pay a reduced monthly charge for VDSL. This allows them to put together interesting offers for their own retail customers without having to invest in fiber-optic lines of their own. This improves the utilization of Telekom Deutschland GmbH's existing VDSL network. The current "contingent model" is being developed further to reflect the network build-out in terms of availability and bandwidth.

Cyber security. Protection against Internet crime.

Desktop services. Global desktop services involve a variety of support services, including the outsourcing of the entire IT infrastructure. In this context, Deutsche Telekom offers a full portfolio of corporate IT services, from server infrastructure and PC workstations through to application management and call center services that provide user support.

Entertain. Deutsche Telekom's Internet Protocol TV service (see also IPTV). TV signals are transported over the digital subscriber line, facilitating interactive features such as time-shift TV or access to online video stores. Entertain provides hybrid offerings which use not only the DSL line but also the satellite infrastructure for delivering TV signals.

ERP – Enterprise Resource Planning. Refers to systems that help deploy an organization's resources such as capital, equipment, and human resources as efficiently as possible in order to optimize business processes.

Fiber-optic lines. Sum of all FTTx access lines (e.g., FTTC/VDSL, vectoring, and FTTH).

Fixed-network lines. Lines in operation excluding internal use and public telecommunications, including IP-based lines. The totals reported in the combined management report were calculated on the basis of precise figures and rounded to millions or thousands. Percentages were calculated on the basis of the figures shown.

FMC – Fixed-Mobile Convergence. The merger of fixed-network and mobile rate plans for customers that have fixed-network and mobile contracts with Deutsche Telekom.

FMCC – Fixed-Mobile Cloud Convergence. Describes convergent telecommunications and ICT solutions for small and medium-sized enterprises. Mobile communications, fixed network, mobile Internet, broadband Internet, and cloud/ICT products are bundled in one rate plan.

FTTB – Fiber To The Building or Fiber To The Basement. In telecommunications FTTB means that the fiber-optic cable is terminated in the user's home (basement).

FTTC – Fiber To The Curb. In the FTTC architecture the fiber-optic cable is not terminated inside users' homes (see FTTH) but in a cable distribution box (gray street cabinet). Existing copper technology is used for the last section of the connection to the customer.

FTTH – Fiber To The Home. In telecommunications, FTTH means that the fiber-optic cable is terminated right in the user's home or apartment.

FTTx. This includes the three options for fiber-optic roll-out: FTTB, FTTC, and FTTH.

GHG Protocol. The Greenhouse Gas (GHG) Protocol divides emissions of greenhouse gases into the categories of Scope 1, Scope 2, and Scope 3, depending on their source.

- **Scope 1** includes all emissions directly generated in the Company, e.g., as a result of the consumption of fuel or fuel oil.
- **Scope 2** covers all indirect emissions associated with the generation of energy purchased by the Company from external sources, e.g., electricity and district heating.
- **Scope 3** applies to all other emissions generated along the corporate value chain. This comprises both indirect emissions in the Company itself (e.g., business trips, commuting), and emissions from upstream value chain stages (e.g., procurement, logistics) and downstream stages (e.g., during customer use of products and services, during disposal).

Housing sector. Business model: partnering between Deutsche Telekom and the housing sector.

Hybrid line. Combines the strengths of the DSL/VDSL fixed network and the LTE mobile network. While using the Internet at home the hybrid router transports the permanent data load with first priority via the DSL/VDSL line. During peak load the router automatically connects to the high-speed mobile network for down- and uploading.

Hybrid router. Routers that are able to combine the customer's fixed and mobile bandwidths.

IC – Interconnection. See MTR.

ICT – Information and Communication Technology.

Intelligent network. Refers to a service-oriented centralized system that piggybacks onto an existing communication network, adding intelligent network components, and additional features in the process.

IoT – Internet of Things. The IoT enables the intelligent networking of things like sensors, devices, machines, vehicles, etc., with the aim of automating applications and decision-making processes. Deutsche Telekom's IoT portfolio ranges from SIM cards and flexible data rate plans to IoT platforms in the cloud and complete solutions from a single source.

IP – Internet Protocol. Non-proprietary transport protocol in Layer 3 of the OSI reference model for inter-network communications.

IPTV – Internet Protocol Television. Refers to the digital transfer of television programs and films over a digital data network using the Internet Protocol (IP).

LTE – Long-Term Evolution. New generation of 4G mobile communications technology using, for example, wireless spectrum on the 800 MHz band freed up by the digitalization of television. Powerful TV frequencies enable large areas to be covered with far fewer radio masts. LTE supports speeds of over 100 Mbit/s downstream and 50 Mbit/s upstream, and facilitates new services for cell phones, smartphones, and tablets.

M2M – Machine to Machine. Communication between machines. The information is automatically sent to the recipient. For example, in an emergency, alarm systems automatically send a signal to security or the police.

MIMO – Multiple-Input Multiple-Output. MIMO is a multiple-antenna technology that is used, for example, with LTE and 5G. It makes it possible to increase both the data rate and the quality of the service.

Mobile customers. In the combined management report, one mobile communications card corresponds to one customer. The totals were calculated on the basis of precise figures and rounded to millions or thousands. Percentages were calculated on the basis of the figures shown (see also SIM card).

MTR – Mobile Termination Rate. Termination refers to the transportation of a call, e.g., from the competitor's network to the Deutsche Telekom network. When a call is transported to the mobile communications network, this is referred to as mobile termination. If the call is transported to the fixed network, this is called fixed-network termination, or simply interconnection (IC). Termination rates are the fee a telephone company must pay for network interconnection when a call is terminated in a third-party network.

MVNO – Mobile Virtual Network Operator. Company that offers mobile minutes at relatively low prices without subsidized handsets. A mobile virtual network operator does not have its own wireless network, but uses the infrastructure of another mobile operator to provide its services.

Optical fiber. Channel for optical data transmission.

OTT player – Over-the-Top player. Provider of IP-based, platform-independent services, such as WhatsApp.

Postpaid. Customers who pay for communication services after receiving them (usually on a monthly basis).

Prepay/prepaid. In contrast to postpay contracts, prepay communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations.

PSTN – Public Switched Telephone Network. Global public telephone network comprising elements such as telephones, connecting cables, and exchanges.

PUE – Power Usage Effectiveness. PUE is the ratio of the entire electrical energy consumed in a data center or network node to the energy delivered to the computing equipment.

Retail. The sale of goods and services to end users, as opposed to resale or wholesale.

Roaming. Refers to the use of a communication device or just a subscriber identity in a visited network rather than one's home network. This requires the operators of both networks to have reached a roaming agreement and switched the necessary signaling and data connections between their networks. Roaming comes into play when cell phones and smartphones are used across national boundaries.

Router. A coupling element that connects two or more sub-networks. Routers can also extend the boundaries of a network, monitor data traffic, and block any faulty data packets.

Service revenues. Revenues generated with mobile customers from services (i.e., revenues from voice services – incoming and outgoing calls – and data services), plus roaming revenues, monthly charges, and visitor revenues.

SIM card – Subscriber Identification Module card. Chip card that is inserted into a cell phone to identify it in the mobile network. Deutsche Telekom counts its customers by the number of SIM cards activated and not churned. Customer totals also include the SIM cards with which machines can communicate automatically with one another (M2M cards). The churn rate is determined and reported based on the local markets of the respective countries.

ULL – Unbundled Local Loop. Competitors whose own networks do not reach into customers' premises can rent unbundled local loop lines from Deutsche Telekom. Their networks end at the local exchanges. The ULL bridges the distance between the local exchange and the termination point on the customers' premises or in their home, so it is also known as the "last mile."

Unified Communications. Integration of synchronous communication media in a standardized application environment.

Vectoring. Vectoring is a noise-canceling technology that removes the electro-magnetic interference between lines, enabling higher bit rates. However, in order to cancel noise, the operator must have control over all lines. This means that other operators cannot install their own technology at the cable distribution boxes.

VPN – Virtual Private Network. A computer network that uses a public network to transmit private data. The data is "tunneled" through the public network and is usually encrypted in the process. However, the term "private" does not necessarily imply encrypted transmission. The variant commonly used today is the IP VPN that connects users via IP tunnels.

Wholesale. Refers to the business of selling services to third parties who sell them to their own retail customers either directly or after further processing.

Wholesale bundled lines – IP-Bitstream Access/IP-BSA. Wholesale product for which Deutsche Telekom leases DSL lines to the competitor and transports the datastream via its concentrator network to the associated broadband point of presence (PoP), where the datastream is handed over to the competitor. In contrast to voluntary DSL resale, IP-BSA is a wholesale service required by the regulatory authority. This product is available in conjunction with a Deutsche Telekom PSTN line or as a DSL stand-alone variant (see also Wholesale unbundled lines).

Wholesale unbundled lines – such as **IP-BSA Stand Alone/IP-BSA SA.** Wholesale product not bundled with a Deutsche Telekom PSTN line, which allows competitors to offer an all-IP product range to retail customers.

WIFI4EU. An EU-funded initiative to promote free Wi-Fi in public spaces across the European Union.

DISCLAIMER

This Report (particularly the section "Forecast") contains forward-looking statements that reflect the current views of Deutsche Telekom's management with respect to future events. They are generally identified by the words "expect," "anticipate," "believe," "intend," "estimate," "aim," "goal," "plan," "will," "seek," "outlook," or similar expressions and include generally any information that relates to expectations or targets for revenue, adjusted EBITDA, or other performance measures.

Forward-looking statements are based on current plans, estimates, and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. They include, for instance, the progress of Deutsche Telekom's staff-related restructuring measures and the impact of other significant strategic or business initiatives, including acquisitions, dispositions, and business combinations.

In addition, movements in exchange rates and interest rates, regulatory rulings, stronger than expected competition, technological change, litigation, and regulatory developments, among other factors, may have a material adverse effect on costs and revenue development.

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Without prejudice to existing obligations under capital market law, Deutsche Telekom does not assume any obligation to update forward-looking statements to account for new information or future events or anything else. In addition to figures prepared in accordance with IFRS, Deutsche Telekom presents alternative performance measures, e.g., EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted EBIT margin, adjusted net profit/loss, free cash flow, gross debt, and net debt.

These measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Alternative performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to alternative performance measures, please refer to the section "Management of the Group," page 38 et seq., in this Report or to Deutsche Telekom's Investor Relations website at www.telekom.com/alternative-performance-measures.

The figures shown in this report were rounded in accordance with standard business rounding principles. As a result, the total indicated may not be equal to the precise sum of the individual figures.

FINANCIAL CALENDAR

February 22, 2018	May 9, 2018	May 17, 2018	May 24/25, 2018
Press conference on the 2017 financial statements and publication of the 2017 Annual Report	Publication of the Interim Group Report as of March 31, 2018	2018 shareholders' meeting	Capital Markets Day 2018
August 9, 2018	**November 8, 2018**	**February 21, 2019**	
Publication of the Interim Group Report as of June 30, 2018	Publication of the Interim Group Report as of September 30, 2018	Press conference on the 2018 financial statements and publication of the 2018 Annual Report	

All dates are subject to change.

For more dates, an updated schedule, and information on webcasts, please go to www.telekom.com/financial-calendar

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MEDIA INFORMATION

Bonn, February 22, 2018

Record investments in Germany drive growth at Deutsche Telekom

- Group meets all financial targets for 2017
- Revenue up 2.5 percent in 2017 to 74.9 billion euros; organic growth of 3.6 percent
- Adjusted EBITDA up by 3.8 percent; organic growth of 4.9 percent to 22.45 billion euros
- Free cash flow up 11.3 percent to 5.5 billion euros
- Net profit up by 29.4 percent to 3.5 billion euros; growth of 46.8 percent to 6.0 billion euros on an adjusted basis
- Record-level investments worldwide of over 12 billion euros, of which 5.4 billion euros in Germany
- Peak year for optical fiber in Germany
- Another successful year for the Un-carrier
- Growth across Europe in broadband, mobile communications, TV, and convergence products
- Dividend expected to rise for the third time in succession; proposal of 65 eurocents per share to the shareholders' meeting
- 2018 forecast: adjusted EBITDA to grow 4 percent to around 23.2 billion euros, free cash flow to increase 12 percent to around 6.2 billion euros

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In 2017, Deutsche Telekom again met all of its financial targets. Assuming the same composition of the Group and constant exchange rates, adjusted EBITDA increased by 4.9 percent to 22.45 billion euros. This put it exactly at the mid-point of the 22.4- to 22.5-billion-euro target range for the full year set by the

Group in two successive upwards adjustments made over the course of 2017. Reported adjusted EBITDA rose by 3.8 percent to 22.2 billion euros. Free cash flow increased by 11.3 percent to 5.5 billion euros.

“Deutsche Telekom continues to grow in its global markets,” says CEO Tim Höttges. “In 2017, we once again kept our promises. We also want our shareholders to profit from our success, which is why we are planning to increase the dividend for the third time in succession.”

At the Capital Markets Day in 2015, the Group had announced that its dividend would track development in free cash flow. Consequently, the Supervisory Board and the Board of Management will propose to the shareholders' meeting on May 17 a dividend of 65 eurocents per share. This increases the dividend by another 5 eurocents per share following rises from 50 eurocents for the 2014 financial year to 55 eurocents for 2015 and 60 eurocents for 2016. All in all, this represents a 30-percent increase over three years.

With record-level investments of 12.1 billion euros excluding expenses for mobile spectrum, Deutsche Telekom continued to focus on building out its networks in 2017. Capital expenditure thus grew year-on-year by 10.4 percent. Including spectrum investment, this level grows to 19.5 billion euros – an increase of 42.9 percent.

Net profit rose last year by 29.4 percent to 3.5 billion euros. Several factors contributed to this growth, including a positive non-recurring effect from the tax reform in the United States totaling 1.7 billion euros in the fourth quarter. Growth on an adjusted basis was even more marked, up by 46.8 percent to 6.0 billion euros.

Deutsche Telekom plans to continue its growth course in 2018. Together with a moderate increase in revenue, adjusted EBITDA is set to rise by over 4 percent to around 23.2 billion euros in the current financial year. At the same time, free cash flow is expected to grow by more than 12 percent to around 6.2 billion euros. As always, this forecast assumes constant exchange rates.

Taking this forecast as the basis, the Group expects to see high growth rates across all key financial performance indicators for the four years from 2015 through 2018. Adjusted EBITDA is set to grow on average by some 5 percent a year on this basis. The increase in free cash flow averages around 11 percent a year.

Germany – strong year for fiber-optic and convergence products

In Germany, 2017 was marked by efforts to build out fiber-optic infrastructure. Deutsche Telekom laid 40,000 kilometers of new fiber-optic cable in the year just ended, with plans to up this figure to 60,000 kilometers in 2018. The customer base grew sharply on the back of the improved availability of fiber-optic lines (FTTH, FTTC/vectoring). The number of lines totaled 9.6 million at the year-end, up 2.8 million or 41 percent year-on-year. Over 30 million households now have access to Deutsche Telekom's fiber-optic network. The number of new broadband customers grew by 104,000 in the fourth quarter alone, bringing the net add market share to almost 33 percent, a good 6 percentage points higher than in the prior quarter.

Deutsche Telekom once again reinforced its market leadership in service revenues, which increased by 1.7 percent in the last quarter of 2017 compared with the same period of the prior year. Adjusted for regulatory effects, the increase grew to as much as 3.6 percent. The number of consumers choosing one of the MagentaEINS fixed-mobile package products increased by almost 20 percent to 3.6 million in just one year.

Revenue in the Germany operating segment increased by 0.7 percent to 21.9 billion euros, with adjusted EBITDA rising by 2.8 percent to 8.5 billion euros. Revenue and adjusted EBITDA saw particularly marked growth in the final quarter of 2.0 percent and 4.7 percent respectively.

United States – success continues unabated even after five years

T-Mobile US has been revolutionizing the wireless industry in the United States with its Un-carrier initiatives for five years. The latest changes, such as the abolition of fixed-term contracts and the removal of all extra taxes and fees for customers, are taking the company from strength to strength. In the full-year 2017, T-Mobile US added 5.7 million new customers. It was the fourth year in succession in which the company acquired more than 5 million new customers.

The company's financial figures also showed a clear uptrend. In 2017, revenue increased by 8.1 percent to 40.3 billion U.S. dollars. At the same time, adjusted EBITDA increased by 10.7 percent to 10.5 billion U.S. dollars. T-Mobile US also reinforced its sales channels in order to further drive customer growth, opening 2,800 new shops nationwide last year.

Europe – success with convergence

The Europe operating segment posted virtually stable revenues and earnings for 2017. Following the downtrends of previous years, this positive development was reflected in revenue growth of 1.2 percent to 11.6 billion euros. In organic terms, revenue grew slightly by 0.5 percent. At the same time, adjusted EBITDA fell 3.0 percent to 3.7 billion euros; in organic terms, it decreased by 1.0 percent.

Fixed-mobile product bundles continued to grow in popularity across Europe throughout 2017. The number of customers choosing these convergent services increased by 58.5 percent year-on-year to 2.2 million. Key decisions made in December of last year will drive expansion into further markets for convergent products: T-Mobile Austria announced plans to acquire the cable network operator UPC Austria, while T-Mobile Polska signed a letter of intent with its competitor Orange Polska on a partnership that will open up access to Orange's fiber-optic network.

Consistent uptrends were also seen in other relevant customer numbers in the year just ended. The number of mobile contract customers increased by 4.8 percent to 25.5 million, the national companies in Europe recorded growth in (retail) broadband lines of 4.7 percent to 5.6 million, and the number of TV customers grew 4.8 percent to 4.2 million.

The network build-out across Europe also continued unabated. In just one year, coverage with fiber-optic technology increased by 1.3 million to reach 6.2 million households. The current LTE mobile standard now reaches 106 million people or 94 percent of the population, up 13 million from the end of 2016.

Systems Solutions – order entry down as expected

T-Systems closed 2017 with a slight decline in revenue of 1.1 percent to 6.9 billion euros. Although positive trends were reported in the growth areas of cloud computing and security, lower order entry and intensifying global competition for corporate customers across the industry continued to be felt clearly. In the year just ended, adjusted EBITDA declined by 4.0 percent to 509 million euros, in part due to the start-up costs associated with digitalization topics such as the Internet of Things. The adjusted EBIT margin was 1.7 percent, 0.1 percentage points below the 2016 level.

As announced in the third quarter, order entry for 2017 was substantially lower than in the prior year. Deals were closed totaling 5.2 billion euros, a minus of 23.5 percent. Major deals concluded in the fourth quarter of 2016 were not matched in the year just ended. The decline in order entry had already triggered recognition of an impairment loss in the Systems Solutions operating segment in the third quarter of 2017.

The Deutsche Telekom Group at a glance:

	Q4 2017 millions of €	Q4 2016 millions of €	Change %	FY 2017 millions of €	FY 2016 millions of €	Change %
Revenue	19,160	19,543	(2.0)	74,947	73,095	2.5
Proportion generated internationally (%)	67.0	67.6	(0.6p)	67.2	66.3	0.9p
EBITDA	4,703	4,846	(3.0)	23,969	22,544	6.3
Adjusted EBITDA	5,015	5,265	(4.7)	22,230	21,420	3.8
Net profit (loss)	1,332	(2,124)	n.a.	3,461	2,675	29.4
Adjusted net profit	2,657	973	n.a.	6,039	4,114	46.8
Free cash flow[a]	1,094	893	22.5	5,497	4,939	11.3
Cash capex[b]	2,954	3,156	(6.4)	19,494	13,640	42.9
Cash capex[b] (before spectrum)	2,860	2,724	5.0	12,099	10,958	10.4
Net debt	50,791	49,959	1.7	50,791	49,959	1.7
Number of employees[c]	217,349	218,341	(0.5)	217,349	218,341	(0.5)

Comments on the table:

a Before dividend payments and spectrum investment.

b Cash outflows for investments in property, plant and equipment, and intangible assets (excluding goodwill).

c At the reporting date.

Operating segments:

	Q4 2017 millions of €	Q4 2016 millions of €	Change %	FY 2017 millions of €	FY 2016 millions of €	Change %
Germany						
Total revenue	5,676	5,565	2.0	21,931	21,774	0.7
EBITDA	2,029	1,763	15.1	8,162	7,327	11.4
Adjusted EBITDA	2,107	2,013	4.7	8,468	8,237	2.8
Number of employees[a]	63,928	65,452	(2.3)	63,928	65,452	(2.3)
United States						
Total revenue	9,052	9,445	(4.2)	35,736	33,738	5.9
EBITDA	1,989	2,335	(14.8)	10,949	8,967	22.1
Adjusted EBITDA	2,003	2,325	(13.8)	9,316	8,561	8.8
Europe						
Total revenue	3,002	2,996	0.2	11,589	11,454	1.2
EBITDA	870	894	(2.7)	3,619	3,773	(4.1)
Adjusted EBITDA	906	930	(2.6)	3,749	3,866	(3.0)
Systems Solutions						
Order entry	1,305	2,495	(47.7)	5,241	6,851	(23.5)
Total revenue	1,819	1,741	4.5	6,918	6,993	(1.1)
Adjusted EBIT margin (%)	2.5	(1.5)	4.0p	1.7	1.8	(0.1p)
EBITDA	66	11	n.a.	280	278	0.7
Adjusted EBITDA	147	84	75.0	509	530	(4.0)

Comment on the table:

a At the reporting date.

Development of customer numbers

Operating segments: Development of customer numbers in the fourth quarter of 2017

	Dec. 31, 2017 thousands	Sept. 30, 2017 thousands	Change thousands	Change %
Germany				
Mobile customers	43,125	42,534	591	1.4
Of which contract customers	25,887	25,452	435	1.7
Fixed-network lines	19,239	19,352	(113)	(0.6)
Of which retail IP-based	11,996	11,177	819	7.3
Broadband lines	13,209	13,105	104	0.8
Of which optical fiber[a]	5,803	5,417	386	7.1
Television (IPTV, satellite)	3,139	3,089	50	1.6
Unbundled local loop lines (ULLs)	6,138	6,417	(279)	(4.3)
United States				
Mobile customers[b]	72,585	70,731	1,854	2.6
Of which branded postpaid customers	38,047	36,975	1,072	2.9
Of which branded prepay customers	20,668	20,519	149	0.7
Europe				
Mobile customers	48,842	48,205	637	1.3
Of which contract customers	25,483	25,119	364	1.4
Fixed-network lines	8,439	8,422	17	0.2
Of which IP-based	5,734	5,555	179	3.2
Retail broadband lines	5,647	5,558	89	1.6
Television (IPTV, satellite, cable)	4,244	4,200	44	1.0

Comments on the table:

a Sum of all FTTx access lines (e.g., FTTC/VDSL, vectoring, and FTTH).

b As of Q2/17, 4.368 million wholesale customers from the Lifeline program are no longer included in the figures.

Operating segments: Development of customer numbers in a year-on-year comparison

	Dec. 31, 2017 thousands	Dec. 31, 2016 thousands	Change thousands	Change %
Germany				
Mobile customers	43,125	41,849	1,276	3.0
Of which contract customers	25,887	25,219	668	2.6
Fixed-network lines	19,239	19,786	(547)	(2.8)
Of which retail IP-based	11,996	9,042	2,954	32.7
Broadband lines	13,209	12,922	287	2.2
Of which optical fiber[a]	5,803	4,250	1,553	36.5
Television (IPTV, satellite)	3,139	2,879	260	9.0
Unbundled local loop lines (ULLs)	6,138	7,195	(1,057)	(14.7)
United States				
Mobile customers[b]	72,585	71,455	1,130	1.6
Of which branded postpaid customers	38,047	34,427	3,620	10.5
Of which branded prepay customers	20,668	19,813	855	4.3
Europe				
Mobile customers	48,842	47,952	890	1.9
Of which contract customers	25,483	24,315	1,168	4.8
Fixed-network lines	8,439	8,531	(92)	(1.1)
Of which IP-based	5,734	5,016	718	14.3
Retail broadband lines	5,647	5,393	254	4.7
Television (IPTV, satellite, cable)	4,244	4,049	195	4.8

Comments on the table:

a Sum of all FTTx access lines (e.g., FTTC/VDSL, vectoring, and FTTH).

b As of Q2/17, 4.368 million wholesale customers from the Lifeline program are no longer included in the figures.

This media information contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and amortization, cash flows, and personnel-related measures. They should therefore be considered with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. Among the factors that might influence Deutsche Telekom's ability to achieve its objectives are the progress of its staff restructuring initiatives and other cost-saving measures, and the impact of other significant strategic, labor, or business initiatives, including acquisitions, dispositions, business combinations, and network upgrade and build-out initiatives. In addition, stronger than expected competition, technological change, legal proceedings, and regulatory developments, among other factors, may have a material adverse effect on cost and revenue development. Further, an economic downturn in the markets, and changes in interest and currency exchange rates, may also have an impact on Deutsche Telekom's business development and the availability of financing on favorable conditions. Changes to Deutsche Telekom's expectations concerning future cash flows may lead to impairment write downs of assets carried at historical cost, which may materially affect the results at the Group and operating segment levels. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, the actual performance may materially differ from the performance expressed or implied by forward-looking statements. There is no assurance that the estimates or expectations will be achieved. Without prejudice to existing obligations under capital market law, Deutsche Telekom does not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents alternative performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net profit, free cash flow, gross debt, and net debt. These performance measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Alternative performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways.

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DEUTSCHE TELEKOM AG

ANNUAL FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT AS OF DECEMBER 31, 2017

LIFE IS FOR SHARING.

CONTENTS

A combined management report has been produced for Deutsche Telekom AG and the Deutsche Telekom Group and is also published in our 2017 Annual Report.

Deutsche Telekom AG's single-entity financial statements and the combined management report for the 2017 financial year are published in the electronic Federal Gazette (elektronischer Bundesanzeiger) and can also be accessed on the website of the register of companies.

ANNUAL FINANCIAL STATEMENTS OF DEUTSCHE TELEKOM AG

BALANCE SHEET

millions of €

	Note	Dec. 31, 2017		Dec. 31, 2016	
ASSETS					
NONCURRENT ASSETS	1				
Intangible assets			195		249
Property, plant and equipment			2,698		2,993
Financial assets			93,807		81,240
			96,700		**84,482**
CURRENT ASSETS					
Inventories	2		1		1
Receivables	3		22,073		16,308
Other assets	4		1,659		1,629
Cash and cash equivalents	5		157		208
			23,890		**18,146**
PREPAID EXPENSES AND DEFERRED CHARGES	6		**676**		**516**
DIFFERENCE BETWEEN PLAN ASSETS AND CORRESPONDING LIABILITIES	7		**51**		**36**
TOTAL ASSETS			**121,317**		**103,180**
SHAREHOLDERS' EQUITY AND LIABILITIES					
SHAREHOLDERS' EQUITY	8				
Capital stock	9	12,189		11,973	
Less the imputed value of treasury shares		(49)		(50)	
Issued capital			12,140		11,923
Contingent capital of € 1,100 million					
Additional paid-in capital	10		31,333		30,190
Retained earnings	11		9,538		9,538
Unappropriated net income			5,928		3,795
			58,939		**55,446**
ACCRUALS					
Pensions and similar obligations	13		3,164		3,247
Tax accruals	14		238		238
Other accruals	15		2,321		1,642
			5,723		**5,127**
LIABILITIES	16				
Debt			6,398		5,021
Other liabilities			50,101		37,413
			56,499		**42,434**
DEFERRED INCOME	17		**156**		**173**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES			**121,317**		**103,180**

STATEMENT OF INCOME

millions of €

	Note	2017	2016
Net revenue	19	3,603	3,927
Other own capitalized costs	20	4	4
TOTAL OPERATING PERFORMANCE		**3,607**	**3,931**
Other operating income	21	2,769	2,120
Goods and services purchased	22	(1,060)	(1,151)
Personnel costs	23	(2,732)	(3,516)
Depreciation, amortization and write-downs	24	(341)	(338)
Other operating expenses	25	(4,251)	(3,570)
Financial income (expense), net	26	7,151	4,717
Income taxes	27	(198)	(154)
INCOME AFTER INCOME TAXES		**4,945**	**2,039**
Other taxes	28	(18)	(19)
INCOME AFTER TAXES		**4,927**	**2,020**
Unappropriated net income carried forward from previous year		1,001	1,775
UNAPPROPRIATED NET INCOME	29	**5,928**	**3,795**

NOTES TO THE FINANCIAL STATEMENTS

SUMMARY OF ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS ACTIVITIES

Deutsche Telekom AG[1], Bonn, (hereinafter referred to as Deutsche Telekom or the Company) operates as a provider of telecommunications services, information technology (IT), multimedia, information and entertainment, security services, as well as sales and agency services via its subsidiaries. Deutsche Telekom performs its activities both in and outside Germany.

As the Headquarters of the Deutsche Telekom Group, Deutsche Telekom performs strategic and cross-segment management functions and provides services for other Group companies. These principally comprise services rendered by Telekom Placement Services for providing employees with new employment opportunities as part of the staff restructuring program, the Group Supply Services unit, whose activities include the management of the Company's real estate portfolio, the Group Innovation unit, which is responsible for the Group's innovation areas, and the Group Development unit with the Group functions of mergers & acquisitions and strategic portfolio management. The Company also encompasses the International Carrier Sales and Solutions unit, which primarily provides wholesale telecommunications services to Deutsche Telekom's subsidiaries.

Part of the Company's workforce is employed in its subsidiaries. Most of these are civil servants who have been assigned jobs in compliance with the statutory provisions.

Deutsche Telekom and T-Systems International GmbH, Frankfurt/Main (hereinafter referred to as T-Systems), signed a purchase and transfer agreement for the transfer of Deutsche Telekom's T-Sec DTAG operating unit with effect from January 1, 2017. T-Sec DTAG comprises the Group Security Services unit as well as the departments from the Group Innovation + unit that are concerned with security (Access Security, Business Infrastructure & Product Integration, Business Security, and Business Segment Support).

Furthermore, by way of a purchase and transfer agreement between T-Systems and Deutsche Telekom with economic effect from September 1, 2017, the Product & Innovation, M2M operating unit was transferred to T-Systems as part of a transfer of operations aimed at consolidating all of the Group's IoT (Internet of Things) units.

By way of a sale and transfer agreement between Deutsche Telekom Training GmbH, Bonn, and Deutsche Telekom, the TT-DTAG operating unit, comprising the Solution Management EU, Change & Transformation, Technology eLearning Horizontal, and Solution Management TI business areas, was transferred to Deutsche Telekom as part of a transfer of operations with economic effect from March 1, 2017.

These transfers of operations had no material impact on Deutsche Telekom's results of operations and financial position.

DESCRIPTION OF THE RELATIONSHIP WITH THE FEDERAL REPUBLIC OF GERMANY

The Federal Republic's total shareholding in Deutsche Telekom amounted to 31.89 percent at the end of the reporting period, of which 17.41 percent of the shares were held by KfW Bankengruppe (KfW) and attributable to the Federal Republic in accordance with § 16 (4) of the German Stock Corporation Act (Aktiengesetz – AktG). The Federal Ministry of Finance is responsible for administering the Federal Republic's shareholding and exercising its rights as a shareholder.

In accordance with legal regulations, the Deutsche Bundespost Federal Posts and Telecommunications Agency, Bonn (Federal Agency) assumes coordination and administrative tasks that affect cross-company issues at Deutsche Telekom, Deutsche Post AG, Bonn, and Deutsche Postbank AG, Bonn. These are performed on the basis of agency agreements for the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse – PBeaKK), the Recreation Service (Erholungswerk), the Supplementary Retirement Pensions Institution (Versorgungsanstalt der Deutschen Bundespost – VAP), the Welfare Service (Betreuungswerk), and the Civil Service Pension Fund (Postbeamtenversorgungskasse), among others.

The Federal Republic purchases services from the Company as a customer of Deutsche Telekom. In the course of business, Deutsche Telekom deals directly with individual authorities and other government agencies as mutually independent individual customers. Services provided to any one department or agency do not represent a significant component of Deutsche Telekom's net revenue.

The Federal Network Agency for Electricity, Gas, Telecommunications, Posts, and Railways is a separate higher federal authority within the scope of business of the Federal Ministry of Economics and Energy. One of its tasks is to supervise the telecommunications sector in Germany. In this capacity it regulates the business activities of Deutsche Telekom.

BASIS OF PREPARATION

The annual financial statements and the management report of Deutsche Telekom, which is combined with the Group management report in accordance with § 315 (5) of the German Commercial Code (Handelsgesetzbuch – HGB) in conjunction with § 298 (2) HGB, are prepared in accordance with German GAAP and the German Stock Corporation Act.

The balance sheet and the statement of income are prepared in accordance with the classification requirements of § 266 and § 275 HGB. The statement of income is prepared using the total cost method in accordance with § 275 (2) HGB. Unless otherwise stated, all amounts shown are in millions of euros (millions of €/EUR). The financial year corresponds to the calendar year. Certain items have been aggregated for presentation purposes in the balance sheet and the statement of income in order to make the financial statements clearer. These items are disclosed separately in the notes. Other required disclosures for individual items of the balance sheet and the statement of income are also made in the notes.

Deutsche Telekom aggregated all disclosures on the compensation of the Board of Management and the Supervisory Board in a "Compensation report" in the combined management report, to which some information that is still required to be shown in the notes to the Company's financial statements was added.

[1] Deutsche Telekom was entered into the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) under the name Deutsche Telekom AG on January 2, 1995.

ACCOUNTING POLICIES

Purchased **intangible assets** are carried at acquisition cost and are amortized on a straight-line basis over their estimated useful lives. Write-downs to the lower of cost or market value are charged if an impairment of assets is assumed to be permanent.

Deutsche Telekom does not exercise its option to recognize internally generated intangible assets in accordance with § 248 (2) HGB.

As permitted by Postreform II, **property, plant and equipment** transferred to Deutsche Telekom on January 1, 1995 was recorded in the opening balance sheet of Deutsche Telekom at fair market values at that date. However, due to the short period of time that had elapsed since the measurement date for property, plant and equipment acquired since January 1, 1993, their carrying amount as of December 31, 1994 was recognized on a historical cost basis. The remaining useful lives and the depreciation methods applicable to these assets were not changed. The fair market values shown in the opening balance sheet have been carried forward as the acquisition costs.

Other items of property, plant, and equipment are carried at acquisition or production cost, less scheduled depreciation. Production cost includes directly attributable costs and an appropriate allocation of indirect material and labor cost. Borrowing costs are not capitalized. Write-downs to the lower of cost or market value are charged if an impairment of assets is assumed to be permanent.

Depreciation is generally charged using the straight-line method. The standard useful lives used for the calculation are based on a company-specific estimate that takes both technical and commercial devaluation factors into account.

If the reasons for write-downs no longer exist in subsequent years, either in whole or in part, a write-up is made in the amount of the increase in value occurred; this may not, however, exceed the value that would have been recognized if the write-down had not been carried out.

Since BilMoG entered into force, write-downs that are only permissible under tax law are generally no longer permitted in the annual financial statements. Deutsche Telekom exercises the option to retain the existing carrying amounts in accordance with Art. 67 (4) sentence 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB). Since January 1, 2010, residual value as of December 31, 2009 has been written down over the remaining useful life using the straight-line method. This method makes it possible to give a picture that more truly reflects the Company's actual financial position and results of operations.

Assets are depreciated over the following useful lives:

	Years
Acquired software	3 to 4
Other rights of use and licenses	As contractually agreed
Buildings	25 to 50
Switching, transmission, IP, and radio transmission equipment	3 to 10
International cable systems	3 to 15
Other equipment, plant and office equipment	3 to 23

Additions to real estate and movable items of property, plant and equipment are depreciated ratably from the year of acquisition.

Since January 1, 2008, assets with an acquisition or production cost below EUR 150 have been written down immediately in the year of acquisition. Assets whose acquisition or production cost exceeds EUR 150 but is less than EUR 1,000 are capitalized in annual omnibus items of immaterial significance and depreciated over five years. These assets are presented as disposals in the statement of noncurrent assets when they are written off in full. For purposes of simplification, the tax method used to compile the omnibus items is also applied in the financial accounts.

Noncurrent assets sold or otherwise disposed of are derecognized at their relevant carrying amount (cost less accumulated depreciation). A gain or loss is recognized in the statement of income in the amount of the difference between the proceeds from the sale and the carrying amount of the asset concerned.

Financial assets are reported at the lower of cost or market value. In the case of financial assets acquired in a foreign currency, the exchange rate at the transaction date is used to determine the acquisition cost; in the case of hedges, the hedging rate for the purchased foreign currency is used, provided an effective hedge was recognized. Loan receivables correspond to the loan amounts less repayments and – if applicable – less any write-downs to the lower fair value. Nonscheduled write-downs are charged only if the impairment of financial assets is assumed to be permanent. The accounting for structured financial instruments is in accordance with standard IDW RS HFA 22 issued by the Institute of Public Auditors in Germany.

As a consequence of the application of IDW ERS HFA 13 note 94 as amended, in the event of the shareholder drawing assets, the reduction in the net carrying amount of the investment is calculated and recognized on the basis "of the ratio of the fair value of the asset drawn to the fair value of the investment." The difference between the reduction in the net carrying amount and the amount of the assets drawn is hence recognized in the statement of income.

Merchandise is recognized at acquisition cost and reduced to the lower of cost or market value at the balance sheet date. Adequate write-downs are charged for inventory risks resulting from obsolescence or impaired marketability.

In accordance with § 240 (4) HGB, items of inventory of a similar nature are aggregated into groups and carried at their moving weighted average value.

Receivables, other assets and **cash and cash equivalents** are carried at their nominal value. Identified individual risks are accounted for through appropriate individual valuation adjustments, and general credit risks through general valuation adjustments of receivables. Low-interest and non-interest-bearing items with more than one year remaining to maturity are discounted.

Receivables and other assets denominated in foreign currencies are translated at the middle spot rate at the balance sheet date in accordance with § 256a HGB and measured at acquisition or production cost (§ 253 (1) sentence 1 HGB) applying the realization principle (§ 252 (1) no. 4 half-sentence 2 HGB). Current items with maturities of one year or less are measured at the middle spot rate at the balance sheet date in accordance with § 256a HGB.

Prepaid expenses and deferred charges are recognized as a separate item in accordance with § 266 (2) C HGB and recalculated at each balance sheet date. The discount included under prepaid expenses and deferred charges results from the difference between the settlement amount of a financial liability and the lower principal amount. The discount is amortized over the terms of the financial liabilities by systematic annual charges (§ 250 (3) sentence 2 HGB). Deutsche Telekom does not make use of the option to immediately recognize the difference as an expense.

In connection with **stock-based compensation plans**, a distinction must be made between cash-settled plans and equity-settled plans. The plans are recognized in income from the date they enter into force. For both cash-settled and equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques. Under the short-term performance-related salary component, Variable I, the Board of Management and the business leader team are contractually obliged, and other executives are entitled on a voluntary basis, to invest a portion of their annual variable remuneration – determined according to the level of achievement of fixed targets set for each individual for the financial year – in shares in Deutsche Telekom, which must be kept for at least four years. Deutsche Telekom will grant additional shares for the shares acquired by the beneficiaries (Share Matching Plan), which will be allotted to the beneficiaries of this plan from Deutsche Telekom's holding of treasury shares on expiration of the four-year lock-up period. In addition, the Board of Management, the business leader team and other executives are awarded performance-based compensation based on the level of achievement of long-term targets (Variable II or the Long-Term Incentive Plan). Accruals are recognized for the expected costs of the Share Matching Plan, Variable I, Variable II and the Long-Term Incentive Plan. The resulting personnel costs will be spread over the respective term.

Accruals for pensions and similar obligations are based on obligations to non-civil servants. These accruals are calculated on the basis of actuarial principles, applying the projected unit credit method and using the 2005 G life expectancy tables published by Prof. Klaus Heubeck, which also take expected future salary and benefit increases into account. The interest rate used to determine the present value of the pension obligations corresponds to the average market interest rate published by the Deutsche Bundesbank that results from an assumed remaining maturity of 15 years (§ 253 (2) sentence 2 HGB). In accordance with the Act on the Implementation of the Mortgage Credit Directive and Amending Commercial Regulations (Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften) that entered into force on March 21, 2016, the average market interest rate for discounting pension accruals is calculated over the past ten financial years (until the 2015 financial year: seven financial years) in accordance with § 253 (2) sentence 1 HGB. The difference between the carrying amount of the pension accruals using the average market interest rate over the past ten financial years and the carrying amount of the accruals using the average market interest rate over the past seven financial years is subject to the restriction on distribution (§ 253 (6) sentence 2 HGB). Where an addition to pension accruals is required on account of the change in measurement following the entry into force of BilMoG, the amount must aggregate to at least one 15th in each financial year up to December 31, 2024 at the latest (Art. 67 (1) sentence 1 EGHGB). The Company exercised the option in such a way that the annual addition corresponds to one 15th of the total amount being added. This amount is presented separately under other operating expenses.

In the past, Deutsche Telekom entered into **partial retirement arrangements** with varying terms and conditions largely based on what is known as the block model. Two types of obligations, both measured at their present value in accordance with actuarial principles using the 2005 G life expectancy tables published by Prof. Klaus Heubeck, arise and are accounted for separately. These two obligations are outstanding settlement amounts and top-up payments. Top-up payments are often hybrid in nature, i.e., although the agreement is often considered a form of compensation for terminating the employment relationship at an earlier date, payments to be made at a later date are subject to the performance of work in the future. To the extent that partial retirement programs are mainly to be considered severance instruments, top-up payments are recognized in full as soon as the obligation arises. If, by contrast, the focus of the partial retirement arrangements is on the future performance of work, the top-up payments are recognized over their vesting period.

Obligations arising from **long-term credits** are measured at the present value using actuarial principles. Obligations relating to **lifetime work accounts** are measured at the fair value of the reinsurance arranged for this purpose.

To hedge claims from partial retirement, lifetime work accounts, long-term credits and pension obligations, securities have been transferred to a trustee under a contractual trust arrangement (CTA). In accordance with § 246 (2) sentence 2 HGB, the accruals for lifetime work accounts, long-term credits and pension obligations, as well as accruals for outstanding settlement amounts relating to obligations from partial retirement, are offset against the corresponding plan assets. The plan assets offset are measured at their fair value in accordance with § 253 (1) sentence 4 HGB. Any resulting excess in plan assets is recognized as an asset and presented under a separate item (§ 266 (2) letter E HGB). In accordance with § 246 (2) sentence 2 HGB, income and expenses from discounting and from the assets to be offset are also offset under financial income/expense. If the fair value of the plan assets exceeds the historical cost, this part is subject to the restriction on distribution in accordance with § 268 (8) HGB.

Tax and other accruals, including those for contingent losses and environmental liabilities, are carried at the settlement amount considered necessary in accordance with prudent commercial practice. Sufficient allowance is made for all identifiable risks when measuring these accruals. Expected increases in prices and costs in the meantime are taken into account.

Accruals with a remaining term of more than one year are discounted at the balance sheet date at the interest rate published by the Deutsche Bundesbank, which is the average market interest rate for the past seven financial years corresponding to their remaining maturity.

Where reversals of accruals became necessary in the 2010 financial year due to the introduction of BilMoG and the resulting changes in measurement, Deutsche Telekom exercised the option to retain the higher carrying amount if the amount being reversed has to be added back before December 31, 2024 (Art. 67 (1) sentence 2 EGHGB).

Liabilities are recognized at the settlement amount. In instances where the settlement amount of a liability is greater than the principal amount, the difference is recorded under prepaid expenses and deferred charges, and distributed over the term of the liability. In accordance with § 256a HGB, liabilities denominated in foreign currencies are translated at the middle spot rate at the balance sheet date and measured using the historical cost convention (§ 253 (1) sentence 1 HGB) and applying the realization principle (§ 252 (1) no. 4 half-sentence 2 HGB). Current items with maturities of one year or less are measured at the middle spot rate at the balance sheet date in accordance with § 256a HGB.

In line with the imparity principle, unrealized losses relating to non-derivative and derivative financial instruments are expensed when incurred. This principle is also applied to derivatives that are embedded in structured financial instruments and that have to be accounted for separately. If financial instruments can be qualified as a valuation unit – hedged item and hedge transaction – the unrealized losses from the hedged risks are not recognized in accordance with § 254 HGB provided there are also unrealized gains in the same amount offsetting the losses (net hedge presentation method). If the offset (netting) of the change in values of the hedged item and the hedge instrument results in a net loss, it is recognized in net income or loss through an accrual for contingent losses in accordance with IDW RS HFA 35, whereas unrealized gains are not recognized until realized.

Financial liabilities denominated in foreign currencies that are part of a hedge are recognized at the middle spot rate at the transaction date.

Unrealized settlement gains and losses from expired hedge transactions for revolving hedging (roll-over gains or losses) and other settlement gains and losses for which the hedged item has not yet been recognized in the statement of income are reported separately as other assets or other liabilities.

All proceeds from the sale and the renting and leasing out of products, as well as the provision of services are presented as **revenue**. This primarily relates to revenue from the International Carrier Sales & Solutions and Group Innovation units plus revenue from hiring out employees, renting and leasing out property, and offering training services.

Revenue is recorded net of sales-related reductions and value-added tax as well as other taxes directly linked to revenue. In accordance with the realization principle, revenue is recognized in the accounting period when earned.

Research and development costs are expensed as incurred.

Pension costs include expenditures in connection with the appropriation of accruals for current employees as well as expenditures for ongoing payments to the Federal Agency on behalf of employed civil servants.

Income tax expense includes current payable taxes on income. Deutsche Telekom has not exercised its option to recognize deferred tax assets in accordance with § 274 (1) HGB.

SCOPE OF DISCRETION

The preparation of the annual financial statements requires the Company to make estimates and assumptions that affect the reported carrying amounts of assets and liabilities, the disclosure of risks and uncertainties with regard to the assets and liabilities recognized at the closing date and the amounts of income and expenses recognized during the reporting period. Actual results may differ from those estimates.

NOTES TO THE BALANCE SHEET

1 NONCURRENT ASSETS

As of December 31, 2017, **intangible assets** amounted to EUR 195 million (December 31, 2016: EUR 249 million) and primarily include advance payments, licenses, and rights to use software. Additions to intangible assets of EUR 69 million relate in particular to advance payments and purchased software. Disposals from transfers to Group companies at net carrying amounts totaling EUR 39 million mainly related to software transferred to T-Systems as part of the transfer of operations aimed at consolidating all of the Group's IoT (Internet of Things) units.

Property, plant and equipment decreased by EUR 295 million to EUR 2.7 billion in the reporting period, largely due to depreciation in the reporting year amounting to EUR 267 million, of which EUR 220 million relates to depreciation on real estate. Investments in property, plant and equipment in the reporting year totaled EUR 78 million (2016: EUR 78 million), of which EUR 39 million related to other equipment, plant and office equipment and EUR 23 million to advance payments and construction in progress. External disposals of property, plant and equipment at net carrying amounts related almost exclusively to real estate, which accounted for EUR 112 million.

As of the balance sheet date, **financial assets** increased by EUR 12.6 billion compared with December 31, 2016.

The increase of EUR 4.5 billion in **investments in subsidiaries** was mainly attributable to a capital increase of EUR 5.4 billion at CTA Holding GmbH (formerly Kristall Telekommunikationsdienste GmbH), Bonn. In particular, the write-down of the carrying amount of the investment in T-Systems of EUR 1.0 billion, the sale of shares in DeTeMedien, Deutsche Telekom Medien GmbH, Frankfurt/Main, with a net carrying amount of EUR 23 million, and an equity repayment by Sireo Immobilienfonds No. 1 GmbH & Co. KG, Bonn, of EUR 5 million had an offsetting effect.

The additions and disposals resulting from conversions and similar transactions relate to the split-off of the Tel IT unit from T-Systems (with amortized cost of EUR 1,025 million and a proportionate write-down of EUR 198 million) to Deutsche Telekom IT GmbH, Bonn (EUR 827 million).

Loans to subsidiaries with a carrying amount of EUR 16.5 billion at December 31, 2017 mainly consisted of loans to T-Mobile USA, Inc., Bellevue (EUR 12.9 billion), Telekom Deutschland GmbH, Bonn (hereinafter referred to as Telekom Deutschland) (EUR 2.1 billion), T-Mobile Polska S.A., Warsaw (EUR 678 million), Magyar Telekom Telecommunications Public Limited Company, Budapest (EUR 451 million), and Sireo Immobilienfonds No. 1 GmbH & Co. KG, Bonn (EUR 146 million). The increase of EUR 8.2 billion is mainly attributable to the increase in the loan to T-Mobile USA, Inc., Bellevue.

The decrease of EUR 70 million in **investments in associated and related companies** was due almost exclusively to the sale of shares in Scout24 AG, Munich (EUR 70 million).

Write-downs on financial assets amounted to EUR 1.0 billion in the reporting year and were recorded in net financial income/expense (please refer to Note 26).

For the statement of investment holdings in accordance with § 285 HGB, please refer to Note 40.

Statement of noncurrent assets

millions of €

		Acquisition costs								
		Balance at Jan. 1, 2017	Additions	Additions from transfers from Group companies	Additions from conversions and similar transactions	Disposals	Disposals from transfers to Group companies	Disposals from conversions and similar transactions	Reclassifications	Balance at Dec. 31, 2017
I.	INTANGIBLE ASSETS									
1.	Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets	391	31	0	-	(68)	(58)	-	21	317
2.	Advance payments	30	38	-	-	(7)	(6)	-	(21)	34
		421	**69**	**0**	**-**	**(75)**	**(64)**	**-**	**-**	**351**
II.	PROPERTY, PLANT AND EQUIPMENT									
1.	Land and equivalent rights and buildings including buildings on land owned by third parties	9,279	12	0	-	(363)	(1)	-	16	8,943
2.	Technical equipment and machinery	416	4	-	-	(19)	(17)	-	11	395
3.	Other equipment, plant and office equipment	639	39	0	-	(32)	(2)	-	4	648
4.	Advance payments and construction in progress	48	23	-	-	0	0	-	(31)	40
		10,382	**78**	**0**	**-**	**(414)**	**(20)**	**-**	**-**	**10,026**
III.	FINANCIAL ASSETS									
1.	Investments in subsidiaries	76,887	5,527	3	827	(38)	(3)	(1,025)	-	82,178
2.	Loans to subsidiaries	8,283	10,839	-	-	(2,655)	-	-	-	16,467
3.	Investments in associated and related companies	631	0	-	-	(70)	-	-	-	561
4.	Other long-term loans	10	-	-	-	0	-	-	-	10
		85,811	**16,366**	**3**	**827**	**(2,763)**	**(3)**	**(1,025)**	**-**	**99,216**
	NONCURRENT ASSETS	**96,614**	**16,513**	**3**	**827**	**(3,252)**	**(87)**	**(1,025)**	**-**	**109,593**

Depreciation, amortization and write-downs									Net carrying amounts	
Balance at Jan. 1, 2017	Additions	Additions from transfers from Group companies	Write-ups	Disposals	Disposals from transfers to Group companies	Disposals from conversions and similar transactions	Reclassifica-tions	Balance at Dec. 31, 2017	Balance at Dec. 31, 2017	Balance at Dec. 31, 2016
(172)	(74)	-	-	65	25	-	-	(156)	161	219
-	-	-	-	-	-	-	-	-	34	30
(172)	**(74)**	**-**	**-**	**65**	**25**	**-**	**-**	**(156)**	**195**	**249**
(6,477)	(220)	0	8	251	0	-	(0)	(6,438)	2,505	2,802
(378)	(12)	-	-	19	17	-	-	(354)	41	38
(534)	(35)	-	-	31	2	-	0	(536)	112	105
-	-	-	-	-	-	-	-	-	40	48
(7,389)	**(267)**	**0**	**8**	**301**	**19**	**-**	**-**	**(7,328)**	**2,698**	**2,993**
(4,402)	(1,037)	-	-	-	-	198	-	(5,241)	76,937	72,485
(3)	0	-	-	1	-	-	-	(2)	16,465	8,280
(166)	0	-	-	-	-	-	-	(166)	395	465
-	-	-	-	-	-	-	-	-	10	10
(4,571)	**(1,037)**	**-**	**-**	**1**	**-**	**198**	**-**	**(5,409)**	**93,807**	**81,240**
(12,132)	**(1,378)**	**0**	**8**	**367**	**44**	**198**	**-**	**(12,893)**	**96,700**	**84,482**

2 INVENTORIES

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Merchandise	1	1
	1	**1**

3 RECEIVABLES

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Trade accounts receivable	39	65
of which: with a remaining maturity of more than one year € 0 million (Dec. 31, 2016: € 0 million)		
Receivables from subsidiaries	22,030	16,240
of which: with a remaining maturity of more than one year € 5 million (Dec. 31, 2016: € 12 million)		
Receivables from associated and related companies	4	3
of which: with a remaining maturity of more than one year € 0 million (Dec. 31, 2016: € 0 million)		
	22,073	**16,308**

Trade accounts receivable relate in particular to receivables at the International Carrier Sales & Solutions business unit regarding wholesale telecommunications services for international carriers.

Receivables from subsidiaries consist of receivables related to intercompany cash management amounting to EUR 20,294 million (December 31, 2016: EUR 14,900 million), financial receivables amounting to EUR 736 million (December 31, 2016: EUR 213 million), other receivables of EUR 556 million (December 31, 2016: EUR 555 million), and intercompany trade accounts receivable amounting to EUR 444 million (December 31, 2016: EUR 572 million). The increase in receivables from subsidiaries is attributable in particular to higher receivables from cash management. The rise in receivables from cash management is largely due to receivables arising from the profit transfers from DFMG Holding GmbH, Bonn, and T-Mobile Global Zwischenholding GmbH, Bonn.

Receivables from associated and related companies included EUR 453 thousand in trade accounts receivable in the reporting year (December 31, 2016: EUR 2 million).

4 OTHER ASSETS

millions of €

	Dec. 31, 2017	Dec. 31, 2016
TAX RECEIVABLES		
Income tax receivables		
Corporate income tax	33	11
Trade income tax	74	25
	107	**36**
Other tax receivables	0	0
	107	**36**
Receivables from collateral	504	235
Receivables from derivatives	423	744
Accrued interest	346	228
Receivables from reimbursements	215	343
Receivables from employees	6	7
Miscellaneous other assets	58	36
	1,552	**1,593**
	1,659	**1,629**

Income tax receivables primarily relate to corporate income tax receivables and to trade income tax receivables from prior years from overpayments to the tax authorities.

Collateral is used to hedge the credit risk from derivative financial instruments. In this case, Deutsche Telekom transfers collateral in the form of cash to its contracting parties. The increase in **receivables from collateral** is attributable to regular fluctuation in market values, mainly of USD/EUR cross-currency swaps.

Receivables from derivatives mainly relate to unrealized settlement gains and losses from expired U.S.-dollar hedge transactions for revolving hedging (roll-over gains or losses).

Accrued interest was almost exclusively from interest rate derivatives.

Receivables from reimbursements mainly consist of interoperator discount services in connection with roaming agreements with foreign mobile communications providers. Deutsche Telekom's subsidiaries are entitled to, and will be credited with, the reimbursements received, which are initially bundled by Deutsche Telekom.

Miscellaneous other assets mainly include receivables from the Federal Agency and from the hiring out of employees.

Of the receivables reported under other assets, EUR 454 million (December 31, 2016: EUR 738 million) have a remaining maturity of more than one year.

5 CASH AND CASH EQUIVALENTS

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Cash in hand and cash in banks	157	208
	157	**208**

The total time to maturity of **cash and cash equivalents** is less than three months.

6 PREPAID EXPENSES AND DEFERRED CHARGES

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Personnel costs	322	383
Loan premium	208	-
Loan discounts	135	105
Other prepaid expenses	11	28
	676	**516**

Deferred **personnel costs** in the reporting period mainly comprise prepaid expenses to the Federal Agency for 2018 and prepaid remuneration.

The **loan premium** primarily results from the granting of an early repayment option for loans issued to T-Mobile USA, Inc., Bellevue.

Prepaid expenses and deferred charges for **loan discounts** mainly relate to loan liabilities to Deutsche Telekom International Finance B.V., Maastricht.

7 DIFFERENCE BETWEEN PLAN ASSETS AND CORRESPONDING LIABILITIES

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Settlement amount of the netted liabilities from partial retirement agreements, lifetime work accounts, and long-term credits	60	72
Fair value of the CTA assets	111	108
Acquisition costs of the CTA assets	107	104
Netted expenses	4	5
Netted income	1	4
Excess of assets above obligations from outstanding settlement amounts from partial retirement agreements and long-term credits	51	36

The **difference between plan assets and corresponding liabilities** amounting to EUR 51 million relates exclusively to the netting of marketable securities and cash in banks in the amount of EUR 111 million with the outstanding settlement amounts for accruals for partial retirement and obligations relating to lifetime work and long-term accounts amounting to EUR 60 million. The marketable securities and cash in banks that were transferred to a trustee serve as security for employees' entitlements from partial retirement agreements, lifetime work and long-term accounts under the CTA. The fair value of the CTA assets covers Deutsche Telekom's discounted outstanding settlement amounts relating to obligations from partial retirement, lifetime work and long-term accounts at December 31, 2017 in the amount required by law. In addition, the CTA assets covered on a voluntary basis parts of Deutsche Telekom's discounted outstanding settlement amounts relating to obligations from partial retirement for civil servants concluded by June 30, 2014. The amortized cost of the CTA assets for lifetime work accounts corresponds to the fair value. The acquisition cost of the CTA assets for long-term accounts and partial retirement is lower than their fair value. The resulting difference of EUR 4 million (fair value of EUR 111 million, cost of acquisition EUR 107 million) is subject to a restriction on distribution.

The income from the netted assets is offset against the expenses for interest added back to accruals in net interest income/expense.

The CTA assets are valued as of the respective balance sheet date taking into account current prices.

8 SHAREHOLDERS' EQUITY

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Capital stock	12,189	11,973
Less the imputed value of treasury shares	(49)	(50)
Issued capital	**12,140**	**11,923**
Additional paid-in capital	31,333	30,190
	31,333	**30,190**
Retained earnings		
other retained earnings	9,538	9,538
	9,538	**9,538**
Unappropriated net income	5,928	3,795
	58,939	**55,446**

Shareholders' equity increased by EUR 3,493 million year-on-year. The changes are described in detail in the following sections.

9 CAPITAL STOCK

	Authorized and issued capital		Authorized capital (not issued)		Contingent capital (not issued)	
	thousands of shares	thousands of €	thousands of shares	thousands of €	thousands of shares	thousands of €
As of Dec. 31, 2016	4,676,902	11,972,869	624,273	1,598,139	429,688	1,100,000
Use of 2013 authorized capital (capital increase)	84,557	216,465	(84,557)	(216,465)	-	-
Discontinuation of 2013 authorized capital	-	-	(539,716)	(1,381,674)	-	-
Issue of 2017 authorized capital	-	-	1,406,250	3,600,000	-	-
AS OF DEC. 31, 2017	**4,761,459**	**12,189,334**	**1,406,250**	**3,600,000**	**429,688**	**1,100,000**

As of December 31, 2017, Deutsche Telekom's **capital stock** totaled approximately EUR 12.2 billion. The capital stock is divided into 4,761,458,596 no par value registered shares with a notional value of EUR 2.56 per share. Each share entitles the holder to one vote.

The resolution on the dividend of EUR 0.60 per share for the 2016 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom shares. Dividend entitlements of Deutsche Telekom shareholders amounting to EUR 1.4 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2017 and thus did not have an impact on cash flows. Deutsche Telekom carried out an increase in capital stock of around EUR 216 million against contribution of dividend entitlements for this purpose in June 2017. This increased additional paid-in capital by some EUR 1.1 billion. The number of shares increased by 84,557 thousand.

As of December 31, 2017, the shareholders listed in the following table had shareholdings in Deutsche Telekom subject to reporting requirements in accordance with § 21 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). The remaining shares were in free float.

The shareholding of shareholder BlackRock, Inc., Wilmington, DE, United States, which is subject to notification obligations, changed in the course of the year. According to the latest notification from BlackRock published on September 22, 2017, the notification threshold of 3 percent of voting rights was exceeded. The stake in Deutsche Telekom thus totaled 4.92 percent of the voting rights on September 15, 2017.

	Dec. 31, 2017	
	thousands of shares	%
Federal Republic of Germany	689,601	14.48
KfW Bankengruppe, Frankfurt/Main, Germany	829,179	17.41
BlackRock, Inc., Wilmington, DE, United States*	234,194	4.92

* According to: voting rights notification published on September 22, 2017.

Authorized capital

As of December 31, 2017, Deutsche Telekom had the following authorized capital:

	thousands of €	thousands of shares	Purpose	Authorization until
2017 Authorized capital	3,600,000	1,406,250	Capital increase against cash contribution/contribution in kind	May 30, 2022

2013 Authorized capital

The shareholders' meeting on May 16, 2013 authorized the Board of Management to increase the capital stock with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 15, 2018. This authorization was able to be exercised in full or on one or more occasions in partial amounts. The Board of Management was authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management was authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. The Board of Management was also authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares.

The shareholders' meeting resolved on May 31, 2017 to cancel the 2013 authorized capital to the extent it still existed, effective the entry of the 2017 authorized capital described below. Following the increase in capital stock against contribution of dividend entitlements, 2013 authorized capital amounted to EUR 1,381,674,257.92. The cancellation of the remaining 2013 authorized capital was entered in the commercial register on July 11, 2017.

2017 Authorized capital

The shareholders' meeting on May 31, 2017 authorized the Board of Management to increase the capital stock with the approval of the Supervisory Board by up to EUR 3,600,000,000 by issuing up to 1,406,250,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 30, 2022. This authorization may be exercised in full or on one or more occasions in partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. However, the value of the new shares for which shareholders' subscription rights have been disapplied on the basis of this authorization – together with the value of the shares or conversion and/or option rights or obligations under bonds issued or sold since May 31, 2017 subject to the disapplication of subscription rights – must not exceed 20 percent of the total share capital; the latter is defined as the amount existant as of May 31, 2017, upon entry of the authorization, or upon the issue of the new shares, whichever amount is lowest. If the issue or sale is carried out in analogous or mutatis mutandis application of § 186 (3) sentence 4 AktG, this shall also constitute the disapplication of subscription rights. The Board of Management is also authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares.

The shareholders' meeting on May 31, 2017 instructed the Board of Management to enter the 2017 authorized capital described above in the commercial register only when (a) the existing 2013 authorized capital I (in the necessary partial amount) has been utilized to grant the shareholders the possibility described under item 2 of the agenda of the shareholders' meeting on May 31, 2017 to opt for shares (dividend in kind) instead of a cash dividend payment and the related capital increase has been entered, or (b) the dividend has been paid out in full in cash. 2017 authorized capital was entered in the commercial register on July 11, 2017 after the condition specified under (a) had been met.

Contingent capital

As of December 31, 2017, Deutsche Telekom had the following contingent capital:

	thousands of €	thousands of shares	Purpose
2014 Contingent capital	1,100,000	429,688	Servicing convertible bonds and/or bonds with warrants issued on or before May 14, 2019

2014 Contingent capital

The Company's capital stock was contingently increased by up to EUR 1,100,000,000 as of December 31, 2017, composed of up to 429,687,500 no par value shares. The contingent capital increase will be implemented only to the extent that

a) the holders or creditors of bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, make use of their option and/or conversion rights or

b) those obligated as a result of bonds with warrants, convertible bonds, profit participation rights and/or participating bonds (or combinations of these instruments) which are issued or guaranteed by Deutsche Telekom or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, fulfill their option or conversion obligations

and other forms of fulfillment are not used. The new shares shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (3) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

Treasury shares

The amount of capital stock assigned to treasury shares was EUR 49.4 million at December 31, 2017. This equates to 0.4 percent of the capital stock. At 19,284,877 shares, the holding of treasury shares breaks down as follows:

	Number
Share Matching Plan	768,066
Shares formerly deposited with a trustee	18,516,811
	19,284,877

The year-on-year decrease in treasury shares was due exclusively to the transfer of a total of 300 thousand treasury shares to the custody accounts of eligible participants in the Share Matching Plan.

Authorization to acquire and use treasury shares

The shareholders' meeting resolved on May 25, 2016 to authorize the Board of Management to purchase shares in the Company by May 24, 2021, with the amount of capital stock accounted for by these shares totaling up to EUR 1,179,302,878.72, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company which the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's capital stock. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom or for the account of dependent Group companies of Deutsche Telekom within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 25, 2016 under item 6 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 25, 2016, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the authorization by the shareholders' meeting on May 25, 2016 described above and corresponding authorizations by the shareholders' meetings on May 12, 2011 and May 24, 2012, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total acquisition volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively. Further 90 thousand shares and 860 thousand shares were acquired in September and October 2015, respectively, for an aggregate amount of EUR 14,787 thousand (excluding transaction costs); these acquisitions increased the number of treasury shares by 950 thousand.

No treasury shares were acquired in the reporting period.

As part of the Share Matching Plan, a total of 2 thousand shares were transferred free of charge to the custody accounts of eligible participants in each of the 2012 and 2013 financial years. A further 90 thousand treasury shares were transferred free of charge in the 2014 financial year. Additional 140 thousand treasury shares were transferred in the 2015 financial year. In the 2016 financial year, 232 thousand shares were transferred. Transfers of treasury shares to the custody accounts of employees of Deutsche Telekom are free of charge. In cases where treasury shares are transferred to the custody accounts of employees of other Group companies, the costs have been transferred at fair value to the respective Group company since the 2016 financial year.

A total of 300 thousand treasury shares were reallocated in January, March, April, May, June, July, August, September, October, and December 2017 and transferred to the custody accounts of eligible participants of the Share Matching Plan.

As of December 31, 2017, disposals of treasury shares resulting from the transfers in the reporting period accounted for less than 0.01 percent, or EUR 769 thousand, of capital stock. Gains on disposal arising from transfers of treasury shares amounted to EUR 2,986 thousand. In the reporting year, 107 thousand treasury shares with a fair value of EUR 1,763 thousand were billed to other Group companies. Transfers of treasury shares increased retained earnings by EUR 511 thousand and additional paid-in capital by EUR 310 thousand.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options and conversion rights, among others. These options and conversion rights fully expired in the 2013 financial year. As a result, the trustee no longer had any obligation to fulfill any claims in accordance with the purpose of the deposit. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred free of charge to a custody account of Deutsche Telekom. The 18,517 thousand previously deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1) a HGB. This equates to 0.4 percent, or EUR 48 million, of Deutsche Telekom's capital stock. On the basis of authorization by the shareholders' meeting on May 25, 2016, the treasury shares acquired free of charge may be used for the same purposes as the treasury shares acquired for a consideration.

10 ADDITIONAL PAID-IN CAPITAL

Additional paid-in capital increased by EUR 1,143 million in the 2017 financial year. This resulted almost exclusively from the capital increase against the contribution of dividend entitlements.

11 RETAINED EARNINGS

Retained earnings include the transfers from income after taxes from prior years to other retained earnings. The transfers of treasury shares held by Deutsche Telekom to custody accounts of participants in the Share Matching Plan increased retained earnings by EUR 511 thousand.

Restriction on distribution

The amount that is subject to a restriction on distribution in accordance with § 268 (8) sentence 3 HGB is attributable to the measurement of the CTA assets for accruals for pensions and similar obligations at fair value amounting to EUR 260 million, to the measurement of the CTA asset for partial retirement obligations amounting to EUR 3 million, and to the measurement of the CTA asset for long-term accounts amounting to EUR 1 million. Deferred tax liabilities account for EUR 83 million of the difference of EUR 264 million, resulting in a net amount of EUR 181 million. After accounting for deferred tax assets, also of EUR 83 million, which are offset against the deferred tax liabilities, the amount that is subject to a restriction on distribution in accordance with § 268 (8) HGB is EUR 264 million.

The amount that is subject to a restriction on distribution in accordance with § 253 (6) sentence 2 HGB is attributable to the difference in the amount of EUR 512 million resulting from changed measurement principles for pension accruals pursuant to § 253 (6) sentence 1 HGB.

Unappropriated net income can be distributed in full as the amount of EUR 776 million that is subject to a restriction on distribution pursuant to § 268 (8) sentence 3 HGB and § 253 (6) sentence 2 HGB is covered entirely by freely available reserves.

12 STOCK-BASED COMPENSATION PLANS

Share Matching Plan

Since the 2011 financial year, specific executives have been contractually obligated to invest a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom shares. Deutsche Telekom will award one additional share for every share acquired as part of this executive's aforementioned personal investment (Share Matching Plan). These shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period.

Since the 2015 financial year, executives who are not contractually obligated to participate in the Share Matching Plan have been given the opportunity to participate on a voluntary basis. To participate, the executives invested a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom shares. Deutsche Telekom will award additional shares for every share acquired as part of this executive's aforementioned personal investment (Share Matching Plan). Participation in the Share Matching Plan and the number of additional shares granted is contingent on the executive's individual performance. The additional shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period. The offer to executives to participate voluntarily in the Share Matching Plan is only made in the years in which the previous year's free cash flow target was achieved.

For the compensation system of Board of Management members who also participate in the Share Matching Plan, please refer to the "Compensation report" in the combined management report.

Long-Term Incentive Plan (LTI)

In the 2015 financial year, executives who had not made a contractual commitment to participate in the long-term incentive plan were given the first-time opportunity to participate. The participating executives receive a package of virtual shares at the inception of the plan. The number of virtual shares is contingent on the participant's management group assignment, individual performance, and annual target salary. Taking these factors into account, the value of the package of virtual shares at the inception of the plan is between 10 and 43 percent of the participant's annual target salary.

Over the term of the four-year plan, the value of the virtual shares changes in line with Deutsche Telekom share price development. The number of virtual shares will change on achievement of the targets for four equally weighted performance indicators (return on capital employed, adjusted earnings per share, employee satisfaction, and customer satisfaction), to be determined at the end of each year. At the end of the four-year plan, the results of each of the four years will be added together and the virtual shares will be converted on the basis of a share price calculated in a reference period and paid out in cash.

13 ACCRUALS FOR PENSIONS AND SIMILAR OBLIGATIONS

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Direct pension obligations	1,319	1,351
of which: parallel obligation € 1.1 billion (Dec. 31, 2016: € 1.2 billion)		
Indirect pension obligations	98	84
	1,417	**1,435**
Accruals for collateral promise for pensions	1,747	1,812
Obligations in accordance with Article 131 GG	-	0
	3,164	**3,247**

The carrying amounts of the **pension obligations** were calculated on the basis of the actuarial reports.

The pension obligations to non-civil servant employees are based on indirect and direct pension commitments. The indirect commitments include the obligations of Versorgungsanstalt der Deutschen Bundespost (VAP) and the special pension fund of Deutsche Telekom Betriebsrenten-Service (DTBS) e. V., Bonn.

Deutsche Telekom's direct pension commitments comprise direct commitments with and without VAP parallel obligations. The VAP parallel obligations are based on direct legal claims against Deutsche Telekom which were originally attributable to VAP. VAP's obligations are therefore suspended.

The VAP benefits supplement statutory pension benefits up to the level specified in the Articles of Incorporation and generally depend on the level of employee compensation and the eligible periods of service of the eligible employees. As part of the restructuring of the corporate pension plan in 1997, the employer and the trade unions entered into an agreement stipulating measures for the protection of vested VAP benefits.

Pursuant to this agreement, the benefit obligations due to retirees and employees approaching retirement will remain unchanged. For younger employees with vested benefits, the obligations have been converted into an initial amount based on the number of years of coverage to date, which was then credited to a capital account held by the employer (cash balance plan). Deutsche Telekom credits this account on an annual basis; when the insured event occurs, the account balance is paid out in full or in installments, or can be converted into a life-long pension.

The form of implementation changed as a result of the collective agreement on the restructuring of the corporate pension plan at Deutsche Telekom signed on August 17, 2005. According to this agreement, all company pension benefits for active and inactive employees will henceforth be granted directly and with a legal claim.

Pension accruals are measured using the projected unit credit method since the introduction of BilMoG effective January 1, 2010. The addition resulting from the change in the measurement of pension accruals is spread over 15 years in accordance with transitional provisions (Art. 67 (1) sentence 1 EGHGB) of BilMoG.

Pension accruals not shown in the balance sheet as a consequence of the transitional provisions of BilMoG amounted to EUR 95 million at December 31, 2017 (December 31, 2016: EUR 109 million) for direct pension obligations and EUR 20 million (December 31, 2016: EUR 23 million) for indirect pension obligations.

Calculations at the balance sheet date were based on the following assumptions:

%	2017
Notional interest rate	3.68
Projected salary increase	2.40
Projected pension increase	
General	1.50
According to Articles of Incorporation	1.00
Fluctuation	4.00

Pension obligations were calculated using the biometrics of the 2005 G tables published by Prof. Klaus Heubeck.

Based on the actuarial reports, an accrual for direct pension obligations amounting to EUR 1,319 million is recognized at the balance sheet date (December 31, 2016: EUR 1,351 million).

This figure is the result of the netting of the settlement amount of direct pension obligations at December 31, 2017 of EUR 2,912 million (December 31, 2016: EUR 2,894 million) with the fair value of the plan assets measured at market values of EUR 1,498 million (December 31, 2016: EUR 1,434 million) and the remaining addition (BilMoG) amounting to EUR 95 million (December 31, 2016: EUR 109 million). The acquisition costs of the plan assets totaled EUR 1,238 million (December 31, 2016: EUR 1,238 million) and were lower than the fair value. The difference of EUR 260 million by which the fair value exceeds the acquisition cost of the asset is subject to a restriction on distribution. In the reporting year, expenses of EUR 208 million (2016: EUR 78 million) were offset against income from the netted assets of EUR 76 million (2016: EUR 37 million) in net interest income/expense.

The **accruals for the collateral promise for pensions** comprise the economic obligations assumed by Deutsche Telekom with respect to the liabilities for pension claims of the companies Deutsche Telekom Außendienst GmbH, Bonn (until June 30, 2017: Deutsche Telekom Technischer Service GmbH, Bonn), Deutsche Telekom Technik GmbH, Bonn, and Deutsche Telekom Service GmbH, Bonn (until June 30, 2017: Deutsche Telekom Kundenservice GmbH, Bonn).

In the reporting year there were no longer any **obligations in accordance with Article 131 GG**.

In accordance with the Act on the Implementation of the Mortgage Credit Directive and Amending Commercial Rules (Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften) that entered into force on March 21, 2016, the average market interest rate for discounting pension accruals is calculated over the past ten financial years (until the 2015 financial year: seven financial years). The difference between the carrying amount of the pension accruals and accruals for the collateral promise for pensions using the average market interest rate over the past ten financial years and the carrying amount of the accruals using the average market interest rate over the past seven financial years amounted to EUR 512 million as of December 31, 2017 (December 31, 2016: EUR 452 million). The difference is subject to a restriction on distribution.

14 TAX ACCRUALS

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Income taxes	192	187
Other taxes	46	51
	238	**238**

Income tax accruals relate to corporate income tax and trade income tax, of which EUR 127 million relates to the 2017 financial year.

The majority of **other taxes** related to value-added tax from prior years.

15 OTHER ACCRUALS

millions of €

	Dec. 31, 2017	Dec. 31, 2016
EMPLOYEE BENEFITS		
Civil Service Health Insurance Fund	554	454
Early retirement (Civil Service Pension Fund)	489	-
Partial retirement arrangement	233	155
Miscellaneous obligations	184	207
OTHER OBLIGATIONS		
Litigation risks	266	230
Outstanding invoices	154	137
Loss contingencies from pending transactions	138	223
Loss contingencies from derivatives	98	57
Miscellaneous other accruals	205	179
	2,321	**1,642**

The **accrual for the Civil Service Health Insurance Fund** (Postbeamtenkrankenkasse – PBeaKK) covers the risk of having to make compensation payments to the PBeaKK. The risk of utilization arises if a deficit were to remain after scheduled withdrawal from the fund's assets.

Civil servants working at Deutsche Telekom who have reached the age of 55 and fulfill all the criteria set out in the Act on the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost (BEDBPStruktG) enacted in 1993 as amended on June 27, 2017 can apply for early retirement. Deutsche Telekom is required to offset the additional costs from early retirement arising for the Civil Service Pension Fund at the Federal Agency in accordance with the BEDBPStruktG by making corresponding payments to the Civil Service Pension Fund. On October 24, 2017, the Board of Management resolved to apply the statutory regulations in 2018 within the limits of the 2018 budget agreed in December 2017. **Accruals arising from the arrangement for early retirement** for civil servants were recognized in the reporting year in the amount of expected utilization.

The **accrual for partial retirement** relates to both the top-up payments and outstanding settlement amounts for obligations to civil servants, to the extent not covered by the CTA assets. The increase in the accrual is mainly attributable to the new partial retirement arrangements made in the current financial year.

The **accruals for litigation risks** mainly comprised risk accruals for ongoing legal disputes. In the Toll Collect arbitration proceedings, appropriate provisions for risks have been recognized in the balance sheet. For additional information, please refer to the explanation in Note 30.

Accruals for outstanding invoices were recognized for expenses including consulting, legal, and IT costs.

As in the prior year, **accruals for loss contingencies arising from pending transactions** relate primarily to agreements concluded with partners outside the Deutsche Telekom Group with the intention of generating a contribution margin for the expenses resulting from the staff surplus.

Accruals for loss contingencies from derivatives were recognized in the reporting year principally for external currency derivatives as well as for embedded derivatives vis-à-vis T-Mobile USA, Inc., Bellevue.

Miscellaneous other accruals included accruals for environmental clean-up expenses, accruals for asset retirement obligations, accruals for transfer premiums in connection with staff restructuring, accruals for interest claims by third parties, and accruals for archiving expenses.

Deutsche Telekom made use of the option to retain the higher carrying amount of accruals under the transitional provisions of BilMoG. Retaining the higher carrying amount resulted in an excess of miscellaneous other accruals of EUR 100 thousand as of December 31, 2017.

16 LIABILITIES

millions of €

	Dec. 31, 2017				Dec. 31, 2016			
	Total	of which			Total	of which		
		Due within 1 year	Due > 1 year	of which: due > 5 years		Due within 1 year	Due > 1 year	of which: due > 5 years
DEBT								
Bonds and debentures	1,701	-	1,701	108	1,751	263	1,488	-
Liabilities to banks	4,697	1,464	3,233	785	3,270	893	2,377	640
	6,398	**1,464**	**4,934**	**893**	**5,021**	**1,156**	**3,865**	**640**
OTHER LIABILITIES								
Advances received	0	0	-	-	0	0	-	-
Trade accounts payable	230	230	-	-	173	173	-	-
Payables to subsidiaries	45,528	15,612	29,916	17,950	32,185	9,826	22,359	14,471
Liabilities to associated and related companies	18	18	-	-	13	13	-	-
Other liabilities	4,325	2,001	2,324	932	5,042	2,475	2,567	955
of which: from taxes	166	166	-	-	166	166	-	-
of which: from social security	13	3	10	2	12	2	10	2
	50,101	**17,861**	**32,240**	**18,882**	**37,413**	**12,487**	**24,926**	**15,426**
TOTAL LIABILITIES	**56,499**	**19,325**	**37,174**	**19,775**	**42,434**	**13,643**	**28,791**	**16,066**

Bonds and debentures amounting to EUR 1,701 million are comprised of zero coupon treasury bills of EUR 1,593 million and fixed-rate bonds of EUR 108 million.

The structure of bonds and debentures is as shown below:

millions of €

Due by December 31	up to 3 %	up to 5 %	up to 6 %	up to 7 %	up to 8 %	Total
2018	-	-	-	-	-	-
2019	-	-	-	-	1,226	1,226
2020	-	-	-	-	367	367
2021 to 2027	108	-	-	-	-	108
	108	**-**	**-**	**-**	**1,593**	**1,701**

The increase in **liabilities to banks** of EUR 1.4 billion was primarily due to the new issue of long-term loans in the net amount of EUR 0.7 billion and to the new issue of commercial paper, which exceeded the repayments in the net amount of EUR 0.5 billion.

Trade accounts payable include among others liabilities at the International Carrier Sales & Solutions business unit regarding wholesale telecommunications services for international carriers.

Payables to subsidiaries consisted primarily of financial liabilities of EUR 37.6 billion (December 31, 2016: EUR 26.2 billion) and liabilities arising from cash management of EUR 7.3 billion (December 31, 2016: EUR 5.2 billion). Payables to subsidiaries in the reporting year related to other liabilities of EUR 341 million (December 31, 2016: EUR 351 million) and trade accounts payable of EUR 326 million (December 31, 2016: EUR 455 million). EUR 31.6 billion (December 31, 2016: EUR 25.7 billion) of payables to subsidiaries related to liabilities to Deutsche Telekom International Finance B.V., Maastricht. Financial liabilities to subsidiaries increased due in particular to additional liabilities to Deutsche Telekom International Finance B.V., Maastricht, in the amount of EUR 6.0 billion and loans taken out from CTA Holding GmbH, Bonn, in the amount of EUR 5.4 billion.

Deutsche Telekom International Finance B.V., Maastricht, issues bonds that it passes on to Group companies. The resulting liabilities of Deutsche Telekom to Deutsche Telekom International Finance B.V., Maastricht, are as shown below. In individual cases, the year in which Deutsche Telekom International Finance B.V., Maastricht, issues financial liabilities outside the Group is not the same as the year in which they are passed on to Deutsche Telekom. The interest rate of variable-interest liabilities as depicted are based on the most recent interest rate fixing valid at December 31, 2017.

2003 tranche	Nominal amount in currency	Interest rate in %	Term
EUR	500,000,000	6.706	2018
EUR	500,000,000	7.580	2033

2008 tranche	Nominal amount in currency	Interest rate in %	Term
EUR	200,000,000	5.926	2023

2009 tranche	Nominal amount in currency	Interest rate in %	Term
EUR	220,000,000	5.450	2021
GBP	700,000,000	6.575	2022

2010 tranche	Nominal amount in currency	Interest rate in %	Term
GBP	250,000,000	7.455	2019
EUR	462,246,714	4.375	2020
GBP	300,000,000	7.715	2030
EUR	300,000,000	4.625	2030

2012 tranche	Nominal amount in currency	Interest rate in %	Term
EUR	370,000,000	2.125	2019
EUR	650,000,000	2.875	2024
USD	1,000,000,000	5.000	2042

2013 tranche	Nominal amount in currency	Interest rate in %	Term
USD	850,000,000	8.195	2018
USD	750,000,000	6.075	2019
EUR	1,120,000,000	2.255	2021
EUR	1,250,000,000	4.375	2022
EUR	500,000,000	5.000	2025
EUR	750,000,000	3.380	2028
USD	1,815,000,000	8.023	2030
USD	1,685,000,000	6.800	2030
USD	500,000,000	9.330	2032

2016 tranche	Nominal amount in currency	Interest rate in %	Term
USD	250,000,000	2.193*	2019
USD	750,000,000	1.630	2019
EUR	1,250,000,000	0.151*	2020
EUR	500,000,000	0.380	2021
USD	1,000,000,000	2.080	2021
EUR	1,750,000,000	0.755	2023
USD	750,000,000	2.615	2023
GBP	300,000,000	1.380	2023
EUR	1,500,000,000	1.630	2028

*Variable interest rate.

2017 tranche	Nominal amount in currency	Interest rate in %	Term
USD	400,000,000	2.084*	2020
USD	850,000,000	2.376	2020
EUR	1,000,000,000	0.526	2021
USD	1,000,000,000	2.971	2022
EUR	1,250,000,000	1.026	2024
EUR	750,000,000	0.776	2024
EUR	750,000,000	1.276	2026
USD	1,250,000,000	3.751	2027
EUR	1,250,000,000	1.526	2027
HKD	1,300,000,000	3.101	2027
GBP	250,000,000	2.401	2029

*Variable interest rate.

Liabilities to associated and related companies include trade accounts payable amounting to EUR 14 million (December 31, 2016: EUR 2 million).

The following table shows the composition of other liabilities:

millions of €	Dec. 31, 2017	Dec. 31, 2016
Liabilities from early retirement arrangements	1,282	1,857
Liabilities from interest	728	750
Liabilities from derivatives	645	342
Liabilities from collateral	569	829
Liabilities from promissory notes	505	540
Liabilities from interoperator discount services	223	310
Tax liabilities	166	166
Liabilities to employees	66	60
Miscellaneous other liabilities	141	188
	4,325	**5,042**

Liabilities from early retirement arrangements for civil servants exist vis-à-vis the Civil Service Pension Fund and arise from payment obligations under agreements that have already been concluded in prior years. The obligations are payable in up to seven annual installments following retirement.

Liabilities from interest almost exclusively relate to deferred interest and unrealized settlement gains and losses from the close out of interest rate hedging derivatives.

Liabilities from derivatives mainly relate to unrealized settlement gains and losses from expired and terminated hedge transactions as well as to embedded derivatives vis-à-vis T-Mobile USA, Inc., Bellevue.

Collateral is used to hedge the credit risk from derivative financial instruments. In this case, Deutsche Telekom receives collateral in the form of cash from its contracting parties. The decrease in **liabilities from collateral** can be attributed to lower market values of the external derivatives. The decline in the underlying market values was mainly due to USD/EUR cross-currency swaps with positive market values falling due in the 2017 financial year and, in the case of existing USD/EUR cross-currency swaps, to the decline in the value of the U.S. dollar against the euro.

Liabilities from promissory notes relate to insurance companies and other institutional investors. These are secured by the Federal Republic of Germany in the amount of EUR 26 million. The decline is due to principal repayments of these liabilities (EUR 35 million).

Liabilities from interoperator discount services mainly relate to roaming discount business in connection with roaming agreements with foreign mobile communications providers. The obligations are initially bundled by Deutsche Telekom and then passed on to Deutsche Telekom's subsidiaries.

Tax liabilities comprised income tax liabilities amounting to EUR 4 million (December 31, 2016: EUR 4 million) and liabilities from other taxes amounting to EUR 162 million (December 31, 2016: EUR 162 million), which in turn consisted primarily of value-added tax still to be paid relating to the fiscal entity parent company amounting to EUR 149 million and wage tax liabilities of EUR 11 million.

Liabilities to employees resulted mainly from severance agreements and short-term payment obligations arising from the company pension plan.

Miscellaneous other liabilities consisted mainly of liabilities from the staff restructuring (e.g., transfer premiums for civil servants).

17 DEFERRED INCOME

The year-on-year decline in **deferred income** of EUR 17 million was primarily a result of the amortization of agio on loans from Deutsche Telekom International Finance B.V., Maastricht.

18 DEFERRED TAXES

Deferred tax assets exceeded deferred tax liabilities in the reporting year. Deutsche Telekom does not exercise the option according to § 274 (1) HGB of recognizing the resulting tax relief as deferred tax assets. Deferred tax assets and liabilities mainly related to differences between carrying amounts for tax purposes and carrying amounts under German GAAP in the balance sheet items property, technical equipment and machinery as well as accruals. When determining deferred taxes, an effective tax rate which covers corporate income tax, the solidarity surcharge, and trade taxes totaling 31.4 percent was used.

NOTES TO THE STATEMENT OF INCOME

19 NET REVENUE

Revenue by area of activity

millions of €

	2017	2016
Revenue from hiring out employees	1,047	1,122
Revenue from renting and leasing out property	980	1,076
Revenue from fixed network	720	789
Revenue from training services	185	195
Other revenue	671	745
	3,603	**3,927**

Revenue from hiring out employees amounted to EUR 1.0 billion (2016: EUR 1.1 billion) and resulted from hiring employees out to other companies. Employees were placed with internal and external employers on loan and temporary work contracts. Civil servants were placed with internal employers by means of temporary leave or assignment and with external employers by means of secondments.

Revenues from renting and leasing out property totaled EUR 1.0 billion (2016: EUR 1.1 billion) and were generated under the rent-including-utilities model. Deutsche Telekom leased real estate centrally from GMG Generalmietgesellschaft mbH, Cologne, and then rented it out to its German subsidiaries together with facility management services in the form of standardized facility products.

Fixed-network revenues amounting to EUR 0.7 billion (2016: EUR 0.8 billion) were mainly generated through wholesale services for international carriers, to which Deutsche Telekom made available, for instance, international voice and data connections. The year-on-year decrease in revenues is largely due to price reductions in the voice hubbing business and to the sale of the Tolino business area.

Revenue from training services mainly consisted of training services for junior staff in Germany.

Income that was attributable to HR Business Services, Group Legal Services, and Group Innovation, among others, is reported under **other revenue**.

Revenue by geographic area

millions of €

	2017	2016
Domestic	3,020	3,279
International	583	648
	3,603	**3,927**

20 OTHER OWN CAPITALIZED COSTS

millions of €

	2017	2016
Other own capitalized costs	4	4
	4	**4**

21 OTHER OPERATING INCOME

millions of €

	2017	2016
Foreign currency transaction gains	953	559
Cost transfers/reimbursements	554	521
Income from derivatives	531	506
Income from the disposal of noncurrent assets	455	185
Income from the reversal of accruals	128	154
Income from write-ups of noncurrent assets	8	31
Other income	140	164
	2,769	**2,120**

Foreign currency transaction gains included exchange rate effects of EUR 634 million realized upon the maturity of loans granted/taken out in foreign currency. The item also includes exchange rate effects from cross-currency interest rate hedges in the amount of EUR 207 million, mostly in U.S. dollars. The offsetting effect is reflected in foreign currency transaction losses for loans granted/taken out.

Income from cost transfers/reimbursements includes in particular income from the consolidation of the real estate portfolio at GMG Generalmietgesellschaft mbH, Cologne. The properties are leased centrally under the rent-including-utilities model by Deutsche Telekom and provided to tenants within the Group as managed space.

Income from derivatives resulted in particular from currency derivatives falling due.

Income from the disposal of noncurrent assets of EUR 152 million was attributable to sales of land and buildings. Additional income of EUR 251 million was generated by the sale of the remaining shares in Scout24 AG, Munich.

Income from the reversal of accruals in the reporting year related in particular to income from the reversal of accruals for outstanding invoices of EUR 55 million (2016: EUR 47 million), accruals for employee expenses of EUR 50 million (2016: EUR 20 million), and accruals for contingent losses of EUR 9 million (2016: EUR 1 million).

Pursuant to § 285 No. 32 HGB, EUR 300 million (2016: EUR 268 million) of income relating to another period is included in other operating income in the reporting year. This relates mainly to income from disposals of property, plant and equipment as well as income from the reversal of accruals.

22 GOODS AND SERVICES PURCHASED

millions of €

	2017	2016
GOODS PURCHASED		
Raw materials and supplies	0	0
Goods purchased	19	45
	19	**45**
SERVICES PURCHASED		
Interconnection rates	502	511
Other services	539	595
	1,041	**1,106**
	1,060	**1,151**

The decrease in **expenses for goods purchased** is largely due to the decline in Tolino products purchased for the Tolino business area that was sold in 2017.

Expenses for interconnection rates as a wholesale upstream service for international carriers were incurred in the reporting period in the amount of EUR 502 million.

Other services primarily include EUR 406 million of expenses for upstream services related to renting and leasing out property incurred under the rent-including-utilities model. Other services also include expenses related to telecommunications services for IT infrastructure operations (e.g., for operating data centers) and expenses for upstream services related to energy and training.

23 PERSONNEL COSTS/AVERAGE NUMBER OF EMPLOYEES

millions of €

	2017	2016
WAGES AND SALARIES	**2,012**	**2,662**
SOCIAL SECURITY CONTRIBUTIONS AND EXPENSES FOR PENSION PLANS AND BENEFITS		
Expenses for pension plans for civil servants	466	545
Social security contributions	90	98
Expenses arising from the collateral promise for pensions	90	26
Support allowances	51	164
Expenses for pension plans for non-civil servants	23	21
	720	**854**
	2,732	**3,516**

Personnel costs declined by a total of EUR 784 million compared with the previous year. This decrease was mainly attributable to a EUR 650 million year-on-year decline in expenses for wages and salaries, a EUR 79 million decrease in expenses for pension plans for civil servants and a EUR 113 million decrease in support allowances. Higher expenses for the collateral promise for pensions, which were up EUR 64 million, had an offsetting effect on personnel costs.

The decrease in **expenses for wages and salaries** is mainly due to lower expenses for early retirement arrangements for civil servants. The application of the statutory regulations on the dedicated retirement scheme for civil servants resolved on October 24, 2017 had an offsetting effect. On this basis, an accrual for uncertain liabilities was recognized in the amount of EUR 489 million.

The Civil Service Pension Fund at the Federal Agency performs the functions described in §§ 14 to 16 of the Act concerning the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz – PostPersRG) for **pension plans for civil servants** at Deutsche Bundespost and its successor companies.

It carries out all transactions for pension and allowance payments in respect of civil servants for Deutsche Post AG, Bonn, Deutsche Postbank AG, Bonn, and Deutsche Telekom. In accordance with the provisions of the German Posts and Telecommunications Reorganization Act (Postneuordnungsgesetz – PTNeuOG), the Civil Service Pension Fund makes pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status.

Under PTNeuOG, the Federal Republic compensates the Civil Service Pension Fund for differences between the ongoing payment obligations of the fund and the amounts received from the successor companies of the former Deutsche Bundespost, or between said payment obligations and returns on assets, and guarantees that the special pension fund is always in a position to fulfill the obligations it has assumed. The Federal Republic cannot demand reimbursement from Deutsche Telekom of any amounts it pays to the Civil Service Pension Fund in accordance with this provision.

Pursuant to § 16 PostPersRG, Deutsche Telekom is required to make contributions to the federal government, represented by the Civil Service Pension Fund, equal to 33 percent, respectively, of the gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on temporary leave from civil servant status; these contributions are recognized as ongoing expenses in the respective year. The announcement by the Federal Ministry of Finance on December 12, 2016 stipulated an advance payment in connection with civil service pensions of EUR 500 million for the contribution for 2017. Deutsche Telekom has already made the payment in full. Only EUR 458 million (2016: EUR 516 million) of the advance payment was recognized as an expense due to the lower number of active civil servants and civil servants on leave of absence in the reporting year. The year-on-year decline in costs was primarily due to the reduction in the number of active civil servants (departures as a result of reaching retirement age, take-up of early retirement options, and transfer to other authorities). On account of the high burden remaining, Deutsche Telekom applied for a reduction in the payment of contributions where this payment would constitute an unfair burden in consideration of its competitiveness. After this application was rejected, Deutsche Telekom filed a suit with the competent administrative court. This suit was dismissed, as was the appeal lodged against the dismissal. As Deutsche Telekom has refrained from further litigation in this matter, the proceedings have been terminated and the judgment is now final.

The average number of employees (full-time equivalents) developed as follows:

Number

	2017	2016
Civil servants	15,731	17,313
Non-civil servants	6,077	6,973
	21,808	**24,286**
Trainees and student interns	6,523	7,435

The decrease in the number of employees is mainly attributable to the use of early retirement arrangements for civil servants and staff restructuring measures for non-civil servants.

The expenses for the early retirement arrangements totaling EUR 489 million are extraordinary expenses in accordance with § 285 No. 31 HGB.

24 DEPRECIATION, AMORTIZATION AND WRITE-DOWNS

millions of €

	2017	2016
DEPRECIATION AND AMORTIZATION		
Amortization of intangible assets	74	77
Depreciation of property, plant and equipment	221	233
	295	**310**
WRITE-DOWNS		
in accordance with § 253 (3) sentence 5 HGB	46	28
	341	**338**

EUR 68 million of the **amortization of intangible assets** mainly related to the amortization of rights to use software (2016: EUR 71 million).

EUR 174 million of the **depreciation of property, plant and equipment** in the reporting year related to buildings in particular (2016: EUR 185 million).

In the reporting year, **write-downs** consisted entirely of write-downs of real estate to the lower of cost or market value, amounting to EUR 46 million (2016: EUR 28 million).

Write-downs on financial assets are recorded in net financial income/expense (please refer to Note 26).

25 OTHER OPERATING EXPENSES

millions of €

	2017	2016
Foreign currency transaction losses	1,002	505
Rental and leasing expenses	905	922
Expenses arising from derivatives	661	481
Other employee-related costs	335	262
Marketing expenses	161	148
Legal and consulting fees	131	126
IT support	122	99
Cleaning, transport and surveillance	104	108
Research and development	86	97
Maintenance and repair	81	73
Expenses arising from reimbursements	50	57
Additions to accruals for contingent losses	41	96
Expenses according to Art. 67 (1) and (2) EGHGB	17	17
Other expenses	555	579
	4,251	**3,570**

Foreign currency transaction losses included exchange rate effects of EUR 774 million realized upon the maturity of loans granted/taken out in foreign currency. The item also includes exchange rate effects from cross-currency interest rate hedges in the amount of EUR 98 million.

Rental and leasing expenses were incurred in particular under the rent-including-utilities model and comprise almost entirely the portion of internal use by Deutsche Telekom.

Expenses arising from derivatives primarily relate to expenses from U.S. dollar currency derivatives.

Other employee-related costs mainly include expenses of EUR 121 million arising from the allocation of administration costs payable to the Federal Agency, compensation payments of EUR 56 million related to the placement of civil servants with various federal authorities, EUR 43 million for the Civil Service Health Insurance Fund, EUR 40 million in expenses for human resources (e.g., recruitment), EUR 23 million in staff development costs, and EUR 11 million for conferences.

Marketing expenses in the reporting year relate among other things to expenses for sponsoring, advertising, trade fairs, and other agency fees.

Legal and consulting fees encompass expenses for technical and business consulting, expenses for legal counseling as well as expenses for the preparation and audit of annual financial statements.

Expenses for IT support relate to the provision of computing and network services as well as services for workstation systems.

Cleaning, transport and surveillance expenses were incurred under the rent-including-utilities model and comprise almost entirely the portion of internal use by Deutsche Telekom.

Expenses for research and development mainly comprise expenses for the development of software and expenses for university partnership programs.

Expenses for maintenance and repair principally relate to expenses arising under maintenance and servicing contracts.

Expenses arising from reimbursements largely comprise expenses relating to the cross-charging of services rendered by subsidiaries.

Additions to accruals for contingent losses are mainly the result of agreements concluded with partners outside the Deutsche Telekom Group with the intention of generating a contribution margin for the expenses resulting from the staff surplus.

Expenses according to Art. 67 (1) and (2) EGHGB relate to expenses in the amount of EUR 17 million (2016: EUR 17 million) from the adjustment of the carrying amount of pension accruals due to BilMoG. The Company has exercised the option to spread the addition pursuant to Art. 67 (1) sentence 1 EGHGB such that the annual addition equals one 15th of the total amount being added.

In the reporting year **other expenses** consist, among other things, of travel expenses, insurance policies, administrative expenses, and ad-hoc temporary employment.

Pursuant to § 285 No. 32 HGB, EUR 15 million (2016: EUR 12 million) of expenses relating to another period were included in other operating expenses in the reporting year. This relates mainly to expenses from the disposal of noncurrent assets.

26 FINANCIAL INCOME/EXPENSE, NET

millions of €

	2017	2016
Income related to subsidiaries, associated and related companies	64	44
of which: from subsidiaries € 53 million (2016: € 38 million)		
Income from profit transfer agreements	9,650	6,110
Expenses arising from loss transfers	(983)	(629)
INCOME (LOSS) RELATED TO SUBSIDIARIES, ASSOCIATED AND RELATED COMPANIES	**8,731**	**5,525**
Income from long-term loans from noncurrent financial assets	870	603
of which: from subsidiaries € 870 million (2016: € 603 million)		
Other interest and similar income	462	394
of which: from subsidiaries € 100 million (2016: € 76 million)		
of which: from the discounting of accruals € 1 million (2016: € 1 million)		
Interest and similar expenses	(1,875)	(1,745)
of which: to subsidiaries: € 1.1 billion (2016: € 1.2 billion)		
of which: from interest added back to accruals € 347 million (2016: € 169 million)		
NET INTEREST EXPENSE	**(543)**	**(748)**
WRITE-DOWNS OF FINANCIAL ASSETS AND MARKETABLE SECURITIES	**(1,037)**	**(60)**
	7,151	**4,717**

Income related to subsidiaries, associated and related companies mainly comprised the dividends from Hellenic Telecommunications Organization S.A. (OTE), Athens (EUR 31 million), Sireo Immobilienfonds No. 1 GmbH & Co. KG, Bonn (EUR 16 million), Ströer SE & Co. KGaA, Cologne (EUR 7 million), Deutsche Telekom International Finance B.V., Maastricht (EUR 5 million), and Scout24 AG, Munich (EUR 3 million).

Income from profit transfer agreements recognized in the reporting period related primarily to profits transferred by Telekom Deutschland (EUR 3.9 billion), DFMG Holding GmbH, Bonn (EUR 3.8 billion), and T-Mobile Global Zwischenholding GmbH, Bonn (EUR 1.4 billion).

Expenses arising from loss transfers related primarily to Deutsche Telekom IT GmbH, Bonn (EUR 466 million), T-Systems (EUR 348 million), Deutsche Telekom Services Europe GmbH, Bonn (EUR 45 million), Vivento Customer Services GmbH, Bonn (EUR 42 million), and Deutsche Telekom Europe Holding GmbH, Bonn (EUR 39 million).

Income from profit transfers and expenses arising from loss transfers were both influenced to a certain extent by one-time effects.

Income from long-term loans from noncurrent financial assets and **other interest and similar income from subsidiaries** largely related to interest from loans issued to T-Mobile USA, Inc., Bellevue, and interest from loans to Telekom Deutschland.

Interest expenses to subsidiaries primarily resulted from loan relationships with Deutsche Telekom International Finance B.V., Maastricht.

In the reporting period, expenses from interest added back to pension accruals as well as accruals for partial retirement agreements and long-term credits plus lifetime work accounts totaling EUR 235 million (2016: EUR 83 million), were offset against income from the netted CTA assets of EUR 85 million (2016: EUR 41 million) and included in net interest income/expense.

Write-downs of financial assets related mainly to the write-down of the investment in T-Systems (EUR 1.0 billion). Write-downs of financial assets in the previous year related to the write-down on Ströer SE & Co. KGaA, Cologne (EUR 60 million).

27 INCOME TAXES

millions of €

	2017	2016
Income taxes	198	154
	198	**154**

For **income taxes** in the 2017 financial year, advance payments of around EUR 263 million were made for corporate income and trade income tax and an amount of approximately EUR 127 million was expensed as an additional accrual for corporate income and trade income tax.

Income tax expense includes an amount of EUR 192 million (2016: EUR 25 million) as prior-period income in accordance with § 285 No. 32 HGB that results from items from previous years.

28 OTHER TAXES

millions of €

	2017	2016
Other taxes	18	19
	18	**19**

Other taxes mainly comprised real estate tax expenses.

29 RECONCILIATION OF INCOME AFTER TAXES TO UNAPPROPRIATED NET INCOME

Income after taxes generated in the 2017 financial year amounted to EUR 4.9 billion. Together with unappropriated net income carried forward from 2016 of EUR 1.0 billion after dividend payments (unappropriated net income from the prior year of EUR 3.8 billion less dividend payments totaling EUR 2.8 billion), this resulted in **unappropriated net income** of EUR 5.9 billion.

OTHER DISCLOSURES

30 GUARANTEES AND COMMITMENTS AND TRANSACTIONS NOT INCLUDED IN THE BALANCE SHEET IN ACCORDANCE WITH § 285 NO. 3 HGB, AND REASONS UNDERLYING THE EVALUATION OF THE RISK OF UTILIZATION OF GUARANTEES AND COMMITMENTS IN ACCORDANCE WITH § 285 NO. 27 HGB.

millions of €

	Dec. 31, 2017	Dec. 31, 2016
Liabilities from guarantees	981	941
Liabilities arising from warranty agreements	5,602	3,675
of which: to subsidiaries € 0 million (Dec. 31, 2016: € 0 million)		
of which: to associates € 0 million (Dec. 31, 2016: € 0 million)		
	6,583	4,616

Guarantees include litigation and security deposit guarantees as well as warranties. Liabilities arising from warranty agreements relate to third parties and in most cases were incurred for subsidiaries.

Liabilities arising from **warranty agreements** include guarantees and comfort letters and relate primarily to Telekom Deutschland (EUR 2.2 billion), T-Mobile Austria Holding GmbH, Vienna (EUR 1.9 billion), T-Systems (EUR 156 million), and T-Mobile Netherlands B.V., The Hague (EUR 45 million). Guarantees relate to loan collateral guarantees in particular. Deutsche Telekom guarantees the liabilities of Deutsche Telekom International Finance B.V., Maastricht, to external third parties – mostly originating from bonds. In cases where the funds are not passed on to Deutsche Telekom and therefore recognized as a liability, an obligation arising from warranty agreements has to be recorded; such an obligation to Deutsche Telekom International Finance B.V., Maastricht, was recorded as of December 31, 2017 in the amount of EUR 639 million.

The principal members of the Toll Collect consortium are Daimler Financial Services AG, Stuttgart, and Deutsche Telekom. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR, Berlin, on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic's statement of claim on August 2, 2005. The Federal Republic is claiming some EUR 3.33 billion in lost toll revenues plus interest due to the delayed commencement of operations as well as contractual penalties in the amount of around EUR 1.65 billion plus interest. The main claims by the Federal Republic – including contractual penalties – thus amount to around EUR 4.98 billion plus interest. In spring 2017, the principal shareholders asserted counterclaims based on breaches of duty by the Federal Republic of Germany in relation to the delay in the start of toll collection. Following hearings in 2014, the proceedings were reassessed, Deutsche Telekom's share of the amount at risk updated, and adequate provisions for the risk recognized in the balance sheet. Further hearings were held in the following years, none of which prompted us to change the provisions recognized in 2014. Deutsche Telekom believes that a claim arising from the joint and several liability is unlikely to be made in excess of Deutsche Telekom's share of the risk.

Bank loans guarantee. Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 100 million granted to Toll Collect GmbH, Berlin. These guarantees for bank loans will expire on October 15, 2018.

Equity maintenance undertaking. The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH, Berlin, with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2018, or earlier if the operating agreement is terminated prematurely. The amount of a potential settlement attributable to the equity maintenance undertaking cannot be estimated because of uncertainties.

In June 2006, the Federal Republic of Germany began to partially offset its monthly advance payments for operating fees to Toll Collect GmbH, Berlin, of EUR 8 million against the contractual penalty claims that are already subject of the aforementioned arbitration proceedings.

The risks and obligations of Compagnie Financière et Industrielle des Autoroutes S.A., Sèvres Cedex (Cofiroute, which holds a 10-percent stake in Toll Collect) are limited to EUR 70 million. Deutsche Telekom and Daimler Financial Services AG, Stuttgart, have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims.

Guarantees to the benefit of subsidiaries and contingent liabilities arising from warranty agreements entered into with third parties are not recognized as liabilities as the underlying obligations can be fulfilled by the Company's subsidiaries, meaning utilization is unlikely.

Transactions not included in the balance sheet

The aforementioned guarantees and commitments are among the transactions not included in the balance sheet.

31 OTHER FINANCIAL OBLIGATIONS

millions of €

	Dec. 31, 2017			Dec. 31, 2016		
	Total	of which due		Total	of which due	
		in the following financial year	from the second financial year after the balance sheet date		in the following financial year	from the second financial year after the balance sheet date
Present value of the payments to the Civil Service Pension Fund for the civil service pension scheme	2,793	404	2,389	3,155	428	2,727
Obligations under rental and lease agreements	8,099	1,368	6,731	8,770	1,506	7,264
of which: to subsidiaries € 7.9 billion (Dec. 31, 2016: € 8.6 billion)						
of which: to associates € 0 billion (Dec. 31, 2016: € 0 billion)						
Purchase commitments arising from future expenditure and investments	605	398	207	700	449	251
of which: to subsidiaries € 411 million (Dec. 31, 2016: € 483 million)						
of which: to associates € 0 million (Dec. 31, 2016: € 0 million)						
Commitments arising from unpaid contributions and from pending transactions	975	975	-	7,724	7,699	25
of which: to subsidiaries € 854 million (Dec. 31, 2016: € 7.7 billion)						
of which: to associates € 0 million (Dec. 31, 2016: € 0 million)						
	12,472	**3,145**	**9,327**	**20,349**	**10,082**	**10,267**

The **present value** of payments that Deutsche Telekom is required to make in accordance with PTNeuOG to the Civil Service Pension Fund on the basis of the 2005 G tables published by Prof. Klaus Heubeck amounted to EUR 2.8 billion as of December 31, 2017. The year-on-year decrease is attributable to the reduction in the number of active civil servants, in particular as a result of early retirement.

Obligations under rental and lease agreements include obligations to subsidiaries in the amount of EUR 7,946 million, which are almost exclusively to GMG Generalmietgesellschaft mbH, Cologne.

Purchase commitments arising from future expenditure and investments were largely composed of commitments for non-capital expenditure of EUR 568 million. The decline in purchase commitments was particularly a result of the reduction in the orders for IT services.

Unpaid and uncalled contributions mostly relate to Vivento Customer Services GmbH, Bonn (EUR 96 million). In addition there are obligations to make contributions, especially to Deutsche Telekom Capital Partners Portfolio Fund GmbH & Co. KG, Hamburg (EUR 34 million), Deutsche Telekom Capital Partners Venture Fund GmbH & Co. KG, Hamburg (EUR 27 million), and Deutsche Telekom Capital Partners Expert/Advisor Co-Invest GmbH & Co. KG, Hamburg (EUR 4 million).

Commitments arising from pending transactions with subsidiaries relate mainly to existing obligations from profit and loss transfers from T-Systems (EUR 530 million), Deutsche Telekom IT GmbH, Bonn (EUR 155 million), Vivento Customer Services GmbH, Bonn (EUR 42 million), and Deutsche Telekom Services Europe GmbH, Bonn (EUR 31 million). The decrease in commitments arising from pending transactions of EUR 6.7 billion net is due almost exclusively to T-Mobile USA, Inc, Bellevue, and is related to the loans extended in 2017.

Deutsche Telekom is a party to a number of lawsuits and other proceedings and issues arising from the general conduct of its business. Fees for legal counseling and forecast costs in connection with a negative outcome of proceedings were included in the accruals for litigation risks and/or in miscellaneous other operating expenses.

32 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments not included under valuation units as of the reporting date were as follows:

millions of €

	Nominal amount[2]	Fair value
	Dec. 31, 2017	Dec. 31, 2017
INTEREST-RELATED INSTRUMENTS		
Interest rate swaps	1,851	31
Embedded derivatives[1]	8,001	(63)
	9,852	**(32)**
CURRENCY INSTRUMENTS		
Future exchange transactions	235	3
	235	**3**
OTHER INSTRUMENTS		
Diesel derivatives	29	(2)
	29	**(2)**
	10,116	**(31)**

[1] Repricing element that is not closely related to the economic characteristics and risks of the host contract.
[2] The figures shown are absolute amounts.

The fair values shown above were determined using discounted cash flow models and option pricing models, which use the relevant market data as input parameters for calculation as of December 31, 2017.

Receivables, liabilities and accruals for derivatives were reported under the following balance sheet items:

millions of €

	Dec. 31, 2017
Receivables from subsidiaries	61
Other assets	341
Other accruals	(98)
Payables to subsidiaries	(233)
Other liabilities	(431)
	(360)

The Company uses derivatives for the purpose of hedging exposures to currency, interest rate, and raw material price risks. The top priority in all cases in which derivatives are used is to limit the risk of the underlyings. Derivative financial instruments may therefore only be used to eliminate risk exposures, and may never be used to enter into new risks for speculative reasons.

Derivatives are designed to offset changes in the fair values and cash flow risks associated with the financial assets and liabilities to which they are allocated. Such derivatives are reviewed regularly for their effectiveness as hedge instruments. Derivative financial instruments are subject to internal controls.

As a rule, the nominal amounts of the derivative financial instruments are merely the basis for determining the interest payment (nominal amounts only represent a receivable or liability in the case of interest rate and cross currency swaps). The nominal amounts are generally not material to the value of a derivative. By contrast, the main material influences on the market value of derivatives are changes in interest rates, exchange rates and other conditions.

Interest rate swaps are entered into to transform the coupons on bonds and the interest rates on loans in accordance with a mix of fixed and floating rate interest instruments determined in the course of interest rate management.

The Company uses foreign currency forward contracts and non-deliverable forwards to hedge exchange rates, and cross-currency and interest rate swaps to eliminate currency and, if relevant, interest rate risks related to financing and service.

Foreign currency forward contracts and hedged items are assigned to foreign currency hedge valuation units categorized by foreign currency type and marked to market as of the balance sheet date. Foreign currency forward contracts are valued at the forward exchange rate on the balance sheet date; cross-currency and interest rate swaps are recognized at the present value of future payments. Measurement gains and losses are netted valuation unit for valuation unit. An accrual for loss contingencies from pending transactions is established for each valuation unit for the amount of the excess loss. Net gains are not recognized.

The cross-currency and interest rate swaps are primarily used to transform the original currencies of bonds and promissory notes into Deutsche Telekom's target currencies (mainly euros and U.S. dollars). In addition, various cross-currency and interest rate swaps are used to hedge currency risks in the financing of subsidiaries.

Diesel derivatives are used to hedge the price risk resulting from the purchase of diesel fuel for Deutsche Telekom's vehicle fleet.

Hedging risk through valuation units:

millions of €

Type of hedged item	Type of hedged risk	Value of the hedged item (carrying amount, expected value)
ASSETS		
	Currency risk	5,720
	Interest rate/currency risk	2,795
	Interest rate risk	1,404
LIABILITIES		
	Interest rate risk	(14,225)
	Interest rate/currency risk	(9,474)
	Currency risk	(7,677)
HIGHLY PROBABLE FORECAST TRANSACTIONS		
	Interest rate risk	-
PENDING TRANSACTIONS		
	Interest rate risk	-
		(21,457)

The valuation units always took the form of micro hedges.

In all cases, the hedging relationships were extremely effective, as the main risk-determining parameters matched for the hedged item and hedge transaction.

The risks hedged with valuation units amounted to (averted need to recognize accrual for contingent losses, write-ups of foreign currency liabilities, and write-downs on foreign currency receivables):

millions of €

	Dec. 31, 2017
Interest rate risk	903
Interest rate/currency risk	573
Currency risk	1,472
	2,948

The offsetting changes in value and cash flows are expected to largely cancel each other out by March 6, 2042, in terms of both interest rate and currency hedges.

The effectiveness of the hedge relationships in terms of the hedged risk at the balance sheet date was determined using the critical terms match method. In the case of revolving hedges, effectiveness was measured using an analysis of changes in fair value based on spot price components (dollar offset method). In these cases, the ineffective portion of the change in value calculated in this way was recorded directly in the statement of income in line with the imparity principle.

The hedged items with interest rate risk recognized under liabilities and amounting to EUR 23.7 billion break down into underlyings of EUR 0.7 billion for cash flow hedges and EUR 23.0 billion for fair value hedges.

33 EXCHANGE RATES

€

	Annual average rate		Rate at the reporting date	
	2017	2016	Dec. 31, 2017	Dec. 31, 2016
100 Swiss francs (CHF)	89.95720	91.75070	85.46280	93.14030
100 Czech korunas (CZK)	3.79799	3.69912	3.90961	3.70104
1 Pound sterling (GBP)	1.14063	1.22003	1.12664	1.16939
100 Hong Kong dollars (HKD)	11.36159	11.64142	10.66809	12.23227
100 Croatian kuna (HRK)	13.39790	13.27380	13.43590	13.23480
100 Hungarian forints (HUF)	0.32342	0.32114	0.32229	0.32261
100 Japanese yen (JPY)	0.78933	0.83208	0.74071	0.81014
100 Polish zlotys (PLN)	23.48500	22.91960	23.93060	22.65680
100 Singapore dollars (SGD)	64.16220	65.47250	62.40450	65.58240
1 U.S. dollar (USD)	0.88549	0.90365	0.83340	0.94872

34 AUDITOR'S FEES AND SERVICES

The total fees charged by the external auditor for the reporting period are broken down into auditing services, other assurance services, and other non-audit services in the relevant note in the consolidated financial statements.

For Deutsche Telekom and the companies it controlled, auditing services were provided in particular for the statutory auditing of the annual and consolidated financial statements, the review of the interim financial statements, auditing activities in connection with the implementation of new accounting provisions, and the auditing of information systems and processes as well as other auditing services.

Other assurance services relate primarily to services in connection with regulatory requirements stipulated by the Federal Network Agency.

In addition, other non-audit services were provided in connection with fundamental business issues for the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities as well as services for the strategic support.

The total fees charged by the external auditor for the reporting period as defined in § 285 No. 17 HGB are detailed in the relevant note in the consolidated financial statements.

35 MEMBERS OF THE BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG IN 2017

Timotheus Höttges
Chairman of the Board of Management since January 1, 2014

Seats on the supervisory bodies of other companies:
- FC Bayern München AG, Munich (since 2/2010)
- Henkel AG & Co. KGaA, Düsseldorf (since 4/2016)

Member of comparable supervisory bodies of companies in Germany or abroad:
- BT Group plc, London, United Kingdom, Member of the Board of Directors (since 1/2016)

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- Telekom Deutschland GmbH, Bonn (since 4/2005), Chairman of the Supervisory Board (since 7/2009)
- T-Mobile US, Inc., Bellevue, United States, Chairman of the Board of Directors (since 5/2013)

Adel Al-Saleh
Board member responsible for T-Systems since January 1, 2018
– No other seats –

Thomas Dannenfeldt
Board member responsible for Finance since January 1, 2014

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- BUYIN S.A., Brussels, Belgium, Member of the Board of Directors (since 2/2014), Chairman of the Board of Directors (1/2017 to 12/2017)
- Deutsche Telekom Services Europe GmbH, Bonn, Chairman of the Supervisory Board (since 1/2016)
- T-Mobile US, Inc., Bellevue, United States, Member of the Board of Directors (since 11/2013)

Srini Gopalan
Board member responsible for Europe since January 1, 2017

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Marousi, Athens, Greece (since 1/2017)
- T-Mobile Polska S.A., Warsaw, Poland (since 1/2017), Chairman of the Supervisory Board (since 1/2017)

Dr. Christian P. Illek
Board member responsible for Human Resources and Labor Director since April 1, 2015

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- Telekom Deutschland GmbH, Bonn (since 5/2015)
- T-Systems International GmbH, Frankfurt/Main (since 5/2015), Chairman of the Supervisory Board (since 11/2016)

Dr. Thomas Kremer
Board member responsible for Data Privacy, Legal Affairs and Compliance since June 1, 2012

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Systems International GmbH, Frankfurt/Main (since 5/2015)

Claudia Nemat
Board member responsible for Technology and Innovation since January 1, 2017

Seats on the supervisory bodies of other companies:
- Airbus Group SE, Leiden, Netherlands (since 5/2016)
- Airbus Defence and Space GmbH, Ottobrunn (since 5/2016)

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- BUYIN S.A., Brussels, Belgium (2/2012 to 1/2017), Chairwoman of the Board of Directors (1/2015 to 1/2017)
- Deutsche Telekom IT GmbH, Bonn, Chairwoman of the Supervisory Board (since 6/2017)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.), Marousi, Athens, Greece (10/2011 to 1/2017)

Dr. Dirk Wössner
Board member responsible for Germany since January 1, 2018

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- Deutsche Telekom Außendienst GmbH, Bonn (since 1/2018), Chairman of the Supervisory Board (since 1/2018) (formerly Deutsche Telekom Technischer Service GmbH, Bonn)
- Deutsche Telekom Geschäftskunden-Vertrieb GmbH, Bonn (since 1/2018), Chairman of the Supervisory Board (since 2/2018) (formerly Rho Telekommunikationsdienste GmbH, Bonn)
- Deutsche Telekom Service GmbH, Bonn (since 1/2018) (formerly Deutsche Telekom Kundenservice GmbH, Bonn)
- Deutsche Telekom Technik GmbH, Bonn (since 1/2018), Chairman of the Supervisory Board (since 1/2018)
- Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn (since 1/2018), Chairman of the Supervisory Board (since 1/2018) (formerly Telekom Shop Vertriebsgesellschaft mbH, Bonn)

Board members who left during 2017:

Reinhard Clemens
Board member responsible for T-Systems from December 1, 2007 to December 31, 2017
– No other seats –

Niek Jan van Damme
Board member responsible for Germany from July 1, 2009 to December 31, 2017

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- Deutsche Telekom Außendienst GmbH, Bonn (9/2009 to 12/2017), Chairman of the Supervisory Board (12/2009 to 12/2017) (formerly Deutsche Telekom Technischer Service GmbH, Bonn)
- Deutsche Telekom Service GmbH, Bonn (8/2009 to 12/2017) (formerly Deutsche Telekom Kundenservice GmbH, Bonn)
- Deutsche Telekom Technik GmbH, Bonn (9/2016 to 12/2017), Chairman of the Supervisory Board (9/2016 to 12/2017)
- Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn (8/2009 to 12/2017), Chairman of the Supervisory Board (9/2009 to 12/2017) (formerly Telekom Shop Vertriebsgesellschaft mbH, Bonn)
- T-Mobile Netherlands Holding B.V., The Hague, Netherlands, Chairman of the Supervisory Board (4/2014 to 12/2017)

36 MEMBERS OF THE SUPERVISORY BOARD OF DEUTSCHE TELEKOM AG IN 2017

Prof. Dr. Ulrich Lehner
Member of the Supervisory Board since April 17, 2008
Chairman of the Supervisory Board since April 25, 2008
Member of the Shareholders' Committee of Henkel AG & Co. KGaA, Düsseldorf

Seats on the supervisory bodies of other companies:

- E.ON SE, Düsseldorf (since 4/2003)
- Porsche Automobil Holding SE, Stuttgart (since 11/2007)
- thyssenkrupp AG, Duisburg and Essen (since 1/2008), Chairman of the Supervisory Board (since 3/2013)

Lothar Schröder
Member of the Supervisory Board since June 22, 2006
Deputy Chairman of the Supervisory Board since June 29, 2006
Member of the ver.di National Executive Board, Berlin

Seats on the supervisory bodies of other companies:

- Vereinigte Postversicherung VVaG, Stuttgart (since 6/2011)

Member of the supervisory boards of the following subsidiaries, associated and related companies:

- Deutsche Telekom Services Europe GmbH, Bonn, Deputy Chairman of the Supervisory Board (since 9/2016)

Sari Baldauf
Member of the Supervisory Board since November 1, 2012
Non-Executive Director and Chairwoman of the Board of Directors of Fortum Oyj, Espoo, Finland

Seats on the supervisory bodies of other companies:

- Akzo Nobel N.V., Amsterdam, Netherlands (4/2012 to 12/2017)
- Daimler AG, Stuttgart (since 2/2008)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Vexve Holding Oyj, Sastamala, Finland, Chairwoman of the Board of Directors (since 6/2016)

Josef Bednarski
Member of the Supervisory Board since November 26, 2013
Chairman of the Group Works Council at Deutsche Telekom AG, Bonn
– No other seats –

Monika Brandl
Member of the Supervisory Board since November 6, 2002
Chairwoman of the Central Works Council at Deutsche Telekom AG, Bonn
– No other seats –

Odysseus D. Chatzidis
Member of the Supervisory Board since January 3, 2018
Chairman of the European Works Council of the Deutsche Telekom Group, Bonn
– No other seats –

Johannes Geismann
Member of the Supervisory Board since February 6, 2014
State Secretary, Federal Ministry of Finance, Berlin
– No other seats –

Klaus-Dieter Hanas
Member of the Supervisory Board since June 1, 2012
Chairman of the Works Council at Deutsche Telekom Service GmbH, Bonn, Central-Eastern District (until 9/2017)
(formerly Deutsche Telekom Kundenservice GmbH, Bonn)
Deputy Chairman of the Works Council at Deutsche Telekom Service GmbH, Bonn, Central-Eastern District (since 9/2017)
(formerly Deutsche Telekom Kundenservice GmbH, Bonn)

Seats on the supervisory bodies of other companies:
- PSD-Bank Braunschweig eG, Braunschweig (since 11/1999), Deputy Chairman of the Supervisory Board (since 7/2011)

Lars Hinrichs
Member of the Supervisory Board since October 1, 2013
CEO of Cinco Capital GmbH, Hamburg

Seats on the supervisory bodies of other companies:
- xbAV AG, Munich, Chairman of the Supervisory Board (since 1/2016)

Dr. Helga Jung
Member of the Supervisory Board since May 25, 2016
Member of the Board of Management of Allianz SE, Munich

Seats on the supervisory bodies of other companies:
- Allianz Asset Management AG, Munich, Chairwoman of the Supervisory Board (2/2015 to 4/2017)*
- Allianz Deutschland AG, Munich (since 3/2016)*
- Allianz Global Corporate & Specialty SE, Munich, Deputy Chairwoman of the Supervisory Board (since 5/2013)*

Member of comparable supervisory bodies of companies in Germany or abroad:
- Allianz Compañia de Seguros y Reaseguros S.A., Barcelona, Spain, Member of the Board of Directors (since 5/2012)*
- Companhia de Seguros Allianz Portugal S.A., Lisbon, Portugal, Member of the Board of Directors (since 3/2012)*

Prof. Dr. Michael Kaschke
Member of the Supervisory Board since April 22, 2015
CEO & President of Carl Zeiss AG, Oberkochen

Seats on the supervisory bodies of other companies:
- Carl Zeiss Meditec AG, Jena, Chairman of the Supervisory Board (since 3/2010)*
- Carl Zeiss Microscopy GmbH, Jena, Chairman of the Supervisory Board (since 10/2006)*
- Carl Zeiss Industrielle Messtechnik GmbH, Oberkochen, Chairman of the Supervisory Board (since 1/2014)*
- Carl Zeiss SMT GmbH, Oberkochen, Chairman of the Supervisory Board (since 1/2011)*
- Henkel AG & Co. KGaA, Düsseldorf (since 4/2008)
- Robert Bosch GmbH, Stuttgart (since 4/2016)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Carl Zeiss Co., Ltd., Seoul, South Korea, Chairman of the Board of Directors (since 1/2017)
- Carl Zeiss Far East Co., Ltd., Hong Kong, China, Chairman of the Board of Directors (since 4/2002)*
- Carl Zeiss Inc., Thornwood, United States, Chairman of the Board of Directors (5/2016 to 12/2017)*
- Carl Zeiss India (Bangalore) Private Ltd., Bangalore, India, Chairman of the Board of Directors (since 12/2009)*
- Carl Zeiss Pte. Ltd., Singapore, Singapore, Member of the Board of Directors (since 4/2002)*
- Carl Zeiss Pty. Ltd., North Ryde, Australia, Chairman of the Board of Directors (since 7/2001)*
- Carl Zeiss (Pty.) Ltd., Randburg, South Africa, Chairman of the Board of Directors (10/2003 to 12/2017)*

Nicole Koch
Member of the Supervisory Board since January 1, 2016
Deputy Chairwoman of the Group Works Council at Deutsche Telekom AG, Bonn
Chairwoman of the Works Council at Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn (formerly Telekom Shop Vertriebsgesellschaft mbH, Bonn)

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn (since 6/2004) (formerly Telekom Shop Vertriebsgesellschaft mbH, Bonn)

Dagmar P. Kollmann
Member of the Supervisory Board since May 24, 2012
Entrepreneur, Member of several supervisory and advisory boards as well as the Monopolies Commission
Former CEO of Morgan Stanley Bank, Frankfurt/Main
Former Member of the Board of Directors of Morgan Stanley Bank International Limited, London, United Kingdom

Seats on the supervisory bodies of other companies:
- Deutsche Pfandbriefbank AG, Unterschleißheim, Deputy Chairwoman of the Supervisory Board (since 8/2009)
- KfW IPEX-Bank GmbH, Frankfurt/Main (since 5/2012)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Bank Gutmann Aktiengesellschaft, Vienna, Austria, Member of the Supervisory Board (since 9/2010)
- Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (regional state bank/development bank of Baden-Württemberg), Karlsruhe, agency under public law (not a commercial enterprise within the meaning of § 100 (2), sentence 1, no. 1 AktG), Member of the Advisory Board, purely advisory body (since 7/2004)
- Unibail-Rodamco SE, Paris, France, Member of the Supervisory Board (since 5/2014)

*Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) sentence 2 AktG (German Stock Corporation Act).

Petra Steffi Kreusel
Member of the Supervisory Board since January 1, 2013
Senior Vice President, Partner Management and Corporate Development TC at T-Systems International GmbH, Frankfurt/Main
Deputy Chairwoman of the Group Executive Staff Representation Committee of Deutsche Telekom AG, Bonn
Chairwoman of the Executive Staff Representation Committee of T-Systems International GmbH, Frankfurt/Main

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Systems International GmbH, Frankfurt/Main (since 12/2010)

Dr. Ulrich Schröder
Member of the Supervisory Board from October 1, 2008 to February 6, 2018
CEO of the Executive Board of KfW, Frankfurt/Main, until December 31, 2017

Seats on the supervisory bodies of other companies:
- DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne (10/2009 to 1/2018)*
- Deutsche Post AG, Bonn (9/2008 to 2/2018)
- 2020 European Fund for Energy, Climate Change and Infrastructure (Fonds Marguerite), Luxembourg, Luxembourg (11/2009 to 2/2018)

Michael Sommer
Member of the Supervisory Board since April 15, 2000
Trade Union Secretary, former Chairman of the German Confederation of Trade Unions (DGB), Berlin

Seats on the supervisory bodies of other companies:
- ZDF Enterprises GmbH, Mainz (since 10/2017)

Member of comparable supervisory bodies of companies in Germany or abroad:
- Zweites Deutsches Fernsehen, Mainz, Member of the Board of Supervisory Directors (since 4/2016)

Sibylle Spoo
Member of the Supervisory Board since May 4, 2010
Lawyer, Trade Union Secretary at the ver.di Federal Administration, Berlin
– No other seats –

Karl-Heinz Streibich
Member of the Supervisory Board since October 1, 2013
CEO of Software AG, Darmstadt

Seats on the supervisory bodies of other companies:
- Deutsche Messe AG, Hanover (since 1/2013)
- Dürr AG, Bietigheim-Bissingen (since 5/2011), Deputy Chairman of the Supervisory Board (until 12/2017), Chairman of the Supervisory Board (since 1/2018)
- WITTENSTEIN SE, Igersheim (since 9/2017)

Margret Suckale
Member of the Supervisory Board since September 28, 2017
Former Member of the Board of Executive Directors of BASF SE, Ludwigshafen

Seats on the supervisory bodies of other companies:
- HeidelbergCement AG, Heidelberg (since 8/2017)

Karin Topel
Member of the Supervisory Board since July 1, 2017
Chairwoman of the Works Council at Deutsche Telekom Technik GmbH, Bonn, Technical Branch Office Eastern District
– No other seats –

Supervisory Board members who left in 2017:

Dr. Wulf H. Bernotat
Member of the Supervisory Board from January 1, 2010 to August 27, 2017 (†)
Managing Director and partner of Bernotat & Cie. GmbH, Essen (until 8/2017)
Former Chairman of the Board of Management of E.ON AG, Düsseldorf

Seats on the supervisory bodies of other companies:
- Allianz SE, Munich (4/2003 to 5/2017)
- Bertelsmann SE & Co. KGaA, Gütersloh (5/2006 to 8/2017)
- Bertelsmann Management SE, Gütersloh (5/2012 to 8/2017)
- Vonovia SE, Bochum, Chairman of the Supervisory Board (6/2013 to 8/2017)

Sylvia Hauke
Member of the Supervisory Board from May 3, 2007 to June 30, 2017
Chairwoman of the Central Works Council at Telekom Deutschland GmbH, Bonn (until 6/2017)

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- Telekom Deutschland GmbH, Bonn (1/2011 to 6/2017)

Hans-Jürgen Kallmeier
Member of the Supervisory Board from October 15, 2008 to December 31, 2017
Chairman of the Central Works Council at T-Systems International GmbH, Frankfurt/Main (until 8/2017)
Member of the Central Works Council at T-Systems International GmbH, Frankfurt/Main (until 12/2017)

Member of the supervisory boards of the following subsidiaries, associated and related companies:
- T-Systems International GmbH, Frankfurt/Main (12/2010 to 12/2017)

*Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) sentence 2 AktG (German Stock Corporation Act).

37 COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Compensation of the Board of Management

The representation of the compensation system and the mandatory disclosures pursuant to § 285 No. 9 a) sentences 5 – 8 HGB, with the exception of pension information, are part of the combined management report.

Board of Management compensation for the 2017 financial year

Total compensation of the members of the Board of Management for the 2017 financial year amounted to EUR 21.3 million (2016: EUR 16.7 million). This includes in total 116,808 entitlements to matching shares with a fair value on the date granted of EUR 1.6 million (2016: EUR 1.5 million).

Development of the pension accrual for each member of the Board of Management

€

	Development of pension accruals for current members of the Board of Management			
	Additions to pension accruals 2017	Present value of the defined benefit obligation Dec. 31, 2017	Additions to pension accruals 2016	Present value of the defined benefit obligation Dec. 31, 2016
Reinhard Clemens	813,361	5,323,094	415,677	4,510,606
Niek Jan van Damme	409,740	2,930,396	335,556	2,519,984
Thomas Dannenfeldt	279,669	978,148	232,122	698,479
Srini Gopalan	236,498	236,498	-	-
Timotheus Höttges	1,220,798	7,911,384	542,871	6,696,806
Dr. Christian P. Illek	257,289	657,640	228,569	400,351
Dr. Thomas Kremer	294,469	1,466,191	268,023	1,171,722
Claudia Nemat	329,121	1,622,765	239,198	1,293,644

An annual contribution of EUR 290,000 was allocated to Niek Jan van Damme in accordance with the provisions of the new company pension plan. The contributions for Thomas Dannenfeldt, Srini Gopalan, Dr. Christian P. Illek, Dr. Thomas Kremer, and Claudia Nemat amount to EUR 250,000 each for each year of service rendered.

The expensed additions to pension accruals for active members of the Board of Management amounted to EUR 3.8 million in the reporting year (2016: EUR 2.3 million).

Former members of the Board of Management

A total of EUR 11.3 million (2016: EUR 7.2 million) was included for payments to and entitlements for former members of the Board of Management as well as any surviving dependents.

Accruals totaling EUR 139.5 million (2016: EUR 136.0 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents. Pension accruals not shown in the balance sheet for this group of persons as a consequence of the transitional provisions of BilMoG amounted to EUR 4.3 million at the balance sheet date (2016: EUR 4.9 million).

Several former Board of Management members are entitled to a civil servant pension from the Civil Service Pension Fund. In the reporting year, there was no expense incurred in this regard. The present value of the estimated pensions of these Board of Management members amounts to EUR 3.2 million as of December 31, 2017 (2016: EUR 3.2 million).

Other

The Company has not granted any advances or loans to current or former Board of Management members, nor were any other financial obligations to the benefit of this group of people entered into.

Compensation of the Supervisory Board

The main features of the compensation system and information on the compensation received by the individual members of the Supervisory Board is provided in the combined management report.

The total compensation of the members of the Supervisory Board in 2017 amounted to EUR 2,899,500.00 (plus VAT) and comprises fixed annual compensation and attendance fees.

The Company has not granted any advances or loans to current or former Supervisory Board members, nor were any other financial obligations to the benefit of this group of people entered into.

38 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH § 161 AKTG

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of Deutsche Telekom have submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom's website. The full text of the Declaration of Conformity can be found on the Deutsche Telekom website (www.telekom.com) under Investor Relations in the Management & Corporate Governance section.

39 PROPOSAL FOR THE APPROPRIATION OF NET INCOME

The Board of Management of Deutsche Telekom proposes to the shareholders' meeting that a dividend of EUR 0.65 per no par value share carrying dividend rights be paid to shareholders from the unappropriated net income amounting to EUR 5.9 billion, and that the remaining balance be carried forward.

The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

The amount that is subject to a restriction on distribution in accordance with § 268 (8) sentence 3 HGB is attributable to the measurement of the CTA assets for accruals for pensions and similar obligations at fair value amounting to EUR 260 million, to the measurement of the CTA asset for partial retirement obligations amounting to EUR 3 million, and to the measurement of the CTA asset for long-term accounts amounting to EUR 1 million. Deferred tax liabilities account for EUR 83 million of the difference of EUR 264 million, resulting in a net amount of EUR 181 million. After accounting for deferred tax assets, also of EUR 83 million, which are offset against the deferred tax liabilities, the amount that is subject to a restriction on distribution in accordance with § 268 (8) HGB is EUR 264 million.

The amount that is subject to a restriction on distribution in accordance with § 253 (6) sentence 2 HGB is attributable to the difference in the amount of EUR 512 million resulting from changed measurement principles for pension accruals pursuant to § 253 (6) sentence 1 HGB.

Unappropriated net income can be distributed in full as the amount of EUR 776 million that is subject to a restriction on distribution pursuant to § 268 (8) sentence 3 HGB and § 253 (6) sentence 2 HGB is covered entirely by freely available reserves.

40 STATEMENT OF INVESTMENT HOLDINGS IN ACCORDANCE WITH § 285 HGB

1. Subsidiaries

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
1.	3. T-Venture Beteiligungsgesellschaft mbH (3. TVB), Bonn	1.101.	100.00		25,000	EUR	6,382	764	EUR	f)
2.	Antel Germany GmbH, Karben	1.113.	100.00		25,000	EUR	624	639	EUR	b)
3.	Arbeitgeberverband comunity, Arbeitgeberverband für Telekommunikation und IT e. V., Bonn		0.00		-	EUR	-	-	EUR	
4.	Assessment Point (Proprietary) Limited, Johannesburg	1.130.	100.00		100	ZAR	(3,203)	(11)	ZAR	c)
5.	BENOCS GmbH, Bonn	1.326.	100.00		25,000	EUR	500	(194)	EUR	b)
6.	Benocs, Inc., Wilmington, DE	1.5.	100.00		100	USD	-	-	USD	
7.	CA INTERNET d.o.o., Zagreb	1.134.	100.00		20,000	HRK	272	44	HRK	c)
8.	CBS GmbH, Bonn	1.19.	100.00		838,710	EUR	2,055	0	EUR	a) c)
9.	CE Colo Czech, s.r.o., Prague	1.233.	100.00		711,991,857	CZK	962,428	107,962	CZK	c)
10.	COMBIS – IT Usluge d.o.o., Belgrade	1.12.	100.00		49,136	RSD	127,379	15,079	EUR	c)
11.	COMBIS d.o.o. Sarajevo, Sarajevo	1.12.	100.00		2,000	BAM	6,192	895	BAM	c)
12.	COMBIS, usluge integracija informatickih tehnologija, d.o.o., Zagreb	1.122.	100.00		64,943,900	HRK	144,733	19,685	HRK	b)
13.	COSMO-ONE HELLAS MARKET SITE SOCIÉTÉ ANONYME OF ELECTRONIC COMMERCE SERVICES, Athens	1.120.	30.87		5,391,100	EUR	1,184	120	EUR	b)
13.	COSMO-ONE HELLAS MARKET SITE SOCIÉTÉ ANONYME OF ELECTRONIC COMMERCE SERVICES, Athens	1.14.	30.87		5,391,100	EUR	1,184	120	EUR	b)
14.	COSMOTE Mobile Telecommunications S.A., Maroussi, Athens	1.120.	100.00		157,899,931	EUR	2,528,363	123,235	EUR	b)
15.	CTA Holding GmbH, Bonn			100.00	100,000	EUR	26	0	EUR	c)
16.	CYO Czech, s.r.o., Prague	1.287.	100.00		10,000	CZK	-	-	CZK	
17.	Carduelis B.V. (Netherlands), The Hague	1.114.	100.00		18,000	EUR	1,811	(21)	EUR	c)
18.	Click & Buy Services India Private Limited, Hyderabad	1.110.	99.62		1,609,920	INR	(15,285)	(44,993)	INR	d)
19.	ClickandBuy Holding GmbH, Bonn			100.00	25,000	EUR	5,025	0	EUR	a) c)
20.	ClickandBuy International Limited, Milton Keynes	1.19.	100.00		1,301,008	GBP	1,586	1,353	EUR	c)
21.	Combridge S.R.L., Sfântu Gheorghe	1.147.	100.00		29,801,490	RON	33,837	1,679	RON	c)
22.	Comfortcharge GmbH, Bonn	1.326.	100.00		25,000	EUR	25	0	EUR	c)
23.	Compendo GmbH, Nuremberg	1.39.	100.00		25,000	EUR	26	(1)	EUR	c)
24.	Consortium 1 S.à r.l., Luxembourg	1.66.	100.00		2,423,526	EUR	(56,506)	(3,279)	EUR	c)
25.	Consortium 2 S.à r.l., Luxembourg	1.24.	100.00		2,395,668	EUR	1,756	33	EUR	c)
26.	Cosmoholding International B.V., Amsterdam	1.14.	99.00		1,600,000	EUR	1,530	(27)	EUR	c)
26.	Cosmoholding International B.V., Amsterdam	1.118.	1.00		1,600,000	EUR	1,530	(27)	EUR	c)
27.	Cosmoholding Romania Ltd., Limassol	1.14.	100.00		40,000	EUR	387	(20)	EUR	b)
28.	Cosmote E-Value Contact Center Services Société Anonyme, Agios Stefanos	1.118.	100.00		5,105,062	EUR	16,074	4,693	EUR	b)
29.	Cosmote TV Productions & Services S.A., Maroussi, Athens	1.120.	100.00		3,400,000	EUR	3,738	574	EUR	b)
30.	Crnogorski Telekom a.d. Podgorica, Podgorica	1.144.	76.53		123,857,700	EUR	133,306	9,407	EUR	b)
31.	DEUTSCHE TELEKOM CAPITAL PARTNERS STRATEGIC ADVISORY LLC, Dover, DE	1.56.	100.00		1,000	USD	19	18	USD	c)
32.	DFMG Deutsche Funkturm GmbH, Münster	1.324.	16.67		30,000	EUR	7,727	0	EUR	a) c)
32.	DFMG Deutsche Funkturm GmbH, Münster	1.33.	32.33		30,000	EUR	7,727	0	EUR	a) c)
32.	DFMG Deutsche Funkturm GmbH, Münster	1.236.	51.00		30,000	EUR	7,727	0	EUR	a) c)
33.	DFMG Holding GmbH, Bonn			100.00	26,000	EUR	54	0	EUR	a) c)
34.	DIGI SLOVAKIA, s.r.o., Bratislava	1.212.	100.00		5,152,230	EUR	15,546	5,824	EUR	c)
35.	DTCP NL I B.V., Maastricht	1.59.	100.00		0	EUR	-	-	EUR	
36.	DTCP NL II C.V., Maastricht	1.59.	99.99		10,000	EUR	-	-	EUR	
36.	DTCP NL II C.V., Maastricht	1.35.	0.01		10,000	EUR	-	-	EUR	
37.	DeTeAsia Holding GmbH, Bonn			100.00	50,000	DEM	49	0	EUR	a) c)
38.	DeTeAssekuranz – Deutsche Telekom Assekuranz-Vermittlungsgesellschaft mbH, Cologne	1.39.	100.00		1,000,000	EUR	1,000	0	EUR	a) c)
39.	DeTeAssekuranz Holding GmbH, Bonn			100.00	150,000	EUR	3,111	(1,110)	EUR	c)
40.	DeTeFleetServices GmbH, Bonn			100.00	5,000,000	EUR	129,263	0	EUR	a) c)
41.	Detecon (Schweiz) AG, Zurich	1.45.	100.00		1,000,000	CHF	10,015	1,239	CHF	c)
42.	Detecon Asia-Pacific Ltd., Bangkok	1.45.	100.00		49,000,000	THB	113,470	28,635	THB	c)
43.	Detecon Consulting Austria GmbH, Vienna	1.41.	100.00		72,673	EUR	405	43	EUR	c)
44.	Detecon Consulting FZ-LLC, Dubai	1.45.	100.00		500,000	AED	1,465	(357)	AED	c)
45.	Detecon International GmbH, Cologne	1.287.	100.00		8,700,000	EUR	19,481	7,522	EUR	c)
46.	Detecon Vezetési Tanácsadó Kft., Budapest	1.45.	100.00		4,600,000	HUF	19,828	(9,093)	HUF	c)
47.	Detecon, Inc., Wilmington, DE	1.45.	100.00		1,872,850	USD	(6)	(57)	USD	b)
48.	Deutsche Sportwetten GmbH, Bonn	1.326.	63.92		69,290	EUR	(60)	(998)	EUR	c)

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
49.	Deutsche TELEKOM Asia Pte. Ltd., Singapore			100.00	137,777,793	SGD	6,130	386	SGD	f)
50.	Deutsche TELEKOM Ltd., London			100.00	240,000	GBP	2,108	(19)	GBP	h)
51.	Deutsche Telekom (UK) Limited, Herts			100.00	30,100,000	GBP	17,058	6,838	GBP	f)
52.	Deutsche Telekom Außendienst GmbH, Bonn	1.324.	100.00		27,000	EUR	56,965	0	EUR	a) c)
53.	Deutsche Telekom Business Development & Venturing Ltd., Herzliya			100.00	10	NIS	0	558	NIS	f)
54.	Deutsche Telekom Capital Partners Expert/Advisor Co-Invest GmbH & Co. KG, Hamburg	1.56.	16.67		600	EUR	787	0	EUR	c)
54.	Deutsche Telekom Capital Partners Expert/Advisor Co-Invest GmbH & Co. KG, Hamburg			16.67	600	EUR	787	0	EUR	c)
55.	Deutsche Telekom Capital Partners Fund GmbH, Hamburg	1.56.	100.00		25,000	EUR	29	1	EUR	c)
56.	Deutsche Telekom Capital Partners Management GmbH, Hamburg			49.00	25,000	EUR	176	125	EUR	c)
57.	Deutsche Telekom Capital Partners Portfolio Fund Carry GmbH & Co. KG, Hamburg			10.00	1,000	EUR	13	0	EUR	c)
57.	Deutsche Telekom Capital Partners Portfolio Fund Carry GmbH & Co. KG, Hamburg	1.56.	10.00		1,000	EUR	13	0	EUR	c)
58.	Deutsche Telekom Capital Partners Portfolio Fund Co-Invest I GmbH & Co. KG, Hamburg	1.60.	33.33		300	EUR	0	0	EUR	c)
58.	Deutsche Telekom Capital Partners Portfolio Fund Co-Invest I GmbH & Co. KG, Hamburg	1.57.	33.33		300	EUR	0	0	EUR	c)
58.	Deutsche Telekom Capital Partners Portfolio Fund Co-Invest I GmbH & Co. KG, Hamburg	1.54.	33.33		300	EUR	0	0	EUR	c)
59.	Deutsche Telekom Capital Partners Portfolio Fund Co-Invest Ia GmbH, Hamburg	1.58.	100.00		25,000	EUR	-	-	EUR	
60.	Deutsche Telekom Capital Partners Portfolio Fund GmbH & Co. KG, Hamburg			33.33	300	EUR	1,695	0	EUR	c)
60.	Deutsche Telekom Capital Partners Portfolio Fund GmbH & Co. KG, Hamburg	1.56.	33.33		300	EUR	1,695	0	EUR	c)
60.	Deutsche Telekom Capital Partners Portfolio Fund GmbH & Co. KG, Hamburg	1.57.	33.33		300	EUR	1,695	0	EUR	c)
61.	Deutsche Telekom Capital Partners USA, LLC, San Francisco, CA	1.56.	100.00		1	USD	73	73	USD	c)
62.	Deutsche Telekom Capital Partners Venture Fund Carry GmbH & Co. KG, Hamburg			7.14	1,400	EUR	1,026	0	EUR	c)
62.	Deutsche Telekom Capital Partners Venture Fund Carry GmbH & Co. KG, Hamburg	1.56.	7.14		1,400	EUR	1,026	0	EUR	c)
63.	Deutsche Telekom Capital Partners Venture Fund GmbH & Co. KG, Hamburg			25.00	400	EUR	34,023	0	EUR	c)
63.	Deutsche Telekom Capital Partners Venture Fund GmbH & Co. KG, Hamburg	1.56.	25.00		400	EUR	34,023	0	EUR	c)
63.	Deutsche Telekom Capital Partners Venture Fund GmbH & Co. KG, Hamburg	1.62.	25.00		400	EUR	34,023	0	EUR	c)
63.	Deutsche Telekom Capital Partners Venture Fund GmbH & Co. KG, Hamburg	1.54.	25.00		400	EUR	34,023	0	EUR	c)
64.	Deutsche Telekom Clinical Solutions GmbH, Bonn	1.73.	100.00		25,000	EUR	2,029	0	EUR	a) c)
65.	Deutsche Telekom Clinical Solutions India Private Limited, Pune	1.271.	0.00		2,146,070	INR	76,600	30,544	INR	d)
65.	Deutsche Telekom Clinical Solutions India Private Limited, Pune	1.287.	100.00		2,146,070	INR	76,600	30,544	INR	d)
66.	Deutsche Telekom Europe B.V., Maastricht	1.68.	100.00		67,006	EUR	11,333,899	433,302	EUR	c)
67.	Deutsche Telekom Europe Beteiligungsverwaltungs-gesellschaft mbH, Bonn			100.00	25,000	EUR	33	0	EUR	c)
68.	Deutsche Telekom Europe Holding B.V., Maastricht	1.69.	100.00		25,002	EUR	12,077,606	(40)	EUR	c)
69.	Deutsche Telekom Europe Holding GmbH, Bonn			100.00	30,000	EUR	12,673,083	0	EUR	a) c)
70.	Deutsche Telekom Geschäftskunden-Vertrieb GmbH, Bonn	1.324.	100.00		25,000	EUR	25	(1)	EUR	c)
71.	Deutsche Telekom Glasfaser Service GmbH, Bonn	1.324.	100.00		26,000	EUR	2,032	0	EUR	a) c)
72.	Deutsche Telekom Healthcare Solutions Netherlands B.V., Bunnik (Utrecht)	1.287.	100.00		18,000	EUR	2,073	424	EUR	c)
73.	Deutsche Telekom Healthcare and Security Solutions GmbH, Bonn	1.287.	100.00		511,300	EUR	2,161	0	EUR	a) c)
74.	Deutsche Telekom Holding B.V., Maastricht	1.235.	100.00		20,500	EUR	8,830,163	(36)	EUR	c)
75.	Deutsche Telekom Hosted Business Services, Inc., Wilmington, DE	1.140.	100.00		5,306	USD	4,315	(19,408)	USD	g)

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
76.	Deutsche Telekom IT GmbH, Bonn			100.00	25,000	EUR	63	0	EUR	a) c)
77.	Deutsche Telekom Individual Solutions & Products GmbH, Bonn	1.324.	100.00		25,000	EUR	923	0	EUR	a) c)
78.	Deutsche Telekom International Finance B.V., Maastricht			100.00	500,000	EUR	306,498	(2,428)	EUR	b)
79.	Deutsche Telekom North America, Inc., Wilmington, DE	1.298.	100.00		30	USD	10,369	1,730	USD	b)
80.	Deutsche Telekom Pan-Net Albania Sh.p.k., Tirana	1.69.	100.00		2,600,000	ALL	-	-	ALL	
81.	Deutsche Telekom Pan-Net Croatia d.o.o., Zagreb	1.69.	100.00		180,000	HRK	38,059	86	HRK	c)
82.	Deutsche Telekom Pan-Net Czech Republic s.r.o., Prague	1.69.	100.00		13,600,000	CZK	13,667	67	CZK	c)
83.	Deutsche Telekom Pan-Net GmbH, Vienna	1.69.	100.00		600,000	EUR	29	(1)	EUR	c)
84.	Deutsche Telekom Pan-Net Greece EPE, Athens	1.69.	99.88		650,040	EUR	5,011	33	EUR	b)
84.	Deutsche Telekom Pan-Net Greece EPE, Athens	1.67.	0.12		650,040	EUR	5,011	33	EUR	b)
85.	Deutsche Telekom Pan-Net Hungary Kft., Budapest	1.69.	100.00		7,501,000	HUF	1,268,105	24,407	HUF	b)
86.	Deutsche Telekom Pan-Net Macedonia Dooel, Skopje	1.69.	100.00		20,000	EUR	-	-	EUR	
87.	Deutsche Telekom Pan-Net Montenegro d.o.o., Podgorica	1.69.	100.00		20,000	EUR	-	-	EUR	
88.	Deutsche Telekom Pan-Net Poland Spolka z ograniczona odpowiedzialnoscia, Warsaw	1.69.	100.00		100,000	PLN	21,455	99	PLN	c)
89.	Deutsche Telekom Pan-Net Romania S.R.L., Bucharest	1.69.	100.00		3,000,000	EUR	12,460	(740)	EUR	c)
90.	Deutsche Telekom Pan-Net s.r.o., Bratislava	1.69.	97.00		25,000	EUR	1,128	1,028	EUR	c)
90.	Deutsche Telekom Pan-Net s.r.o., Bratislava	1.67.	3.00		25,000	EUR	1,128	1,028	EUR	c)
91.	Deutsche Telekom Privatkunden-Vertrieb GmbH, Bonn	1.324.	100.00		10,000,000	EUR	44,258	0	EUR	a) c)
92.	Deutsche Telekom Service GmbH, Bonn	1.324.	100.00		25,000	EUR	19,110	0	EUR	a) c)
93.	Deutsche Telekom Services Europe Czech Republic s.r.o., Brno	1.94.	100.00		13,500,000	CZK	-	-	CZK	
94.	Deutsche Telekom Services Europe GmbH, Bonn			100.00	100,000	EUR	100	0	EUR	a) c)
95.	Deutsche Telekom Services Europe Romania S.R.L., Bucharest			3.33	13,198,200	RON	8,796	4,013	RON	c)
95.	Deutsche Telekom Services Europe Romania S.R.L., Bucharest	1.94.	96.67		13,198,200	RON	8,796	4,013	RON	c)
96.	Deutsche Telekom Services Europe Slovakia s.r.o., Bratislava	1.271.	0.01		6,520,000	EUR	2,671	1,390	EUR	c)
96.	Deutsche Telekom Services Europe Slovakia s.r.o., Bratislava	1.94.	99.99		6,520,000	EUR	2,671	1,390	EUR	c)
97.	Deutsche Telekom Strategic Investments GmbH, Bonn			100.00	10,225,900	EUR	25,837	736	EUR	c)
98.	Deutsche Telekom Strategic Investments, Inc., San Francisco, CA	1.97.	100.00		100	USD	730	61	USD	f)
99.	Deutsche Telekom Technik GmbH, Bonn	1.324.	100.00		27,000	EUR	29,652	0	EUR	a) c)
100.	Deutsche Telekom Training GmbH, Bonn			100.00	102,300	EUR	125	0	EUR	a) c)
101.	Deutsche Telekom Venture Funds GmbH, Bonn			100.00	25,000	EUR	329,185	0	EUR	a) c)
102.	Deutsche Telekom hub:raum Fund GmbH, Bonn			100.00	25,000	EUR	3,627	0	EUR	a) c)
103.	Deutsche Telekom, Inc., New York, NY			100.00	100	USD	6,985	570	USD	b)
104.	Digital Media Audience Products GmbH, Bonn	1.326.	100.00		25,000	EUR	26	0	EUR	c)
105.	E-Tours d.o.o., Zagreb	1.122.	100.00		20,000	HRK	7,953	2,049	HRK	c)
106.	E-Value Collection Ltd., Agios Stefanos	1.28.	100.00		350,010	EUR	2,940	322	EUR	b)
107.	E-Value International S.A., Bucharest	1.28.	0.01		6,700,000	RON	(5,711)	(8,444)	RON	c)
107.	E-Value International S.A., Bucharest	1.26.	99.99		6,700,000	RON	(5,711)	(8,444)	RON	c)
108.	Erste DFMG Deutsche Funkturm Vermögens-GmbH, Bonn			100.00	100,000	EUR	170,273	0	EUR	a) c)
109.	Eutelis Consult GmbH i. L., Ratingen	1.45.	60.00		1,360,000	DEM	-	-	EUR	h)
110.	Firstgate Holding AG, Oberägeri	1.19.	100.00		100,000	CHF	934	(118)	CHF	c)
111.	GEMAPPS Gesellschaft für mobile Lösungen mbH, Hamburg	1.287.	100.00		25,000	EUR	207	0	EUR	c)
112.	GMG Generalmietgesellschaft mbH, Cologne			100.00	51,130,000	EUR	51,423	0	EUR	a) c)
113.	GTS Central European Holding B.V. (Netherlands), Amsterdam	1.114.	99.46		18,500	EUR	432,051	839	EUR	c)
113.	GTS Central European Holding B.V. (Netherlands), Amsterdam	1.17.	0.54		18,500	EUR	432,051	839	EUR	c)
114.	GTS Central European Holdings Limited (Cyprus), Luxembourg	1.25.	100.00		171,000	EUR	37,608	48	EUR	c)
115.	GTS Poland sp. z o.o. (Poland), Warsaw	1.66.	100.00		199,870	PLN	16,655	26,183	PLN	b)
116.	GTS Telecom S.R.L., Bucharest	1.114.	52.56		7,368,415	RON	27,033	4,040	RON	c)
116.	GTS Telecom S.R.L., Bucharest	1.113.	47.44		7,368,415	RON	27,033	4,040	RON	c)
117.	GTS Ukraine L.L.C., Kiev	1.113.	100.00		1,150,000	UAH	(53,805)	(6,497)	UAH	c)
118.	Germanos Industrial and Commercial Company of Electronic Telecommunication materials and supply of Services Société Anonyme, Agios Stefanos	1.14.	100.00		29,600,892	EUR	214,281	7,872	EUR	b)
119.	HATWAVE Hellenic-American Telecommunications Wave Ltd., Donetsk	1.120.	52.67		100	CYP	13	0	CYP	f)

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
120.	Hellenic Telecommunications Organization S.A. (OTE), Athens			40.00	1,171,459,430	EUR	2,802,700	98,000	EUR	c)
121.	HfTL Trägergesellschaft mbH, Bonn			100.00	25,000	EUR	876	(1,140)	EUR	c)
122.	Hrvatski Telekom d.d., Zagreb	1.66.	51.00		9,822,853,500	HRK	11,957,885	908,797	HRK	b)
123.	HÄVG Rechenzentrum GmbH, Cologne	1.73.	50.00		100,000	EUR	838	176	EUR	c)
124.	I.T.E.N.O.S. International Telecom Network Operation Services GmbH, Bonn	1.287.	100.00		3,000,000	EUR	6,410	0	EUR	a) c)
125.	IBSV LLC, Wilmington, DE	1.266.	100.00		0	USD	-	-	USD	
126.	IT Services Hungary Szolgáltató Kft., Budapest	1.287.	100.00		150,100,000	HUF	11,848,057	2,163,588	HUF	c)
127.	Immmr GmbH, Bonn	1.326.	100.00		25,000	EUR	4,055	(1,607)	EUR	c)
128.	ImmoCom Verwaltungs GmbH, Heusenstamm	1.112.	100.00		50,000	DEM	(4,757)	27	EUR	c)
129.	Infovan (Proprietary) Limited, Midrand	1.307.	100.00		2,000	ZAR	113,992	2,103	ZAR	c)
130.	Intervate Holdings (Proprietary) Limited, Johannesburg	1.307.	100.00		2,090	ZAR	14,740	(12)	ZAR	c)
131.	Intervate Project Services (Proprietary) Limited, Johannesburg	1.132.	100.00		300	ZAR	(287)	(2,307)	ZAR	c)
132.	Intervate Solutions (Proprietary) Limited, Johannesburg	1.130.	100.00		1,070	ZAR	(11,710)	(8,447)	ZAR	c)
133.	Investel Magyar Távközlési Befektetési ZRt., Budapest	1.147.	100.00		1,113,000,000	HUF	1,317,328	(2,248)	HUF	c)
134.	Iskon Internet d.d., Zagreb	1.122.	100.00		420,269,100	HRK	210,370	12,961	HRK	b)
135.	KIBU Innováció Nonprofit Kft., Budapest	1.147.	96.67		3,000,000	HUF	43,225	12,725	HUF	c)
135.	KIBU Innováció Nonprofit Kft., Budapest	1.133.	3.33		3,000,000	HUF	43,225	12,725	HUF	c)
136.	Kabelsko distributivni sustav d.o.o., Čakovec	1.122.	100.00		1,229,600	HRK	2,900	37	HRK	c)
137.	KalászNet Kft., Budapest	1.147.	100.00		225,000,000	HUF	1,085,036	(2,777)	HUF	c)
138.	Kolga Telekommunikationsdienste GmbH, Bonn	1.326.	100.00		25,000	EUR	27	0	EUR	a) c)
139.	Kumukan GmbH, Bonn	1.326.	100.00		25,000	EUR	41	(578)	EUR	c)
140.	Lambda Telekommunikationsdienste GmbH, Bonn			100.00	25,000	EUR	37	0	EUR	a) c)
141.	Lauderdale GmbH & Co. KG, Hamburg	1.101.	50.00		200	EUR	-	-	EUR	
141.	Lauderdale GmbH & Co. KG, Hamburg	1.56.	50.00		200	EUR	-	-	EUR	
142.	Leadville Investments sp. z o.o., Warsaw	1.287.	100.00		5,000	PLN	-	-	PLN	
143.	Loki Telekommunikationsdienste GmbH, Bonn	1.326.	100.00		25,000	EUR	27	0	EUR	a) c)
144.	M-Tele d.o.o., Zagreb	1.122.	100.00		929,965,000	HRK	-	-	HRK	
145.	MAGYARCOM SZOLGÁLTATÓ KOMMUNIKÁCIÓS Kft., Budapest			100.00	50,000,000	HUF	1,171,952	139,565	HUF	c)
146.	Magenta GmbH, Bonn			100.00	25,000	EUR	26	0	EUR	c)
147.	Magyar Telekom Telecommunications Public Limited Company, Budapest	1.66.	59.48		104,274,254,300	HUF	425,558,000	28,536,000	HUF	c)
148.	Makedonski Telekom AD Skopje, Skopje	1.216.	56.67		9,583,887,760	MKD	15,194,511	1,035,942	MKD	b)
149.	MetroPCS California, LLC, Bellevue, WA	1.266.	100.00		1	USD	2,264,111	922,974	USD	c)
150.	MetroPCS Florida, LLC, Bellevue, WA	1.262.	100.00		1	USD	2,273,427	770,072	USD	c)
151.	MetroPCS Georgia, LLC, Bellevue, WA	1.262.	100.00		1	USD	469,405	283,325	USD	c)
152.	MetroPCS Massachusetts, LLC, Bellevue, WA	1.256.	100.00		1	USD	32,049	118,673	USD	c)
153.	MetroPCS Michigan, LLC, Bellevue, WA	1.232.	100.00		0	USD	536,542	384,050	USD	c)
154.	MetroPCS Networks California, LLC, Bellevue, WA	1.266.	100.00		1	USD	(280,086)	(48,449)	USD	c)
155.	MetroPCS Networks Florida, LLC, Bellevue, WA	1.262.	100.00		1	USD	(68,311)	(8,337)	USD	c)
156.	MetroPCS Nevada, LLC, Bellevue, WA	1.267.	100.00		1	USD	31,930	33,332	USD	c)
157.	MetroPCS New York, LLC, Bellevue, WA	1.256.	100.00		1	USD	469,068	276,087	USD	c)
158.	MetroPCS Pennsylvania, LLC, Bellevue, WA	1.256.	100.00		1	USD	220,583	232,305	USD	c)
159.	MetroPCS Texas, LLC, Bellevue, WA	1.267.	100.00		1	USD	384,696	203,524	USD	c)
160.	Mobilbeeep Telecommunications One Person Limited Liability, Maroussi, Athens	1.14.	100.00		620,100	EUR	156	(15)	EUR	c)
161.	MobiledgeX GmbH, Bonn	1.162.	100.00		25,000	EUR	25	0	EUR	c)
162.	MobiledgeX, Inc., Menlo Park, CA	1.326.	100.00		10,000	USD	-	-	USD	
163.	Motionlogic GmbH, Berlin	1.326.	100.00		25,000	EUR	892	(2,568)	EUR	c)
164.	NGENA GmbH, Bonn	1.326.	77.61		98,530	EUR	26,365	(5,737)	EUR	c)
165.	NextGen Communications S.R.L., Bucharest	1.315.	100.00		240,828,960	RON	73,896	(4,630)	RON	c)
166.	Novatel EOOD, Sofia	1.147.	100.00		11,056,430	BGN	10,783	118	BGN	b)
167.	ORBIT Gesellschaft für Applikations- und Informationssysteme mbH, Bonn	1.45.	100.00		128,000	EUR	4,553	1,767	EUR	c)
168.	OT-Optima Telekom d.d., Zagreb	1.122.	17.41		694,432,640	HRK	44,007	14,756	HRK	b)
169.	OT-Optima Telekom d.o.o., Koper	1.168.	100.00		8,763	EUR	355	(19)	EUR	c)
170.	OTE Academy S.A., Maroussi, Athens	1.120.	100.00		1,761,030	EUR	(295)	129	EUR	b)
170.	OTE Academy S.A., Maroussi, Athens	1.208.	0.00		1,761,030	EUR	(295)	129	EUR	b)
171.	OTE Estate S.A., Athens	1.120.	100.00		455,987,091	EUR	964,918	21,347	EUR	b)
171.	OTE Estate S.A., Athens	1.178.	0.00		455,987,091	EUR	964,918	21,347	EUR	b)

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
172.	OTE Insurance Agency S.A., Athens	1.120.	99.90		86,000	EUR	342	55	EUR	b)
172.	OTE Insurance Agency S.A., Athens	1.178.	0.10		86,000	EUR	342	55	EUR	b)
173.	OTE International Investments Limited, Limassol	1.120.	100.00		477,366,811	EUR	344,700	(134,702)	EUR	b)
174.	OTE International Solutions S.A., Maroussi, Athens	1.120.	100.00		163,879,541	EUR	206,265	5,704	EUR	b)
174.	OTE International Solutions S.A., Maroussi, Athens	1.208.	0.00		163,879,541	EUR	206,265	5,704	EUR	b)
175.	OTE Plc., London	1.120.	100.00		50,000	GBP	33,495	1,089	EUR	b)
176.	OTE Rural North SPV, Maroussi, Athens	1.120.	100.00		1,775,112	EUR	494	(759)	EUR	b)
177.	OTE Rural South SPV, Maroussi, Athens	1.120.	100.00		2,255,520	EUR	385	(1,113)	EUR	b)
178.	OTEplus Technical & Business Solutions S.A., Athens	1.120.	100.00		4,714,408	EUR	11,356	(851)	EUR	b)
179.	OmegaTowers 1 Funkdienste GmbH & Co. KG, Münster	1.32.	100.00		100	EUR	3,858	(1,744)	EUR	c)
180.	OmegaTowers 1 Funkdienste Komplementär GmbH, Münster	1.32.	100.00		25,000	EUR	25	1	EUR	c)
181.	OmegaTowers 2 Funkdienste GmbH & Co. KG, Münster	1.32.	100.00		100	EUR	5,930	(1,574)	EUR	c)
182.	OmegaTowers 2 Funkdienste Komplementär GmbH, Münster	1.32.	100.00		25,000	EUR	25	1	EUR	c)
183.	OmegaTowers 3 Funkdienste GmbH, Münster	1.32.	100.00		25,000	EUR	5,889	0	EUR	a) c)
184.	One 2 One Limited, Milton Keynes	1.239.	100.00		2	GBP	0	0	GBP	c)
185.	One 2 One Personal Communications Ltd., Milton Keynes	1.239.	100.00		1	GBP	0	0	GBP	c)
186.	Optima Telekom za upravljanje nekretninama i savjetovanje d.o.o., Zagreb	1.168.	100.00		20,000	HRK	20	0	HRK	f)
187.	Optima direct d.o.o., Buje	1.168.	100.00		19,216,000	HRK	(2,355)	160	HRK	c)
188.	P & I Travel GmbH, Darmstadt			100.00	4,000,000	EUR	(2,976)	985	EUR	c)
189.	P & I Verwaltungs GmbH, Darmstadt			100.00	25,000	EUR	25	0	EUR	c)
190.	PASM Power and Air Condition Solution Management Beteiligungs GmbH, Bonn			100.00	25,000	EUR	36	0	EUR	c)
191.	PASM Power and Air Condition Solution Management GmbH, Munich GmbH, München			100.00	10,025,000	EUR	137,787	0	EUR	a) c)
192.	PTI PR TOWERS I, LLC, Bellevue, WA	1.260.	100.00		1	USD	(2,004)	(842)	USD	c)
193.	PTI US TOWERS II, LLC, Bellevue, WA	1.267.	100.00		1	USD	(27,522)	(5,843)	USD	c)
194.	PTI US Towers I, LLC, Bellevue, WA	1.266.	100.00		1	USD	(15,136)	(4,930)	USD	c)
195.	Pan-Inform Kutatás-Fejlesztési és Innovácios Kft., Balatonfüred	1.291.	20.00		3,000,000	HUF	(14,675)	(15,420)	HUF	c)
196.	Pelsoft Informatika Kft., Balatonfüred	1.291.	16.67		3,000,000	HUF	(93,374)	(94,865)	HUF	c)
197.	PosAm spol. s.r.o., Bratislava	1.212.	51.00		170,000	EUR	12,324	2,209	EUR	c)
198.	Powertel Memphis Licenses, Inc., Bellevue, WA	1.199.	100.00		1	USD	179,300	727	USD	c)
199.	Powertel/Memphis, Inc., Bellevue, WA	1.266.	100.00		32,262	USD	(593,351)	(228,715)	USD	c)
200.	PreHCM Services GmbH, Miltenberg	1.287.	100.00		25,000	EUR	1,372	274	EUR	c)
201.	Qingdao DETECON Consulting Co., Ltd., Qingdao	1.45.	100.00		2,000,000	USD	11,460	(489)	CNY	c)
202.	REGICA.NET d.o.o., Zagreb	1.134.	100.00		28,000	HRK	880	126	HRK	c)
203.	Residenzpost GmbH & Co. Liegenschafts KG, Heusenstamm			100.00	1	EUR	5	6	EUR	c)
204.	SCS Personalberatung GmbH, Frankfurt/Main			100.00	100,000	DEM	51	0	EUR	a) c)
205.	SPV HOLDINGS SP. z o.o., Warsaw	1.66.	100.00		5,000	PLN	20	(11)	PLN	c)
206.	Sallust Telekommunikationsdienste GmbH, Bonn			100.00	25,000	EUR	27	0	EUR	a) c)
207.	Satellic NV, Machelen	1.287.	76.00		10,000,000	EUR	5,445	(237)	EUR	c)
208.	Satellite and Maritime Telecommunications S.A., Piraeus	1.120.	94.08		5,463,750	EUR	9,426	1,154	EUR	b)
208.	Satellite and Maritime Telecommunications S.A., Piraeus	1.178.	0.01		5,463,750	EUR	9,426	1,154	EUR	b)
209.	Sigma Telekommunikationsdienste GmbH, Bonn			100.00	25,000	EUR	27	0	EUR	a) c)
210.	Sireo Immobilienfonds No. 1 Verwaltungsgesellschaft mbH, Bonn	1.211.	100.00		25,000	EUR	53	3	EUR	c)
211.	Sireo Immobilienfonds No.1 GmbH & Co. KG, Bonn			94.90	6,858,242	EUR	127,177	14,597	EUR	c)
212.	Slovak Telekom, a.s., Bratislava	1.66.	100.00		864,113,000	EUR	1,095,818	61,232	EUR	b)
213.	Software Daten Service Gesellschaft m.b.H., Vienna	1.287.	100.00		290,691	EUR	25,645	6,488	EUR	c)
214.	Soluciones y Proyectos Consulting, S.L., Barcelona	1.284.	100.00		3,006	EUR	157	(1)	EUR	c)
215.	Sophia Invest GmbH, Bonn	1.326.	100.00		25,000	EUR	17,138	(2,678)	EUR	c)
216.	Stonebridge Communication AD, Skopje	1.147.	100.00		12,065,386,345	MKD	12,865,193	(262,813)	MKD	b)
217.	SunCom Wireless Holdings Inc., Bellevue, WA	1.266.	100.00		1	USD	(387,058)	0	USD	c)
218.	SunCom Wireless Investment Company LLC, Bellevue, WA	1.217.	100.00		1	USD	5,514	0	USD	c)
219.	SunCom Wireless License Company, LLC, Bellevue, WA	1.335.	100.00		1	USD	27,659	4,443	USD	c)
220.	SunCom Wireless Management Co, Inc., Bellevue, WA	1.223.	100.00		1	USD	(26,780)	0	USD	c)
221.	SunCom Wireless Operating Company, LLC, Bellevue, WA	1.335.	100.00		1	USD	-	-	USD	
222.	SunCom Wireless Property Company, LLC, Bellevue, WA	1.335.	100.00		1	USD	-	-	USD	
223.	SunCom Wireless, Inc., Bellevue, WA	1.218.	100.00		1	USD	419,687	0	USD	c)

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
224.	T SYSTEMS TELEKOMÜNIKASYON LIMITED SIRKETI, Istanbul	1.271.	0.13		4,453,325	TRY	15,873	3,795	TRY	c)
224.	T SYSTEMS TELEKOMÜNIKASYON LIMITED SIRKETI, Istanbul	1.287.	99.87		4,453,325	TRY	15,873	3,795	TRY	c)
225.	T-Infrastruktur Holding GmbH, Vienna	1.230.	100.00		35,000	EUR	33	(3)	EUR	c)
226.	T-Mobile (UK Properties), Inc., Denver, CO	1.239.	100.00		1	USD	0	0	USD	c)
227.	T-Mobile (UK) Ltd., Milton Keynes	1.239.	100.00		1	GBP	0	0	GBP	c)
228.	T-Mobile (UK) Retail Limited, Milton Keynes	1.239.	100.00		105	GBP	0	0	GBP	c)
229.	T-Mobile Airtime Funding LLC, Bellevue, WA	1.257.	100.00		1	USD	61,650	(128)	USD	c)
230.	T-Mobile Austria GmbH, Vienna	1.231.	100.00		60,000,000	EUR	793,481	126,857	EUR	c)
231.	T-Mobile Austria Holding GmbH, Vienna	1.66.	100.00		15,000,000	EUR	1,550,194	10,129	EUR	c)
232.	T-Mobile Central LLC, Bellevue, WA	1.266.	100.00		1	USD	8,925,577	(239,519)	USD	c)
233.	T-Mobile Czech Republic a.s., Prague	1.66.	100.00		520,000,000	CZK	30,855,000	4,720,000	CZK	b)
234.	T-Mobile Financial LLC, Wilmington, DE	1.266.	100.00		100,000	USD	1,571,403	805,186	USD	c)
235.	T-Mobile Global Holding GmbH, Bonn	1.237.	100.00		50,000	EUR	15,897,725	0	EUR	a) c)
236.	T-Mobile Global Holding Nr. 5 GmbH, Bonn (from January 3, 2018: DFMG Zwischenholding GmbH, Bonn)	1.33.	100.00		26,000	EUR	33	0	EUR	c)
237.	T-Mobile Global Zwischenholding GmbH, Bonn			100.00	26,000	EUR	21,069,848	0	EUR	a) c)
238.	T-Mobile Handset Funding LLC, Bellevue, WA	1.234.	100.00		1	USD	375,034	23,142	USD	c)
239.	T-Mobile Holdings Limited, Milton Keynes	1.235.	100.00		706,540,268	GBP	5,220,943	(2,045,822)	EUR	c)
240.	T-Mobile HotSpot GmbH, Bonn			100.00	26,000	EUR	5,970	0	EUR	a) c)
241.	T-Mobile International Austria GmbH, Vienna	1.230.	100.00		37,000	EUR	1,762	305	EUR	c)
242.	T-Mobile International Limited, Milton Keynes	1.239.	100.00		1	GBP	0	0	GBP	c)
243.	T-Mobile International UK Pension Trustee Limited, Herts	1.51.	100.00		1	GBP	0	0	GBP	c)
244.	T-Mobile Leasing LLC, Bellevue, WA	1.266.	100.00		1	USD	(429,008)	52,054	USD	c)
245.	T-Mobile License LLC, Bellevue, WA	1.266.	100.00		1	USD	11,097,590	808,842	USD	c)
246.	T-Mobile Ltd., Milton Keynes	1.239.	100.00		1	GBP	0	0	GBP	c)
247.	T-Mobile Netherlands B.V., The Hague	1.249.	100.00		1,250,628	EUR	2,957,019	73,779	EUR	c)
248.	T-Mobile Netherlands Finance B.V., The Hague	1.249.	100.00		124,105	EUR	124	0	EUR	c)
249.	T-Mobile Netherlands Holding B.V., The Hague	1.66.	100.00		90,756,043	EUR	1,698,404	73,397	EUR	c)
250.	T-Mobile Netherlands Klantenservice B.V., The Hague	1.247.	100.00		1,116,950	EUR	(451,004)	(24,533)	EUR	c)
251.	T-Mobile Netherlands Retail B.V., The Hague	1.247.	100.00		18,000	EUR	(760,924)	(60,002)	EUR	c)
252.	T-Mobile Newco Nr. 3 GmbH, Bonn			100.00	25,000	EUR	25	0	EUR	a) c)
253.	T-Mobile Newco Nr. 4 GmbH, Bonn			100.00	25,000	EUR	27	0	EUR	a) c)
254.	T-Mobile No. 1 Limited, Hatfield	1.239.	100.00		1	GBP	0	0	GBP	h)
255.	T-Mobile No. 5 Limited, Hatfield	1.239.	100.00		1	GBP	0	0	GBP	h)
256.	T-Mobile Northeast LLC, Bellevue, WA	1.266.	100.00		1	USD	7,813,794	(291,549)	USD	c)
257.	T-Mobile PCS Holdings LLC, Bellevue, WA	1.266.	100.00		1	USD	(11,694,131)	(370,997)	USD	c)
258.	T-Mobile Polska S.A., Warsaw	1.66.	100.00		471,000,000	PLN	5,822,325	553,941	PLN	b)
259.	T-Mobile Puerto Rico Holdings LLC, Bellevue, WA	1.335.	100.00		1	USD	-	-	USD	
260.	T-Mobile Puerto Rico LLC, Bellevue, WA	1.259.	100.00		1	USD	394,552	21,636	USD	c)
261.	T-Mobile Resources Corporation, Bellevue, WA	1.257.	100.00		1	USD	(20,605)	(4,461)	USD	c)
262.	T-Mobile South LLC, Bellevue, WA	1.266.	100.00		1	USD	3,148,711	(304,307)	USD	c)
263.	T-Mobile Subsidiary IV Corporation, Bellevue, WA	1.266.	100.00		1	USD	0	0	USD	f)
264.	T-Mobile Thuis B.V., The Hague	1.249.	100.00		1	EUR	(1,588)	(1,588)	EUR	c)
265.	T-Mobile US, Inc., Bellevue, WA	1.74.	62.29		8,594	USD	18,236,000	1,460,000	USD	c)
266.	T-Mobile USA, Inc., Bellevue, WA	1.265.	100.00		5,353	USD	(19,475,502)	(1,567,098)	USD	c)
267.	T-Mobile West LLC, Bellevue, WA	1.266.	100.00		1,000	USD	13,224,246	712,159	USD	c)
268.	T-Systems Argentina S.A., Buenos Aires	1.271.	2.00		2,425,251	ARS	4,199	(10,302)	ARS	c)
268.	T-Systems Argentina S.A., Buenos Aires	1.287.	98.00		2,425,251	ARS	4,199	(10,302)	ARS	c)
269.	T-Systems Austria GesmbH, Vienna	1.287.	100.00		185,000	EUR	64,497	24,103	EUR	c)
270.	T-Systems Belgium NV, Machelen	1.295.	0.65		172,125	EUR	4,004	1,559	EUR	c)
270.	T-Systems Belgium NV, Machelen	1.287.	99.35		172,125	EUR	4,004	1,559	EUR	c)
271.	T-Systems Beteiligungsverwaltungsgesellschaft mbH, Frankfurt/Main	1.287.	100.00		25,600	EUR	298	123	EUR	c)
272.	T-Systems CIS, Moscow	1.287.	100.00		4,630,728	RUB	428,540	76,844	RUB	c)
273.	T-Systems Canada, Inc., Saint John	1.298.	100.00		2,031,554	CAD	13,686	196	CAD	b)
274.	T-Systems China Limited, Hong Kong	1.287.	100.00		24,000,000	HKD	55,140	21,005	HKD	c)
275.	T-Systems Client Services GmbH, Bonn	1.287.	100.00		25,000	EUR	1,026	120	EUR	c)
276.	T-Systems Data Migration Consulting AG, Kreuzlingen	1.303.	100.00		100,000	CHF	6,013	2,724	CHF	c)
277.	T-Systems France SAS, Saint-Denis	1.287.	100.00		2,000,000	EUR	4,267	(1,589)	EUR	c)
278.	T-Systems GEI GmbH, Aachen	1.287.	100.00		11,301,600	EUR	14,606	0	EUR	a) c)
279.	T-Systems ICT Romania S.R.L., Bucharest	1.271.	5.00		200	RON	5,639	2,077	RON	c)

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
279.	T-Systems ICT Romania S.R.L., Bucharest	1.287.	95.00		200	RON	5,639	2,077	RON	c)
280.	T-Systems IT Epsilon GmbH, Bonn	1.287.	100.00		25,000	EUR	25	0	EUR	a) c)
281.	T-Systems IT Eta GmbH, Bonn	1.287.	100.00		25,000	EUR	25	0	EUR	a) c)
282.	T-Systems IT Gamma GmbH, Bonn	1.287.	100.00		25,000	EUR	25	0	EUR	a) c)
283.	T-Systems IT Zeta GmbH, Bonn	1.287.	100.00		25,000	EUR	25	0	EUR	a) c)
284.	T-Systems ITC Iberia, S.A., Barcelona	1.287.	100.00		1,245,100	EUR	38,811	22,356	EUR	c)
285.	T-Systems Information and Communication Technology E.P.E., Athens	1.271.	1.00		18,000	EUR	710	61	EUR	c)
285.	T-Systems Information and Communication Technology E.P.E., Athens	1.287.	99.00		18,000	EUR	710	61	EUR	c)
286.	T-Systems Information and Communication Technology India Private Limited, Pune	1.271.	0.00		95,500,000	INR	19,319	(7,151)	INR	d)
286.	T-Systems Information and Communication Technology India Private Limited, Pune	1.287.	100.00		95,500,000	INR	19,319	(7,151)	INR	d)
287.	T-Systems International GmbH, Frankfurt/Main			100.00	154,441,900	EUR	1,342,826	0	EUR	a) c)
288.	T-Systems Italia S.r.l., Rozzano	1.287.	100.00		594,000	EUR	5,065	1,366	EUR	c)
289.	T-Systems Limited, London	1.287.	100.00		550,001	GBP	7,660	3,135	GBP	c)
290.	T-Systems Luxembourg S.A., Münsbach	1.271.	0.02		1,500,000	EUR	6,389	457	EUR	c)
290.	T-Systems Luxembourg S.A., Münsbach	1.287.	99.98		1,500,000	EUR	6,389	457	EUR	c)
291.	T-Systems Magyarország ZRt., Budapest	1.147.	100.00		2,002,000,000	HUF	22,002,175	1,522,110	HUF	c)
292.	T-Systems Malaysia Sdn. Bhd., Kuala Lumpur	1.287.	100.00		4,000,000	MYR	43,586	1,165	MYR	c)
293.	T-Systems Mexico, S.A. de C.V., Puebla	1.287.	100.00		32,000,000	MXN	412,438	182,165	MXN	c)
294.	T-Systems Multimedia Solutions GmbH, Dresden	1.287.	100.00		4,090,400	EUR	4,095	0	EUR	a) c)
295.	T-Systems Nederland B.V., Vianen (Utrecht)	1.287.	100.00		908,000	EUR	91,891	21,828	EUR	c)
296.	T-Systems Network Services Japan K.K., Tokyo	1.287.	100.00		10,035,000	JPY	321,349	11,821	JPY	c)
297.	T-Systems Nordic A/S, Ballerup	1.287.	100.00		5,500,000	DKK	29,199	20,002	DKK	c)
298.	T-Systems North America, Inc., Wilmington, DE	1.287.	100.00		34	USD	48,241	8,869	USD	b)
299.	T-Systems P.R. China Ltd., Beijing	1.287.	100.00		31,500,000	EUR	10,678	11,201	CNY	c)
300.	T-Systems Polska Sp. z o.o., Wroclaw	1.258.	100.00		8,327,000	PLN	33,525	2,753	PLN	c)
301.	T-Systems Public Network Services GmbH, Berlin	1.287.	100.00		25,000	EUR	26	0	EUR	c)
302.	T-Systems RUS OOO, St. Petersburg	1.272.	99.00		10,000	RUB	225,106	106,574	RUB	c)
302.	T-Systems RUS OOO, St. Petersburg	1.287.	1.00		10,000	RUB	225,106	106,574	RUB	c)
303.	T-Systems Schweiz AG, Münchenbuchsee	1.287.	100.00		13,000,000	CHF	23,994	12	CHF	c)
304.	T-Systems Singapore Pte. Ltd., Singapore	1.287.	100.00		38,905,000	SGD	32,645	7,667	SGD	c)
305.	T-Systems Slovakia s.r.o., Kosice	1.271.	2.50		258,581	EUR	35,073	8,316	EUR	c)
305.	T-Systems Slovakia s.r.o., Kosice	1.287.	97.50		258,581	EUR	35,073	8,316	EUR	c)
306.	T-Systems Solutions for Research GmbH, Weßling	1.287.	100.00		5,000,000	EUR	5,427	0	EUR	a) c)
307.	T-Systems South Africa (Proprietary) Limited, Midrand	1.308.	70.00		6,000	ZAR	702,823	157,418	ZAR	c)
308.	T-Systems South Africa Holdings (Proprietary) Limited, Midrand	1.287.	100.00		4,100,085	ZAR	809,548	19,422	ZAR	c)
309.	T-Systems TMT Limited, Milton Keynes	1.289.	100.00		500,000	GBP	500	0	GBP	c)
310.	T-Systems Telecomunicações e Serviços Ltda., São Bernardo do Campo	1.311.	100.00		4,182,560	BRL	11,417	1,026	BRL	c)
310.	T-Systems Telecomunicações e Serviços Ltda., São Bernardo do Campo	1.271.	0.00		4,182,560	BRL	11,417	1,026	BRL	c)
311.	T-Systems do Brasil Ltda., São Paulo	1.271.	0.01		15,000,000	BRL	171,119	14,396	BRL	c)
311.	T-Systems do Brasil Ltda., São Paulo	1.287.	99.99		15,000,000	BRL	171,119	14,396	BRL	c)
312.	T-Systems on site services GmbH, Berlin	1.287.	100.00		154,000	EUR	154	0	EUR	a) c)
313.	T-Systems, informacijski sistemi, d.o.o., Ljubljana	1.287.	100.00		8,763	EUR	474	(1)	EUR	c)
314.	TAMBURO Telekommunikationsdienste GmbH, Bonn			100.00	25,000	EUR	50	(1)	EUR	c)
315.	TELEKOM ROMANIA COMMUNICATIONS S.A., Bucharest	1.173.	54.01		5,975,037,351	RON	2,888,423	(541,554)	RON	b)
316.	TELEKOM ROMANIA MOBILE COMMUNICATIONS S.A., Bucharest	1.14.	70.00		1,593,747,500	RON	(1,018,364)	(216,827)	RON	c)
316.	TELEKOM ROMANIA MOBILE COMMUNICATIONS S.A., Bucharest	1.315.	30.00		1,593,747,500	RON	(1,018,364)	(216,827)	RON	c)
317.	TMUS Assurance Corporation, Honolulu, HI	1.266.	100.00		10	USD	30,585	67,622	USD	c)
318.	TOB T-Systems Ukraine i. L., Kiev	1.271.	0.10		35,000	UAH	-	-	UAH	h)
318.	TOB T-Systems Ukraine i. L., Kiev	1.287.	99.90		35,000	UAH	-	-	UAH	h)
319.	Tau Telekommunikationsdienste GmbH, Bonn	1.324.	100.00		25,000	EUR	25	(1)	EUR	c)
320.	Tel-Team Inwestycje sp. z o.o., Zielonka	1.258.	100.00		15,000,000	PLN	12,805	1,219	PLN	c)
321.	Tele Haus Polska sp. z o.o. (Poland), Tarnowo Podgórne	1.258.	100.00		5,167,550	PLN	9,958	2,273	PLN	c)
322.	Tele-Data Távközlési Adatfeldolgozó és Hirdetésszervezö Kft.V.A., Budaörs	1.147.	50.99		510,000	HUF	438	(1,006)	HUF	c)
323.	Telekom Albania SH.A, Tirana	1.14.	99.76		813,822,000	ALL	74,144,023	22,064	ALL	b)
324.	Telekom Deutschland GmbH, Bonn			100.00	1,515,000,000	EUR	2,103,000	0	EUR	a) c)

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
325.	Telekom Deutschland Multibrand GmbH, Bonn	1.324.	100.00		25,000	EUR	27	0	EUR	a) c)
326.	Telekom Innovation Pool GmbH, Bonn			100.00	26,000	EUR	107,823	0	EUR	a) c)
327.	Telekom New Media Zrt., Budapest	1.147.	100.00		669,930,000	HUF	717,040	44,184	HUF	c)
328.	Telekom Sec, s.r.o., Bratislava	1.212.	100.00		71,639	EUR	0	(2)	EUR	c)
329.	The Digitale GmbH, Bonn	1.326.	100.00		25,000	EUR	730	34	EUR	c)
330.	Theta Telekommunikationsdienste GmbH, Bonn			100.00	25,000	EUR	27	0	EUR	a) c)
331.	Thor Telekommunikationsdienste GmbH, Bonn	1.326.	100.00		25,000	EUR	27	0	EUR	a) c)
332.	Tibull Telekommunikationsdienste GmbH, Bonn			100.00	25,000	EUR	27	0	EUR	a) c)
333.	Toll4Europe GmbH, Berlin	1.287.	55.00		5,000,000	EUR	25	0	EUR	c)
334.	Triton PCS Finance Company, Inc., Bellevue, WA	1.223.	100.00		1	USD	1,659,915	46,609	USD	c)
335.	Triton PCS Holdings Company, LLC, Bellevue, WA	1.223.	100.00		1	USD	(1,088,131)	(157,388)	USD	c)
336.	Trust2Core GmbH, Berlin	1.326.	100.00		25,000	EUR	592	(17)	EUR	c)
337.	VIOLA Kabelgesellschaft (Deutschland) mbH, Bonn	1.33.	100.00		1,000,000	EUR	981	2	EUR	c)
338.	Vesta Telekommunikationsdienste GmbH, Bonn	1.326.	100.00		25,000	EUR	25	0	EUR	c)
339.	Vidanet Zrt., Györ	1.147.	67.50		2,000,000,000	HUF	9,512,249	1,305,278	HUF	c)
339.	Vidanet Zrt., Györ	1.133.	22.50		2,000,000,000	HUF	9,512,249	1,305,278	HUF	c)
340.	Vivento Customer Services GmbH, Bonn			100.00	100,000	EUR	97,173	0	EUR	a) c)
341.	VoiceStream PCS I Iowa Corporation, Bellevue, WA	1.266.	100.00		1	USD	38,198	(6,113)	USD	c)
342.	Vulcanus Telekommunikationsdienste GmbH, Bonn	1.326.	100.00		25,000	EUR	25	0	EUR	c)
343.	ZODIAC Telekommunikationsdienste GmbH, Bonn			100.00	25,600	EUR	26	(1)	EUR	c)
344.	Zoznam Mobile, s.r.o., Bratislava	1.212.	100.00		6,639	EUR	507	17	EUR	c)
345.	Zoznam, s.r.o., Bratislava	1.212.	100.00		6,639	EUR	2,497	160	EUR	c)
346.	Zweite DFMG Deutsche Funkturm Vermögens-GmbH, Bonn	1.324.	100.00		100,000	EUR	37,125	0	EUR	a) c)
347.	bodyconcept GmbH, Bonn	1.326.	100.00		100,001	EUR	269	(32)	EUR	c)
348.	congstar GmbH, Cologne	1.324.	100.00		250,000	EUR	3,900	0	EUR	a) c)
349.	congstar Services GmbH, Cologne	1.348.	100.00		30,000	EUR	49,092	0	EUR	a) c)
350.	emetriq GmbH, Bonn	1.324.	100.00		100,000	EUR	3,130	(13,920)	EUR	c)
351.	operational services Beteiligungs-GmbH, Frankfurt/Main	1.352.	100.00		25,000	EUR	38	1	EUR	c)
352.	operational services GmbH & Co. KG, Frankfurt/Main	1.351.	0.00		250,000	EUR	32,692	15,206	EUR	c)
352.	operational services GmbH & Co. KG, Frankfurt/Main	1.287.	50.00		250,000	EUR	32,692	15,206	EUR	c)

2. Associated and other related companies

No.	Name and registered office	Via	Indirectly %	Directly %	Total nominal value	Currency	Shareholders' equity in thousands	Net income/net loss in thousands	Reporting currency	Note
1.	BUYIN S.A., Brussels			50.00	123,000	EUR	199	2,017	EUR	c)
2.	BT Group plc, London	1.239.	12.00		498,406,384	GBP	8,335	1,908	GBP	j)
3.	CTDI GmbH, Malsch (Karlsruhe district)	1.324.	15.50		4,016,393	EUR	42,740	2,090	EUR	c)
4.	Callahan Nordrhein-Westfalen GmbH, Cologne	1.337.	45.00		2,595,000	EUR	-	-	EUR	
5.	Carl Zeiss Smart Optics Inc, New York	1.102.	50.00		50,000	USD	-	-	USD	
6.	Central Georgian Communications Co. Ltd., Roustavi	1.178.	25.00		280,000	GEL	10,651	809	GEL	b)
7.	Clipkit GmbH, Berlin	1.101.	35.63		122,641	EUR	1,145	(1,364)	EUR	f)
8.	CoreMedia AG, Hamburg	1.101.	25.97		3,982,106	EUR	7,925	1,002	EUR	e)
9.	DETECON AL SAUDIA Co. Ltd., Riyadh	1.45.	46.50		4,000,000	SAR	194,522	50,193	SAR	c)
10.	Devas Multimedia Private Limited, Bangalore	1.49.	20.73		177,313	INR	1,720,709	(467,999)	INR	c)
11.	Donbass Telecom Ltd., Donetsk	1.178.	49.00		342,700	UAH	-	-	UAH	
12.	E2 Hungary Energiakereskedelmi es Szolgaltato Zrt., Budapest	1.147.	50.00		200,000,000	HUF	2,193,046	237,193	HUF	c)
13.	Electrocycling Anlagen GmbH, Goslar	1.324.	25.00		9,000,000	DEM	8,186	491	EUR	c)
14.	Electrocycling GmbH, Goslar	1.324.	25.50		1,500,000	EUR	9,444	420	EUR	c)
15.	Fornova Ltd., Yokneam Illit	1.63.	20.63		952	ILS	(4,946)	(3,243)	USD	c)
16.	Gini GmbH, Munich	1.101.	34.33		44,927	EUR	(1,049)	(537)	EUR	c)
17.	HMM Deutschland GmbH, Moers			38.46	197,758	EUR	14,277	(192)	EUR	c)
17.	HMM Deutschland GmbH, Moers	1.101.	10.97		197,758	EUR	14,277	(192)	EUR	c)
18.	HWW – Höchstleistungsrechner für Wissenschaft und Wirtschaft GmbH, Stuttgart	1.287.	20.00		50,000	EUR	1,044	85	EUR	c)
18.	HWW – Höchstleistungsrechner für Wissenschaft und Wirtschaft GmbH, Stuttgart	1.306.	20.00		50,000	EUR	1,044	85	EUR	c)
19.	Hrvatska posta d.o.o., Mostar	1.122.	30.29		26,335,069	BAM	21,654	434	BAM	b)
20.	Hrvatske telekomunikacije d.d. Mostar, Mostar	1.122.	39.10		315,863,250	BAM	321,547	7,594	BAM	b)
21.	Iowa Wireless Services LLC, Bellevue, WA	1.341.	44.68		64,751,961	USD	90,891	(13,178)	USD	c)
22.	Közbringa Kft., Budapest	1.291.	25.00		20,000,000	HUF	52,607	16,600	HUF	c)
23.	MGRID B.V., Amsterdam	1.101.	21.05		22,800	EUR	7	(110)	EUR	f)
24.	MNP Deutschland GbR, Düsseldorf	1.324.	25.00		0	EUR	102	(33)	EUR	c)
25.	Mobile Telephony Companies Association, Maroussi, Athens	1.14.	33.33		5,000,699	EUR	1,316	(952)	EUR	c)
26.	NetWorkS! Sp. z o.o., Warsaw	1.258.	50.00		30,000,000	PLN	48,601	5,624	PLN	b)
27.	Pie Digital, Inc., Newark, NJ	1.101.	49.99		57	USD	-	-	USD	
28.	Portavita B.V., Amsterdam	1.101.	21.05		22,800	EUR	1,743	61	EUR	f)
29.	SYFIT GmbH, Aalen	1.326.	33.33		37,500	EUR	38	(15)	EUR	c)
30.	Scout Lux Management Equity Co S.à.r.l., Luxembourg			30.00	12,500	EUR	101,083	2,608	EUR	c)
31.	Smarkets Ltd., London	1.101.	24.47		13,318	GBP	(16,054)	6,177	GBP	c)
32.	Ströer SE & Co. KGaA, Cologne			11.60	55,282,499	EUR	848,449	36,490	EUR	c)
33.	T-Mobile USA Tower LLC, Wilmington, DE	1.266.	100.00		1	USD	(844,216)	(33,315,574)	USD	c)
34.	T-Mobile West Tower LLC, Wilmington, DE	1.267.	100.00		1	USD	(1,004,856)	(40,346)	USD	c)
35.	TELEGNOUS – Provider of solvency Assessment Information in the Telecommunications Sector – Private Company, Athens	1.14.	25.00		4,000	EUR	(1)	(5)	EUR	c)
36.	Tehnoloski centar Split d.o.o., Split	1.122.	29.76		3,900,000	HRK	1,475	28	HRK	c)
37.	TeleOp Gesellschaft mit beschränkter Haftung i. L., Oberpfaffenhofen	1.287.	32.40		25,000	EUR	165	(10)	EUR	c)
38.	Toll Collect GbR, Berlin			45.00	0	EUR	(66,254)	61,000	EUR	i) k)
39.	Toll Collect GmbH, Berlin			45.00	5,000,000	EUR	(66,254)	61,000	EUR	k)
40.	Trans Jordan For Communication Services Company Ltd., Amman	1.120.	40.00		3,500,000	JOD	-	-	JOD	
40.	Trans Jordan For Communication Services Company Ltd., Amman	1.178.	10.00		3,500,000	JOD	-	-	JOD	
41.	Yemen Public Payphone Company Ltd., Sana'a	1.120.	10.00		2,960,000	USD	-	-	USD	
41.	Yemen Public Payphone Company Ltd., Sana'a	1.178.	15.00		2,960,000	USD	-	-	USD	
42.	eValue 2nd Fund GmbH, Berlin	1.63.	33.33		25,000	EUR	2,617	(227)	EUR	c)
43.	iesy Holdings GmbH, Oberursel (Taunus)	1.337.	35.00		1,000,000	EUR	-	-	EUR	

a) Net income/loss taking into account profit and loss transfer agreements as of Dec. 31, 2016
b) Shareholders' equity and net income/loss (IFRS) as of Dec. 31, 2016
c) Shareholders' equity and net income/loss as per annual financial statements prepared in accordance with the respective national accounting standards as of Dec. 31, 2016
d) Shareholders' equity and net income/loss as per annual financial statements prepared in accordance with the respective national accounting standards as of Mar. 31, 2016
e) Shareholders' equity and net income/loss as per annual financial statements prepared in accordance with the respective national accounting standards as of June 30, 2016
f) Shareholders' equity and net income/loss as per annual financial statements prepared in accordance with the respective national accounting standards as of Dec. 31, 2015
g) Shareholders' equity and net income/loss as per annual financial statements prepared in accordance with the respective national accounting standards as of Dec. 31, 2014
h) In liquidation
i) Deutsche Telekom AG is a shareholder with unlimited liability
j) Shareholders' equity/net income/loss based on consolidated financial statements under IFRS as of Mar. 31, 2017
k) Shareholders' equity/net income/loss based on consolidated IFRS figures as of Dec. 31, 2016

RESPONSIBILITY STATEMENT

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report of Deutsche Telekom AG, which is combined with the Group management report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Bonn, February 13, 2018

Deutsche Telekom AG
Board of Management

Timotheus Höttges

Adel Al-Saleh | Thomas Dannenfeldt | Srini Gopalan | Dr. Christian P. Illek

Dr. Thomas Kremer | Claudia Nemat | Dr. Dirk Wössner

INDEPENDENT AUDITOR'S REPORT

To Deutsche Telekom Aktiengesellschaft, Bonn

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Deutsche Telekom Aktiengesellschaft, Bonn, which comprise the balance sheet as at December 31, 2017, and the statement of profit and loss for the financial year from January 1 to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Deutsche Telekom Aktiengesellschaft, which is combined with the group management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2017 and of its financial performance for the financial year from January 1 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the "Other Information" section of our auditor's report.

Pursuant to Article 322 paragraph 3 sentence 1 German Commercial Code, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Article 317 German Commercial Code and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (IDW). We performed the audit of the annual financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 | Recoverability of shares in affiliated companies

2 | Accounting treatment of the Toll Collect Legal Dispute

Our presentation of these key audit matters has been structured in each case as follows:

1 | Matter and issue

2 | Audit approach and findings

3 | Reference to further information

Hereinafter we present the key audit matters:

1 | Recoverability of shares in affiliated companies

1 | Shares in affiliated companies amounting to EUR 76.9 billion (63 % of total assets) are reported in the annual financial statements of Deutsche Telekom Aktiengesellschaft as of December 31, 2017. Shares in affiliated companies are measured in accordance with German commercial law at the lower of cost or fair value. As of the balance sheet date, Deutsche Telekom Aktiengesellschaft tested its equity investments for impairment. Expert opinions from accounting firms were obtained for calculating the fair values of investments with carrying amounts of EUR 41.3 billion; Deutsche Telekom Aktiengesellschaft adopted the results of these opinions as its own. For all other material investments, Deutsche Telekom Aktiengesellschaft conducted its own business and equity valuations for the purpose of calculating the fair values. Based on the expert opinions obtained, the Company's valuations, and other documentation, it was necessary to recognize a total impairment of EUR 1.0 billion on the shares in T-Systems International GmbH for fiscal year 2017. The fair values of the investments in subsidiaries were in each case calculated as the present value of the expected future cash flows using discounted cash flow models on the basis of the budget projections prepared by management. The results of these measurements depend in particular on management's estimates of future cash inflows and the respective discount rates used. The measurements are therefore subject to uncertainties. Against this background and due to its significance for

Deutsche Telekom Aktiengesellschaft's financial position and financial performance, this matter was of particular importance during our audit.

2 | As part of our audit, we assessed the usability of the valuations conducted by the external experts as of December 31, 2017. We also gained an understanding of the raw data underlying the expert opinions, the assumptions made, the methods used, and how consistent these were in comparison to prior periods. Our analysis did not lead to any restrictions with regard to the usability of the expert opinions obtained for the annual financial statements.

In terms of the valuations that Deutsche Telekom Aktiengesellschaft conducted itself, we assessed whether the fair values had been properly calculated using discounted cash flow methods in accordance with the relevant professional measurement standards. We reviewed whether the underlying future cash inflows and the costs of capital used form, as a whole, an appropriate basis. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as the management's detailed explanations regarding key planning value drivers. With the knowledge that even relatively small changes in the discount rate applied can in some cases have material effects on values, we focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. In our view, the measurement inputs and assumptions used by management were properly derived for conducting impairment tests.

3 | The Company's disclosures pertaining to financial assets and their impairment are contained in the section entitled "Summary of accounting policies" and note 1 "Noncurrent assets" in the notes to the annual financial statements.

2 | Accounting treatment of the Toll Collect Legal Dispute

1 | Deutsche Telekom Aktiengesellschaft is a party in court and out-of-court proceedings with authorities, competitors and other parties. The determination of whether or not a provision should be recognized to cover the risks stemming from legal disputes, and if so, in what amount, is subject to a high degree of uncertainty. In our view, the following action brought by the Federal Republic of Germany against, among others, Deutsche Telekom Aktiengesellschaft is of particular importance for our audit, due primarily to the high monetary value of the asserted claims.

In 2004, the Federal Republic of Germany initiated arbitration proceedings in connection with the establishment and operation of a toll system. This arbitration is, among others, against Deutsche Telekom Aktiengesellschaft and its investment Toll Collect GbR ("Toll Collect Legal Dispute"). Claims for damages are asserted for lost toll proceeds and contractual penalties due to breaches of contract. Deutsche Telekom Aktiengesellschaft recognized a provision for the risks stemming from the legal dispute under other provisions in its annual financial statements.

2 | As part of our audit, we assessed the process established by Deutsche Telekom Aktiengesellschaft to ensure that a legal dispute is reported, its risks are assessed, and the dispute is accounted for. This assessment also included a substantive review of the material legal risks, including the Toll Collect Legal Dispute. Our assessment took into account the knowledge gained in the course of our regular meetings with Deutsche Telekom Aktiengesellschaft's legal department as well as from the assessments provided to us in writing on the outcomes of the respective proceedings. Furthermore, an external legal opinion on the Toll Collect Legal Dispute was obtained as of the balance sheet date, which upholds Deutsche Telekom Aktiengesellschaft's risk assessment. We assessed and deem appropriate the presentation of the legal dispute and the associated risk provision in the annual financial statements.

3 | The aforementioned legal dispute is disclosed in the "Other disclosures" chapter under note 30 "Guarantees and Commitments" in the notes to the annual financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the management report:

- the statement on corporate governance pursuant to Article 289f German Commercial Code and Article 315d German Commercial Code included in section „Sonstige Angaben – Erklärung zur Unternehmensführung gemäß §§ 289f, 315d HGB" of the management report
- the non-financial statement pursuant to Article 289b paragraph 1 German Commercial Code and Article 315b paragraph 1 German Commercial Code included in section "Corporate Responsibility und nichtfinanzielle Erklärung" of the management report

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Article 317 German Commercial Code and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual 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.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 31, 2017. We were engaged by the supervisory board on August 2, 2017. We have been the auditor of Deutsche Telekom Aktiengesellschaft, Bonn, without interruption since the company first met the requirements as a Public Interest Entity in accordance with § 319a Abs. 1 HGB in the financial year 1996.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Thomas Tandetzki.

Frankfurt am Main, February 13, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

sgd. Dr. Peter Bartels	sgd. Thomas Tandetzki
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FURTHER INFORMATION

LIST OF ABBREVIATIONS

AG	Aktiengesellschaft (stock corporation under German law)
AktG	Aktiengesetz (German Stock Corporation Act)
Art.	Article
BilMoG	Bilanzrechtsmodernisierungsgesetz (German Accounting Law Modernization Act)
CEO	Chief Executive Officer
CTA	Contractual Trust Arrangement
e.g.	for example
e. V.	eingetragener Verein (registered association under German law)
eG	eingetragene Genossenschaft (registered cooperative under German law)
EGHGB	Einführungsgesetz zum Handelsgesetzbuch (Introductory Act of the German Commercial Code)
EUR	Euro
Federal Agency	Bundesanstalt für Post und Telekommunikation Deutsche Bundespost (Federal Posts and Telecommunications Agency)
GAAP	Generally accepted accounting principles
GBP	Pound sterling
GbR	Gesellschaft bürgerlichen Rechts (non-trading partnership under German law)
GG	Grundgesetz (German Basic Law)
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company under German law)
GmbH & Co. KG	Gesellschaft mit beschränkter Haftung & Compagnie Kommanditgesellschaft (limited company under German law)
HGB	Handelsgesetzbuch (German Commercial Code)
HKD	Hong Kong-Dollar
HR	Human Resources
HRB	Handelsregister, Abteilung B (Commercial register, section B)
i. L.	in liquidation
IDW ERS HFA	Accounting standard (draft) prepared by the Expert Committee of the Institute of Public Auditors in Germany (IDW)
IDW RS HFA	Accounting standard prepared by the Expert Committee of the Institute of Public Auditors in Germany (IDW)
IFRS	International Financial Reporting Standard
Inc.	Incorporated
IT	Information technology
KfW	KfW Bankengruppe, Frankfurt/Main
KG	Kommanditgesellschaft (limited partnership under German law)
KGaA	Kommanditgesellschaft auf Aktien (limited partnership under German law)
Ltd.	Limited
mbH	mit beschränkter Haftung (limited liability)
No.	Number
PBeaKK	Postbeamtenkrankenkasse (Civil Service Health Insurance Fund)
PostPersRG	Postpersonalrechtsgesetz (German Act on the Legal Provisions for the Former Deutsche Bundespost Staff)
PTNeuOG	Postneuordnungsgesetz (German Posts and Telecommunications Reorganization Act)
SE	Societas Europea
T-Systems	T-Systems International GmbH, Frankfurt/Main
Telekom Deutschland	Telekom Deutschland GmbH, Bonn
USD	U.S. dollar
VAP	Versorgungsanstalt der Deutschen Bundespost (special pension fund of Deutsche Bundespost)
ver.di	Vereinte Dienstleistungsgewerkschaft (service industry trade union)
VVaG	Versicherungsverein auf Gegenseitigkeit (mutual insurance association)
WpHG	Wertpapierhandelsgesetz (German Securities Trading Act)

CONTACTS

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E-mail investor.relations@telekom.de

Further information on Deutsche Telekom
is available at: www.telekom.com

The English version of the report is a translation of the German version of the report.
The German version of this report is legally binding.

KNr. 642 100 026 A – German
KNr. 642 100 027 A – English

COMBINED MANAGEMENT REPORT

– Excerpt from the annual report 2017 of Deutsche Telekom –

SUSTAINABLE DEVELOPMENT GOALS

In order to successfully tackle global challenges, the member states of the United Nations (UN) adopted the 2030 Agenda for Sustainable Development at their General Assembly in September 2015. The aim is to enable economic development and prosperity – in line with social justice and taking account of the ecological limits of global growth. The Agenda applies equally to all nations of the world: All emerging and developing economies as well as industrial nations must play their part.

The core of the 2030 Agenda comprises 17 sustainable development goals (SDGs), which officially came into force in January 2016. They cover all three dimensions of sustainable development – the social, environmental and economic dimension – for the first time. In particular, it seeks to reduce poverty and hunger, promote healthcare and education, enable equality, protect the environment and climate, and make consumption increasingly sustainable. Each goal comprises specific targets. Implementing the ambitious SDGs will require everyone to work together: policy makers, civil society, and business. As such, companies are also called upon to make concrete contributions with respect to their business activities.

We are answering this call. Many of our products, services, and activities already allow us to make such a contribution. As a responsible employer (SDG 8), we set great store by employee participation and a working environment that is fair and respectful; we encourage diversity and support our employees on their journey toward the digital working world. By building out our broadband network, we are making an active contribution to creating and expanding high-quality infrastructure, and promoting innovation (SDG 9). With our smart home solutions, for example, our customers can better monitor, manage, and reduce their energy consumption (SDG 13); our broadband roll-out enables many people to get access to digital education media (SDG 4), and our services in the area of e-health improve medical care (SDG 3). Products and solutions such as the cloud can help consumers and business customers save energy and other resources (SDG 12, 13). Our solutions for smart cities are another area in which we are having a positive impact on society (SDG 11). In this Annual Report, we meet our responsibility to transparently communicate our contributions to the SDGs.

To clearly highlight the contribution our products, services and activities make towards the individual sustainability development goals, we have marked the relevant passages of the following pages with the respective SDG symbol.

COMBINED MANAGEMENT REPORT

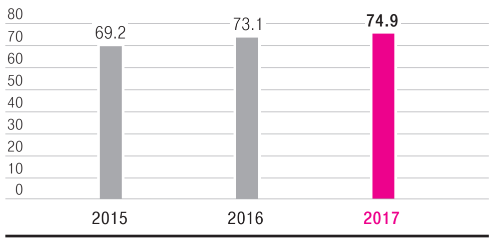
This report combines the Group management report of the Deutsche Telekom Group, comprising Deutsche Telekom AG and its consolidated subsidiaries, and the management report of Deutsche Telekom AG.

DEUTSCHE TELEKOM AT A GLANCE

NET REVENUE

- We continued our growth trend as planned: Net revenue grew by 2.5 percent to EUR 74.9 billion.
- Our United States operating segment contributed revenue growth of 5.9 percent to this trend. In our Europe and Germany operating segments revenue also increased slightly by 1.2 percent and 0.7 percent respectively.
- In our Systems Solutions and Group Development operating segments we recorded declines in revenue of 1.1 percent and 3.6 percent respectively.
- On a comparable basis, i.e., excluding exchange rate effects and effects from changes in the composition of the Group, net revenue increased by as much as 3.6 percent.

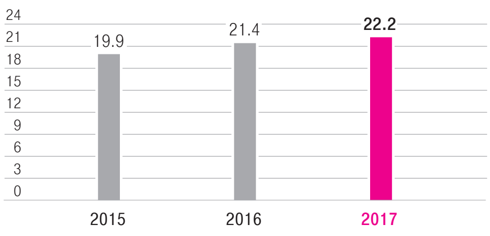
Net revenue
billions of €



ADJUSTED EBITDA

- Adjusted EBITDA grew by 3.8 percent to EUR 22.2 billion. Adjusted for exchange rate effects and changes in the composition of the Group, we ended the year exactly within the target corridor of EUR 22.4 billion to EUR 22.5 billion, communicated most recently.
- Due to the ongoing success of T-Mobile US, we generated an increase in adjusted EBITDA of 8.8 percent in the United States operating segment. Adjusted EBITDA in our Germany operating segment also grew, whereas our Europe, Systems Solutions, and Group Development operating segments recorded declines.
- At 29.7 percent, the Group's adjusted EBITDA margin increased slightly against the prior-year level of 29.3 percent. The EBITDA margin was 38.6 percent in Germany, 32.3 percent in Europe, and 26.1 percent in the United States.

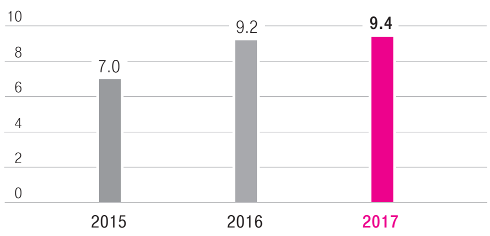
Adjusted EBITDA
billions of €



EBIT

- EBIT increased by 2.4 percent to EUR 9.4 billion.
- EBITDA included positive net special factors of EUR 1.7 billion, mainly attributable to the reversal of impairment losses previously recognized for spectrum licenses at T-Mobile US (EUR 1.7 billion), to the sale of Strato (EUR 0.5 billion) and of further shares in Scout24 AG (EUR 0.2 billion), and to a settlement agreement concluded with BT (EUR 0.2 billion). The prior year had profited from generally higher net positive special factors of EUR 1.1 billion, primarily from the sale of our stake in the EE joint venture (EUR 2.5 billion) and from transactions for the exchange of spectrum licenses in the United States (EUR 0.5 billion). Special factors in connection with staff-related measures (EUR 0.6 billion) were down EUR 1.1 billion compared with the prior year.
- At EUR 14.6 billion, depreciation, amortization and impairment losses were up EUR 1.2 billion year-on-year, primarily due to the impairment of goodwill and property, plant and equipment in the Systems Solutions and Europe operating segments of EUR 2.2 billion in total (prior year: EUR 0.7 billion).

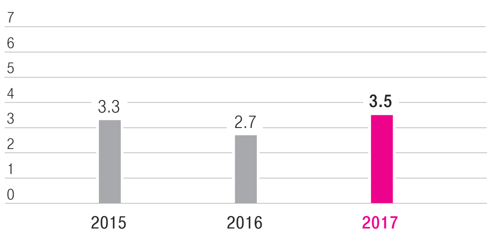
EBIT
billions of €



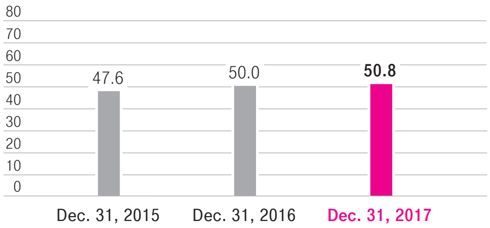
NET PROFIT

- Net profit increased by EUR 0.8 billion to EUR 3.5 billion.
- Loss from financial activities decreased by EUR 0.2 billion, mainly in connection with the EUR 1.5 billion (prior year: EUR 2.2 billion) impairments of our financial stake in BT recognized in profit and loss; negative remeasurement effects from the exercise and measurement of embedded derivatives at T-Mobile US had an increasing effect on loss from financial activities.
- The tax benefit which was mainly attributable to the remeasurement of deferred taxes at T-Mobile US as a result of the U.S. tax reform amounted to EUR 0.6 billion, while in the prior year there had been a tax expense of EUR 1.4 billion.
- Profit attributable to non-controlling interests increased by EUR 1.7 billion, primarily due to the reversal of impairment losses previously recognized for spectrum licenses and the remeasurement of deferred taxes at T-Mobile US.

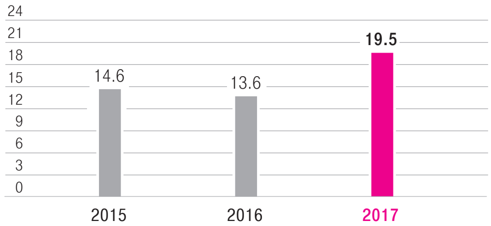
Net profit
billions of €



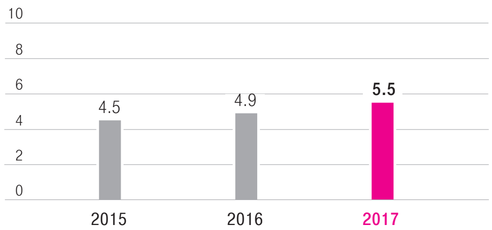
Net debt
billions of €



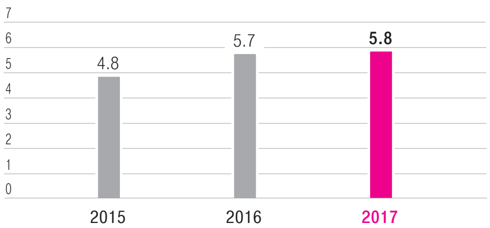
Cash capex
billions of €



Free cash flow
(before dividend payments and spectrum investment)
billions of €



ROCE
%



NET DEBT

- Net debt increased by EUR 0.8 billion to EUR 50.8 billion compared with the end of 2016.
- The increase was attributable to spectrum acquisition (EUR 7.4 billion), dividend payments – including to non-controlling interests – (EUR 1.6 billion), and the increase in liabilities from finance leases (EUR 1.0 billion). This increase was only partially offset by the positive effects from free cash flow (EUR 5.5 billion) and the sale of Strato (EUR 0.6 billion) and further shares in Scout24 AG (EUR 0.3 billion). Exchange rate effects of EUR 2.9 billion also had a positive effect.

CASH CAPEX

- Cash capex (including spectrum investment) increased from EUR 13.6 billion to EUR 19.5 billion.
- In the reporting period, mobile spectrum licenses were acquired for a total of EUR 7.4 billion, mainly in the United States and in Europe. EUR 7.2 billion of this total was attributable to the spectrum auction concluded in the United States in April 2017. In the prior-year period, mobile spectrum licenses were acquired for a total of EUR 2.7 billion, primarily in the United States and Europe operating segments.
- Excluding the effects of spectrum acquisitions, cash capex increased by EUR 1.1 billion, primarily in the United States, Germany, and Europe operating segments. In each case, this was due to investments we have made in the build-out and modernization of our networks.

FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)

- Free cash flow increased by EUR 0.6 billion to EUR 5.5 billion and was thus exactly on target despite a consistently high level of capital expenditure.
- The year-on-year increase of EUR 1.7 billion in net cash from operating activities, which profited mainly from the positive business development of the United States operating segment, had an increasing effect.
- The year-on-year increase of EUR 1.1 billion in cash capex (before spectrum investment) reduced free cash flow.

ROCE

- Our key performance indicator ROCE (return on capital employed) improved by 0.1 percentage points in the reporting period to reach 5.8 percent.
- This was attributable to an increase in net operating profit after taxes (NOPAT) while the average amount of net operating assets (NOA) remained virtually stable over the year.
- NOPAT increased in 2017 on the back of significantly better adjusted EBITDA and the positive special factors. Impairment losses recognized in the reporting year on goodwill and property, plant and equipment had a negative effect on NOPAT.
- Despite the acquisition of spectrum in the United States and a consistently high level of investment in connection with our integrated network strategy, average NOA remained virtually unchanged in 2017, due to lower cash and cash equivalents on average and lower goodwill, among other effects.

For a more detailed explanation, please refer to the section "Development of business in the Group," **page 49 et seq.**

HIGHLIGHTS IN THE 2017 FINANCIAL YEAR

BOARD OF MANAGEMENT

As of January 1, 2017, the Deutsche Telekom AG Group Board of Management was extended to include an additional Board department. The new Technology and Innovation department is headed by Claudia Nemat. Srinivasan (Srini) Gopalan also joined the Board of Management as of January 1, 2017 to head up the Europe Board department. The number of Board of Management members has thus been increased from seven to eight. Dr. Dirk Wössner was appointed as the new Board member responsible for Germany effective January 1, 2018. He succeeds Niek Jan van Damme, whose position as a Board member ended on December 31, 2017. In addition, Adel Al-Saleh was appointed as the new Board member responsible for T-Systems and as CEO of T-Systems International GmbH, both effective January 1, 2018. Adel Al-Saleh succeeds Reinhard Clemens, whose position on the Board of Management also ended effective December 31, 2017.

CORPORATE TRANSACTIONS

Following approval by the Bundeskartellamt, we completed the sale of our hosting service provider Strato to United Internet for a purchase price of EUR 0.6 billion effective midnight March 31, 2017.

The sale of DeTeMedien to a consortium of medium-sized publishers was completed on June 14, 2017. The purchase price, which is not to be disclosed pursuant to the agreement, comprises a cash component along with additional elements that included a settlement of the dispute with the buyers, who for several years have pursued legal proceedings concerning the level of charges for subscriber data. In addition, the publishers have assumed the obligation to publish subscriber directories.

In an accelerated book-building process, effective June 23, 2017 we placed the remainder of our direct stake of 9.26 percent in Scout24 AG on the market at a price of EUR 32.20 per share; until that point, it had been accounted for in the consolidated financial statements using the equity method. The proceeds from the sale amounted to EUR 319 million.

On November 9, 2017, T-Mobile US signed an agreement to acquire 100 percent of the shares in online TV provider Layer3 TV. The agreement includes a cash purchase price of around USD 325 million. The transaction was completed on January 22, 2018. T-Mobile US expects the acquisition to further strengthen its TV and video portfolio and its plans include rolling out its own TV service in 2018.

On December 15, 2017, we signed an agreement with the Tele2 Group on the acquisition of telecommunications provider Tele2 Netherlands by T-Mobile Netherlands. This transaction is part of our long-term strategy and will establish a stronger, more sustainable provider of convergent fixed-network and mobile services on the Dutch market. Tele2 Group receives a purchase price in the form of a 25.0 percent stake in T-Mobile Netherlands and a cash component of EUR 190 million. We expect the transaction to close in the second half of 2018, following approval by the responsible antitrust authority.

On December 22, 2017, T-Mobile Austria agreed to acquire Austria's leading cable operator, UPC Austria, from Liberty Global. The agreed purchase price is around EUR 1.9 billion in cash less net debt. In line with our strategy, this acquisition will allow us to offer convergent product bundles to our customers on the European market. We expect the transaction to close in the second half of 2018, following approval by the antitrust authority and the City of Vienna.

SIGNIFICANT IMPAIRMENT LOSSES AND REVERSAL OF IMPAIRMENT LOSSES

In our Systems Solutions operating segment, the unexpected decline in order entry prompted intra-year impairment testing of the assets assigned to this unit. As a result, we have recognized an impairment loss on goodwill of EUR 1.2 billion. In the course of the annual impairment tests for our Europe operating segment, we recognized an impairment loss on goodwill and property, plant and equipment of EUR 0.9 billion – mainly relating to Poland. In our Group Development operating segment, we reduced the fair value of our financial stake in BT by around EUR 1.5 billion in 2017 due to the share price performance and the exchange rate effect. Impairment losses on spectrum licenses previously acquired by T-Mobile US were partially reversed, increasing the carrying amount by EUR 1.7 billion. This reversal of impairment losses is attributable to the fact that the grounds for the impairment loss recognized for the United States cash-generating unit in 2012 no longer apply thanks to the performance of T-Mobile US' share price. The increase in the value of the licenses was indicated by the results of the spectrum auction held by the U.S. regulatory authority, the Federal Communications Commission (FCC), which was completed in 2017. Of the EUR 1.7 billion after accounting for deferred taxes, income of EUR 0.6 billion is attributable to the owners of the parent (net profit (loss)).

FINANCING

In the first quarter of 2017, T-Mobile US prematurely canceled senior notes held by external investors with a total volume of USD 8.25 billion. In addition, in December 2017, T-Mobile US prematurely canceled senior notes originally due in 2022 with a nominal volume of USD 1 billion. Repayment was made in January 2018.

In 2017, Deutsche Telekom International Finance B. V. issued euro bonds with a total volume of EUR 5.0 billion and U.S. dollar bonds with a total value of USD 3.5 billion. In addition, Deutsche Telekom International Finance B. V. issued foreign-currency bonds with a total equivalent value of EUR 0.6 billion at particularly favorable terms. In 2017, T-Mobile US issued senior bonds with a total volume of USD 1.5 billion with external investors.

INTRA-GROUP FINANCING

In order to optimize the financing situation at T-Mobile US and the Group as a whole, in 2017 T-Mobile US was largely financed on an intra-Group basis. T-Mobile US received internal term loans and bonds in the volume of USD 11.5 billion.

SHARE BUY-BACK PROGRAM AT T-MOBILE US

In early December 2017, T-Mobile US announced a share buy-back program. Under the program, T-Mobile US may, until the end of 2018, buy back ordinary shares of the company in the capital markets for a total amount of up to USD 1.5 billion. By December 31, 2017, the company had already bought back ordinary shares valued at USD 0.4 billion (approx. EUR 0.4 billion).

TAX REFORM IN THE UNITED STATES

The reduction in the applicable federal tax rate (from 35 percent to 21 percent) as of the 2018 financial year resulted in a non-cash deferred tax benefit of EUR 2.7 billion for T-Mobile US due to the remeasurement of the surplus amount of deferred tax liabilities. EUR 1.7 billion of this benefit is attributable to the owners of the parent (net profit (loss)).

INVESTMENTS IN NETWORKS AND NEW SPECTRUM

The spectrum auction at which **T-Mobile US** acquired 1,525 licenses for 600 MHz spectrum – 31 MHz on average nationwide – for a purchase price of USD 7.99 billion ended in April 2017. In addition, swap arrangements were also consummated at T-Mobile US in the reporting year, giving rise to a total non-cash gain of EUR 0.1 billion.

Clear commitment to building out broadband. We are working hard to build out fiber-optic infrastructure and laid 40,000 kilometers of fiber-optic cable in the reporting year, far more than the 30,000 kilometers originally planned. For 2018, the planned figure rises to as much as 60,000 kilometers. Our fiber-optic network, which is extending over 455,000 kilometers, is already the largest in Germany and has grown by some 25,000 kilometers per year on average since 2010. The majority of the Group's investment volume in Germany, which currently amounts to over EUR 5 billion a year, is for the build-out of broadband networks. A main focus of our FTTH activities is providing coverage to business parks and we launched a special campaign to put the infrastructure in place for 100 business parks, the majority of which will be covered by the end of 2018. This is in addition to subsidized build-out activities and partnerships with competitors. At the same time, our program to supply 80 percent of households with a download bandwidth of at least 50 Mbit/s continued, with 3 million new households connected to our high-speed network in 2017. We are also working non-stop in our European companies to upgrade our networks with optical fiber. SDG

Project launch of "LTE everywhere." In March 2017, we launched a further step in the network build-out with the large-scale roll-out of LTE 900 in Germany. This will get our network ready for 5G, the communications standard of the future. The 900 MHz spectrum range is especially suited to carrying the mobile signal deeper into buildings and homes. This frequency will enable us to offer LTE by the end of 2019 everywhere where mobile telephony is already possible today. In addition, we are fitting out every cell site in Germany with the RAN (Single Radio Access Network) technology. The conversion of the technology and the use of LTE 900 are additional elements with which we are preparing our network for 5G.

Network build-out for Narrowband IoT in eight countries. We are clearing the way for the Internet of Things with NarrowBand IoT (NB IoT), which will not only be used for 4G but also for 5G. We are upgrading the network to support sensors that, for instance, display vacant parking spaces or indicate how full the local trash cans are. At the start of 2017, we began building out the network infrastructure for these applications in Germany and the Netherlands. We will make the existing NarrowBand IoT network coverage available in additional cities in Greece, Poland, Hungary, Austria, Slovakia, and the Czech Republic. SDG

Mobile campaign in Bavaria. We plan to install 1,000 additional cell sites in Bavaria and cover 135 previously unserved areas by the end of 2020. This will help the Bavarian state government roll out mobile coverage to areas considered difficult to develop due to their topography and economic circumstances. SDG

INNOVATION

"Feel connected all over Europe" was our motto at the 2017 Mobile World Congress in Barcelona. At the trade fair, we focused on the communications standard of the future, 5G. We used augmented reality and robotics to demonstrate that 5G is much more than just high-speed Internet, looked to the future of a connected Europe, and brought exciting developments to visitors' fingertips: augmented reality and position tracking on a slot-car track, smart parking, and predictive maintenance solutions using the Internet of Things, and the secure, Europe-wide Pan-Net. SDG

Europe's first 5G antennas and new 5G applications. 5G technology is expected to launch worldwide in 2020. Four radio cells in the Deutsche Telekom network are demonstrating the future of communication right now. We have launched low-latency programs at our hub:raum sites in Berlin and Krakow to drive the development of new applications for 5G. These programs are aimed specifically at innovative developers who want to develop products and services using edge computing and enhance the performance of the 5G network at an early stage. We are also planning to pilot 5G for industry, for example, with the Port of Hamburg, which needs a network tailored specifically to its needs. In 2017, we showcased the potential of 5G technology in live demonstrations in Romania and Greece.

Our motto for CeBIT was: "Digitization. Simply. Make it happen." At our trade fair booth, we demonstrated specific success stories and solutions for new digital business models and secure networks centering around the key trends, i.e., the Internet of Things, drones, 5G, cloud services, virtual reality, smart city, and artificial intelligence. In addition, we unveiled new IoT starter kits for companies and demonstrated the opportunities of Narrowband IoT, the new network for IoT mass applications.

New Mobility at IAA 2017. At the International Motor Show (IAA), we showcased the digital mobility of the future at the International Motor Show (IAA). Like the smart parking app, Park and Joy, which makes it easy to find a parking space: find, book, and pay – it's all done using the mobile app. The app displays and guides drivers to vacant parking spaces. The Digital Drive retrofit option transmits information on a vehicle's condition, location, and driving behavior direct to the user's smartphone. In addition, at eMove 360°, the first international trade fair for Mobility 4.0, we presented an end-to-end electro mobility service chain, from the installation, maintenance, service, and logistics of electric charging points, IT software and operation, to billing between consumers and the operators of charging points. SDG

For further information on our innovations, please refer to the section "Innovation and product development," page 89 et seq.

Smart city progress in Europe. Our goal is to be a leading provider of smart city solutions in Europe and a trustworthy, reliable, and long-term partner for the digitalization of cities. We have already equipped 18 European cities in 10 countries with digital solutions, and the Bonn Smart City project was officially launched at the UN Climate Change Conference in November 2017. The Budapest-based European Smart Solutions Center (ESC) plays a key role in the project, providing centralized functions such as marketing, partnering, pre-sales, and delivery services and working closely with local experts. At the Smart City World Congress in Barcelona in November 2017, we showcased a host of smart city solutions along with live data from existing projects: smart transport solutions including smart parking, smart electric vehicle charging, traffic and passenger management systems, smart waste management, smart lighting, smart metering, and smart public safety. We also featured NarrowBand IoT-based solutions and the Mayor's Dashboard – a web application that enables city administrators to monitor, control, and optimize their city infrastructure and applications conveniently from any device. Together with Cisco, we developed a package for cities to implement tailor-made, secure, and user-friendly WiFi4EU solutions with ease. In the mySmartLife project, we are testing other innovative solutions for energy supplies, mobility and communications with the City of Hamburg and other partners. SDG

With Smart Speaker, your home listens to your every word. We collaborated with internationally renowned research and development partners to create voice control technology for our services. The Smart Speaker is an intelligent assistant that makes life easier by allowing users to control our services with a simple call of "Hello Magenta." The voice-activated assistant learns continually and can be used to operate connected devices in the user's home, like our EntertainTV service. The Smart Speaker will be available in Germany in the first half of 2018. SDG

Sea Hero Quest VR – using modern virtual reality capabilities for dementia research. In the #gameforgood initiative, we are working in partnership with academics and game developers to collect data about the spatial orientation of healthy people. A further development of the mobile games app Sea Hero Quest uses modern virtual reality capabilities to refine the existing standard data for spatial orientation. To date, anonymous data from over three million players has been analyzed and used as the basis for defining the first ever standard data on human spatial orientation. This is an important step towards developing new ways of diagnosing dementia at an early stage. SDG

PARTNERSHIPS

Partnerships are key to the success of our Group. We have successfully partnered with key players for many years, including Apple, Samsung, and Microsoft. We again entered into and expanded a large number of partnerships in the reporting year. We would like to present some of them in detail:

International partnership with Netflix. Our international partnership with streaming service Netflix will benefit all of our international subsidiaries by bringing hit shows exclusive to Netflix to our customers' screens. EntertainTV customers in Germany have been able to access Netflix shows in ultra-HD directly via their EntertainTV set-top box since October 2017, while T-Mobile Polska has been offering the Netflix service to customers in Poland since 2016. A new offer just launched by T-Mobile Netherlands combines its extremely popular Unlimited rate plan with the option to try Netflix for six months at no cost. In addition, our customers in Germany, Poland, Croatia, Greece, and Romania can stream unlimited Netflix titles via the mobile network using the free add-on option StreamOn, which includes Netflix. At T-Mobile US, Netflix is part of the Un-carrier campaign launched in September 2017.

Partnerships to drive the fiber-optic build-out. Together with EWE, we are planning to build out the fiber-optic network and directly connect one million private households. Specifically, we plan to jointly build out fiber-optic infrastructure in the regions of Lower Saxony, North Rhine-Westphalia, and Bremen, with a main focus on rural areas, over the next ten years. EWE and Deutsche Telekom intend to invest a total of EUR 2 billion in this initiative, which is scheduled to begin in mid-2018. The partnership still has to be approved by the Bundeskartellamt. Going forward, we will utilize the infrastructure of five city network operators in Bavaria and Baden-Württemberg. The partnerships cover some 125 thousand households, roughly half connected through municipal fiber-optic lines to the home (FTTH and FTTB) and through VDSL via fiber-optic lines to the street cabinets (FTTC). Previously, we agreed similar partnerships with EWE Tel, NetCologne, and innogy TelNet.

Partnership between BT and T-Systems improves global reach for international customers. At the beginning of March 2017, BT and T-Systems signed an agreement giving T-Systems access to numerous BT network services in future. T-Systems and BT will link up their networks in specific cases in the future to even better meet the needs of individual customers. This will not only increase T-Systems' international reach, but also allow it to offer its customers global network services such as MPLS (Multiprotocol Label Switching) with seamless connectivity. SDG

Toll4Europe GmbH commences business activities. In April 2017, T-Systems together with Daimler AG and DKV Euro Service GmbH & Co. KG established Toll4Europe GmbH to develop and implement a European Electronic Toll System (EETS) for vehicles over 3.5 metric tons. With a 55 percent stake, T-Systems controls the company. A toll box that can be used across Europe is scheduled to be available from 2018. Belgium and Germany will be connected to the system from its launch, with France, Austria, Spain, Portugal, Italy, and Hungary expected to either join at the same time or at a later date.

Telekom Open IoT Labs: Opening of an enterprise lab with Fraunhofer IML. We have added an industrial IoT component to our existing network of research and development organizations in the form of the Telekom Open IoT Labs, which were established in November 2017 together with the Fraunhofer Institute for Material Flow and Logistics in Dortmund. Up to six experts from the Fraunhofer Institute and three of our IoT experts are jointly developing, testing, and readying Internet of Things solutions for market launch with the aim of optimizing processes in the manufacturing, logistics, and aerospace industries. The Labs are open to working with further companies interested in developing application-specific IoT prototypes. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Membership in the Industrial Data Space Association (IDSA). In February 2017, we became a member of the Industrial Data Space Association e.V. (IDSA), a non-profit organization that has set itself the task of advancing the general conditions for a digitally connected economy and to establish secure exchange of data. We contribute in particular our expertise in the area of data security to this alliance of research and industry partners. SDG

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Together with Huawei, we are connecting the Internet of Things for KONE. Over the next few years, industrial company KONE will be working with T-Systems and hardware and technology vendor Huawei to connect over a million elevators, escalators, and doors to the cloud. As KONE's longstanding IT service partner, T-Systems helped to develop the 24/7 connected service and used its expertise to help with the integration into the existing system landscape. KONE's goal is to optimize maintenance processes, establish "predictive" remote diagnostics systems, and ensure that service technicians are better prepared for site visits.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

NEW PRODUCTS AND RATE PLANS

Of course, we again launched new products, services and rate plans on the market in the reporting year, some of which are presented below:

For more information, please go to www.telekom.com/media

StreamOn: We are revolutionizing the mobile market. StreamOn was launched in April 2017 and is a revolutionary new rate option that enables Magenta customers to stream music and videos over the mobile network to their smartphones without using up the high-speed data volume included in their rate plans. We also offer similar options, for example, in Croatia, Poland, Romania, Greece, and at T-Mobile US.

StartTV: The simple way to switch to digital TV. In May 2017, we added StartTV to our portfolio. It is a simple, cost-effective way to switch to digital television. From just EUR 2 a month, StartTV includes around 100 channels (22 in HD), a program guide, and a smart search function. Customers can additionally purchase further HD channels and the "EntertainTV mobil" option for on the go.

8 DECENT WORK AND ECONOMIC GROWTH

Telekom Sport: The world of sport in one offer. In August 2017, we expanded our live sport offering. One highlight is the option of watching the original Sky conferences of the soccer Bundesliga, the UEFA Champions League, and the games of the DKB Handball Bundesliga (HBL) live via Sky Sport Kompakt. The program package also contains all the games of the 3rd soccer league, top games of the women's Bundesliga, content from FC Bayern.tv live, and all games of the Basketball Bundesliga and the German ice hockey league. We also added combat sports events to the service at the end of the year.

MagentaEINS 12.0: More for families and young people. MagentaEINS 12.0 is full of great benefits for families. Since September 2017, customers can add up to four low-cost Family SIM Cards for partners and family members to their mobile contracts. For all customers under the age of 27, MagentaEINS Young offers an exclusive benefit: MagentaZuhause Surf allows a flexible combination of mobile communications and Internet at home. This offer is targeted at all young people who need a mobile contract and a high-performance DSL connection without telephony.

In January 2017, T-Mobile US introduced Un-carrier Next, where monthly wireless service fees and sales taxes are included in the monthly recurring charge for T-Mobile ONE. T-Mobile US also unveiled Kickback on T-Mobile ONE, where participating customers who use 2 GB or less of data in a month, will get up to a USD 10 credit on their next month's bill per qualifying line. In addition, the Un-contract for T-Mobile ONE with the first-ever price guarantee on an unlimited 4G LTE plan was introduced which allows current T-Mobile ONE customers to keep their price for service until they decide to change it. In September 2017, T-Mobile US introduced **Un-carrier Next: Netflix On Us** through an exclusive new partnership with Netflix where a standard monthly Netflix service plan is included at no charge to qualifying T-Mobile ONE customers on family plans.

Global network service for business. In September 2017, T-Systems began offering corporate customers international network connections and services with high-speed availability. This service is based on the ngena network – the Next Generation Enterprise Network Alliance – a global alliance established by us and several other partners. The resulting business model remains unique so far in the industry: All ngena partners connect up their networks to create one global, highly standardized network. Thanks to state-of-the-art technology and software-based management, corporate networks and data connections as virtual private networks (VPN) can be set up for multinational corporate customers much faster than before. T-Systems is the first partner in the alliance to launch a network service based on the ngena platform. The service is called Smart SD-WAN powered by ngena (software-managed wide area network) and is available in various access formats. SDG

Digital revolution for small companies: MagentaBusiness POS. Offering small companies digital solutions that have previously been reserved for large corporations, thereby making them fit for the digital age: That is the central idea behind the partnership we signed with IT startup enfore. enfore has developed an integrated point-of-sale/service (POS) system, we make our network available, and our POS specialists provide service and support. We have been marketing the product since September 2017 as a complete solution under the name MagentaBusiness POS.

AWARDS

We received a large number of awards again in the reporting year – among other things for our outstanding networks, our excellent service, our innovative marketing concepts, and for our extremely valuable Telekom brand. The following graphic summarizes the main awards received in 2017.

For details on more awards, please go to www.telekom.com/media

For information on awards received for our HR activities, please refer to the section "Employees," page 96 et seq.

Major awards in 2017

Brand Finance Global 500: Deutsche Telekom is the most valuable European telecommunications brand

Telekom Service certified by TÜV: Telekom Service rated "good" overall in TÜV customer survey

Deutscher Preis für Wirtschaftskommunikation: German business communication award from "We Care" magazine in the Corporate Publishing category

Pan-European Extel Survey 2017: best investor relations work in all of Europe across all sectors, and best CEO and CFO in the telecommunications sector in Europe

ISG Provider Lens Germany: Information Services Group recognizes T-Systems as a leading provider of digital workspace services & solutions in 11 categories

Blue Angel: Telekom media receiver awarded the German ecolabel Blue Angel

OpenSignal: T-Mobile US came out on top in large-scale U.S. network testing in all six categories

The Peer Awards For Excellence (HR): Deutsche Telekom wins in three categories with the Lead-to-Win Award (L2W Award) project

National German Sustainability Award: Deutsche Telekom honored with the National German Sustainability Award

connect network test: Best mobile network for telephony and surfing the Internet for seventh year running (issue 1/2018)

Car Connectivity Award: CHIP and auto motor sport put Telekom in the top spot in the Mobile Networks category

ISO27017/18 certificate for Open Telekom Cloud und DSI vCloud: DEKRA confirms data privacy and data protection at Deutsche Telekom in IaaS cloud services

Deutscher Investor Relations Preis: German IR award for best investor relations work in DAX

Institutional Investor Survey 2017: best company, best CEO, best CFO, and best IR department in the telecommunications sector

2017 readers' choice awards of connect magazine: Telekom wins in ten categories, incl. best fixed-network and best mobile provider as well as awards for congstar, T-Mobile Austria, and T-Mobile Netherlands (issue 27/2017)

Mobile Excellence Award: Cosmote wins four Gold, three Silver, and one Grand award for mobile services and innovation

Emmy Awards: EntertainTV series The Handmaid's Tale receives awards in eight categories

Gartner Magic Quadrant: T-Systems singled out for the seventh cloud services for the seventh time in a row and rated as the "most visionary leader"

Best in Test: P3 communications singles out our networks in Albania, Croatia, the Czech Republic, Greece, Hungary, F.Y.R.O. Macedonia, Montenegro, the Netherlands, Poland, Romania, and Slovakia

CHIP network test: Winner of the mobile network test for the eighth time in a row; network rated "very good" (issue 1/2018)

Deutscher Ideenpreis: Deutsches Institut für Betriebswirtschaft singles us out in the "Best ideas management" category

GROUP ORGANIZATION

BUSINESS ACTIVITIES AND ORGANIZATION

Business activities. With 168 million mobile customers, around 28 million fixed-network and around 19 million broadband lines, we are one of the leading integrated telecommunications companies worldwide. We offer our consumers fixed-network/broadband, mobile, Internet, and Internet-based TV products and services, as well as ICT solutions for our business and corporate customers. We have an international focus and are represented in more than 50 countries. In the 2017 financial year, we generated around 67.2 percent of net revenue, i.e., EUR 50.4 billion, outside Germany. Overall, we employ some 217,300 people (December 31, 2017).

Fixed-network business includes all voice and data communications activities based on fixed-network and broadband technology. This includes the sale of terminal equipment and other hardware, as well as the sale of services to resellers. Our mobile communications business offers mobile voice and data services to consumers and business customers; in addition, we sell mobile devices and other hardware. We also sell mobile services to resellers and to companies that buy network services and market them to third parties (mobile virtual network operator, or MVNOs). Drawing on a global infrastructure of data centers and networks, our corporate customer arm, T-Systems, operates information and communication technology (ICT) systems for multinational corporations and public-sector institutions.

We believe that economic, social, and ecological aspects can be reconciled; sustainability is the guiding principle behind all our actions. A range of sector-specific and general conditions are crucial to the success of business activities. These include first-rate quality at reasonable costs – in data privacy and security, in customer service, in network build-out, and in materials procurement – as well as qualified staff and good working conditions within our own Group, but also at our suppliers. It is also important to consider the potential consequences of climate change for our business activities: for example, to construct our network infrastructure in

For information on our footprint, please visit www.telekom.com/worldwide

such a way that it is protected from severe weather conditions, changes in temperatures, and higher wind speeds. We also help our customers to reduce their carbon footprint with innovative products and services. Furthermore, we want to reduce the Group's CO_2 emissions despite rapid growth in data traffic and the network build-out that this requires. Also beyond our core business, we do everything we can to ensure that our actions are socially acceptable. For us, this means conducting ourselves in a way that is ethical and compliant with the law and informing and involving our stakeholders in a transparent way. SDG

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Our responsible corporate governance and business success are based on our shared corporate values and our Guiding Principles, which are as follows:

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

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

Organization. Our financial reporting conforms with our Group strategy and is based on the following organizational structure.

Organizational structure

Deutsche Telekom Group				
Group Headquarters & Group Services				
Germany Fixed-network and mobile communications	**United States** Mobile communications	**Europe** Fixed-network and mobile communications	**Systems Solutions** Global ICT solutions	**Group Development** Selected subsidiaries

Our Group is divided into five operating segments, which we describe in detail below.

Our **Germany** operating segment comprises all fixed-network and mobile activities for consumers and business customers in Germany. In addition, it provides wholesale telecommunications services for our Group's other operating segments. The organization for consumers and business customers and for customer services were restructured as part of a reorganization as of July 1, 2017 with the aim of enabling a customer-centric sales approach for consumers and business customers with separate sales companies for each. Since then, network build-out has been managed entirely by the Technology business unit in the Germany operating segment. In addition to consumer and business customer business, the segment focuses on wholesale business. As a pioneer of digitalization, the Germany operating segment offers its customers an individual service and product portfolio that is innovative while at the same time secure and simple.

Our **United States** operating segment combines all mobile activities in the U.S. market. T-Mobile US is the third largest provider in the United States and its mobile network offers the highest transmission speeds as well as high network coverage. T-Mobile's success on the U.S. mobile market has been built on the back of the various Un-carrier initiatives launched in the last few years. The company continues to build out its network with the 600 MHz spectrum acquired in April 2017 and the previously acquired A-block spectrum, thereby substantially further increasing capacity and quality. In addition to the network build-out, the company has also significantly expanded its sales network.

Our **Europe** operating segment comprises all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. The agreed acquisition of cable network operator UPC Austria will help us transform our subsidiary in Austria into a fully integrated provider. In addition to consumer business, most of our national companies also offer ICT solutions for business customers. On January 1, 2017, management of the Netherlands subsidiary was transferred to our Group Development operating segment. The new Technology and Innovation Board department is now responsible for the GNF (Global Network Factory) and Group Technology units as well as the Pan-Net companies; this new Board department is part of the Group Headquarters & Group Services segment. The International Carrier Sales & Solutions unit (ICSS) – the main part of our international wholesale business – remains within our Europe operating segment. As part of our international wholesale business, we sell wholesale telecommunications services to our operating segments as well as to third parties.

As a leading ICT service provider, our **Systems Solutions** operating segment offers business customers integrated solutions for fixed and mobile networks, highly secure data centers, and a comprehensive cloud ecosystem made up of standardized platforms and global partnerships. The offering primarily includes services from the cloud, M2M, and security solutions, complementary, standardized mobile and fixed-network products, as well as solutions for virtual collaboration and IT platforms. They form the basis for the digital business models of our corporate customers. The business of T-Systems is mapped by four business areas: the IT Division, the TC Division (Telecommunications), the Digital Division, and Telekom Security.

Since January 1, 2017, we have reported on the new **Group Development** operating segment: This includes T-Mobile Netherlands (previously part of our Europe operating segment), Deutsche Funkturm (DFMG, previously part of our Germany operating segment), Deutsche Telekom Capital Partners (DTCP), and our equity investments in BT and Ströer SE & Co. KGaA, as well as Strato AG, which was sold in March 2017, and the stake in Scout24 AG, which was sold in June 2017 (all previously part of our Group Headquarters & Group Services segment). We want to actively manage these units and subsidiaries and increase their value, with the aim of giving them the level of entrepreneurial freedom they need and thus promoting their strategic further development. The management teams maintain an intensive dialog with the segment management and the relevant supervisory and advisory boards. The Group functions of Mergers & Acquisitions and Strategic Portfolio Management have also been assigned to Group Development.

Group Headquarters & Group Services comprises all Group units that cannot be allocated directly to one of the operating segments. Since January 1, 2017, the segment also reports on our new Technology and Innovation Board department. As the organization that sets the direction and provides momentum, it defines strategic aims for the Group, ensures they are met, and becomes directly involved in selected Group projects. Group Services provides services to the entire Group; in addition to typical services such as financial accounting, human resources services, and operational procurement, Group Services also includes agency services, which are provided by our personnel service provider, Vivento. On the one hand, it is in charge of securing external employment opportunities for employees, mainly civil servants, predominantly in the public sector. On the other, Vivento also seeks to strategically place them internally, with the aim of retaining professional expertise within the Group, so as to reduce the use of external staff. Further units are Group Supply Services (GSUS) for our real estate management and our strategic procurement, and MobilitySolutions, which is a full-service provider for fleet management and mobility services.

Our Technology and Innovation Board department unites the cross-segment network, innovation and IT activities of our Germany, Europe and Systems Solutions operating segments. These include Deutsche Telekom IT, which focuses on the Group's internal national IT projects, and our central innovation unit, Product Innovation, which works closely with our operating segments to develop new business areas and create products. Furthermore, there are the units Global Network Factory (GNF), Group Technology and Pan-Net: GNF manages and operates a global network for providing wholesale customers with voice and data communication. Group Technology ensures efficient and customized provision of technologies, platforms, and services for mobile and fixed-network communications. Pan-Net is responsible for the shared pan-European network and for developing and providing services for our European national companies.

The prior-year comparative figures for the organizational measures in connection with the new Technology and Innovation Board department and the Group Development operating segment have been adjusted retrospectively.

Changes in the organizational structure from January 1, 2018. We integrated Vivento Customer Services GmbH, a provider of call center services, into our Germany operating segment as of January 1, 2018; previously it was part of our Group Headquarters & Group Services segment.

MANAGEMENT AND SUPERVISION

As of December 31, 2017, Board of Management responsibilities were distributed across eight Board departments. Five of these are the central management areas:

- Chairman of the Board of Management

and the Board departments

- Finance
- Human Resources
- Data Privacy, Legal Affairs and Compliance
- Technology and Innovation

In addition, there are three segment-based Board departments:

- Germany
- Europe
- T-Systems.

Changes in the composition of the Board of Management. At its meeting on June 30, 2016, the Supervisory Board of Deutsche Telekom AG resolved to extend the Group Board of Management by setting up a new Board department Technology and Innovation. The new department is headed by Claudia Nemat effective January 1, 2017, who was previously responsible for the Europe and Technology department. At its meeting on June 30, 2016, the Supervisory Board of Deutsche Telekom AG also appointed Srini Gopalan as the new Board member responsible for Europe effective January 1, 2017.

In a resolution reached on July 18, 2017, the Supervisory Board of Deutsche Telekom AG complied with the request of Niek Jan van Damme, the Board of Management member responsible for Germany at Deutsche Telekom AG, to terminate his appointment as a Board member effective midnight, December 31, 2017. At its meeting on July 18, 2017, the Supervisory Board of Deutsche Telekom AG also appointed Dr. Dirk Wössner as the new Board member responsible for Germany effective January 1, 2018.

The Supervisory Board of Deutsche Telekom AG resolved in its meeting on September 13, 2017, in agreement with Reinhard Clemens, the Board of Management member responsible for T-Systems at Deutsche Telekom AG, to terminate his appointment as a Board member effective midnight, December 31, 2017. At its meeting on September 13, 2017, the Supervisory Board of Deutsche Telekom AG also appointed Adel Al-Saleh as the new Board member responsible for T-Systems effective January 1, 2018.

Dr. Thomas Kremer was reappointed as member of the Board of Management responsible for Data Privacy, Legal Affairs and Compliance effective June 1, 2017 as per a resolution of August 30, 2016. Dr. Christian P. Illek was reappointed as member of the Board of Management responsible for Human Resources effective April 1, 2018 as per a resolution of May 30, 2017.

For more information, please refer to the Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

For more information, please refer to the section "Forecast," **page 101 et seq.**

Changes in the composition of the Supervisory Board (shareholders' representatives). The shareholders' meeting on May 31, 2017 elected Dagmar P. Kollmann to the Supervisory Board for another term of office. Dr. Wulf H. Bernotat died on August 27, 2017. He had been a member of the Supervisory Board of Deutsche Telekom AG since January 1, 2010. Marget Suckale was court-appointed to the Supervisory Board of Deutsche Telekom AG effective September 28, 2017.

Changes in the composition of the Supervisory Board (employees' representatives). Sylvia Hauke resigned from her position as a member of the Supervisory Board of Deutsche Telekom AG effective midnight, June 30, 2017. Karin Topel was court-appointed to the Supervisory Board of Deutsche Telekom AG effective July 1, 2017. Hans-Jürgen Kallmeier resigned from his position as a member of the Supervisory Board of Deutsche Telekom AG effective midnight, December 31, 2017. Odysseus Chatzidis was court-appointed to the Supervisory Board of Deutsche Telekom AG effective January 3, 2018.

The Supervisory Board of Deutsche Telekom AG advises the Board of Management and oversees its management of business. It is composed of 20 members: Ten represent the shareholders and ten the employees.

For details on the activities of the Supervisory Board in the reporting year, please refer to **page 7 et seq.**

The members of the Board of Management are appointed and discharged in accordance with § 84 and § 85 of the German Stock Corporation Act (Aktiengesetz – AktG) and § 31 of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).

Amendments to the Articles of Incorporation are made pursuant to § 179 and § 133 AktG and § 18 and § 21 of the Articles of Incorporation. According to § 21 of the Articles of Incorporation, the Supervisory Board is authorized, without a resolution by the shareholders' meeting, to adjust the Articles of Incorporation to comply with new legal provisions that become binding for the Company and to amend the wording of the Articles of Incorporation.

Composition of the Board of Management

Members of the Board of Management	Department
Timotheus Höttges	Chairman of the Board of Management (CEO)
Reinhard Clemens (until Dec. 31, 2017) Adel Al-Saleh (from Jan. 1, 2018)	T-Systems
Niek Jan van Damme (until Dec. 31, 2017) Dr. Dirk Wössner (from Jan. 1, 2018)	Germany
Thomas Dannenfeldt	Finance (CFO)
Srini Gopalan	Europe
Dr. Christian P. Illek	Human Resources
Dr. Thomas Kremer	Data Privacy, Legal Affairs and Compliance
Claudia Nemat	Technology and Innovation

8 DECENT WORK AND ECONOMIC GROWTH

For a description of the compensation systems for the Board of Management and the Supervisory Board, please refer to the section "Other disclosures," **page 128 et seq.**

The compensation system for our Board of Management is oriented towards the long-term performance of our Group. Since 2013, the compensation for our Supervisory Board has no longer included any long-term remuneration components. The recommendations of the German Corporate Governance Code are complied with. SDG

GROUP STRATEGY

- Deutsche Telekom aims to be the leading telecommunications provider in Europe
- Group strategy successfully implemented again in 2017
- Strategic action areas re-emphasized and refined

OUR CORPORATE STRATEGY: LEADING EUROPEAN TELCO

Since 2014, we have been aligning all of our corporate activities with our Leading European Telco strategy – with the aim of becoming Europe's leading telecommunications provider.

This strategy has proved very successful: In terms of market capitalization, we are currently one of Europe's highest value telecommunications companies (as of December 31, 2017). In the past financial year, we increased revenue, adjusted EBITDA and free cash flow once again. At the same time, we see our Group as facing new challenges:

- New technologies, such as virtual, voice-activated assistants from Google, Amazon and Apple are creating entirely new usage scenarios and permanently changing the way our customers use the Internet.

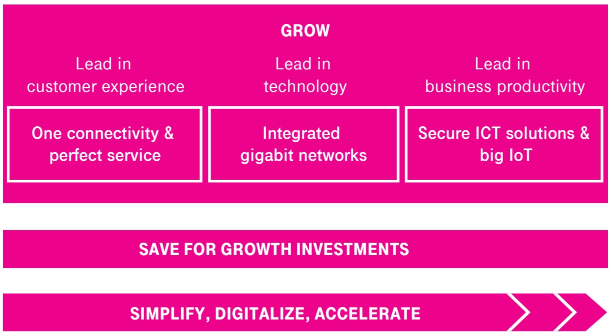
- Our direct competitors from the telecommunications industry are also increasingly digitizing their core business, setting new benchmarks in terms of customer experience and efficiency in the process.

- New business models such as the Internet of Things not only require new network technologies for ever more connected devices, but also corresponding software to manage and control these devices.

- On top of this in Germany comes ongoing public and political pressure with regard to our broadband strategy and the role we play in the provision of fast Internet.

We are tackling these challenges head on. That is why we have **further developed** our **Leading European Telco strategy**, re-emphasizing and refining certain aspects. As the graphic on the next page shows, our claim to leadership ranges over three dimensions: customer experience, technology, and business customer productivity. From this we derive three specific action areas with which we are creating the foundation for future organic growth. Because only if we grow can we sustainably secure our earnings performance and continue to reliably meet the high demands of our investors. This growth target is supported by two areas of operation which provide the framework for our internal activities.

Leading European Telco corporate strategy



STRATEGIC AREAS OF OPERATION

One connectivity & perfect service

We want to offer our customers a seamless and technology-neutral telecommunications experience. Hence, we market fixed-network and mobile communications in one convergent product (fixed-mobile convergence or FMC). By the end of the reporting year, some 3.6 million customers in Germany had opted for MagentaEins; that is more than 0.6 million more than in the prior year. The integrated national companies of our Europe operating segment won some 0.8 million new customers for MagentaOne and similar FMC offerings in 2017. Because we want to continue on this path of growth, we work continuously to improve and expand our convergent offer.

Our offer also includes attractive TV content across all screens – on any device. In Germany, for example, with Entertain TV, we aggregate linear television and the best streaming offers of our partners like Netflix or Maxdome on one platform; what's more, since 2017, the offer has included exclusive TV series such as The Handmaid's Tale, Valkyrien, and Cardinal, and our unique Telekom Sport offering. In the reporting year, we won 0.3 million new TV customers in Germany. In our Europe operating segment, we increased the number of TV customers by 0.2 million in the same period. Over the coming years we will continue to expand our content portfolio – for instance as part of our international partnership with Netflix – and implement new operating concepts such as voice control through smart speakers.

As a premium provider, we set ourselves apart from our competitors with perfect customer service: T-Mobile US leads the competition in numerous surveys. This is one of the reasons why we won 5.7 million new mobile customers in the United States in 2017. We also introduced a number of initiatives to improve customer service in Germany in the reporting year, including callback services, a service for optimizing home Wi-Fi, and installation packages for the home network. In 2018, for example, we are working on noticeably increasing our first-call resolution rate for customer queries. At our national companies in Europe, we are currently focusing on increasing the level of digitalization in customer interaction; for example, using our integrated sales and service app. In the coming years, the expansion of our online channel and a seamless transition between different channels will remain a major priority.

We measure customer satisfaction using the globally recognized TRI*M method. Based on this performance indicator, we improve our customer contact processes, and our products and services. At the same time, we determine the loyalty of our customers towards the Company. The results are presented as a performance indicator, the TRI*M index, which ranges between minus 66 and plus 134 points. At the end of the reporting year, the indicator came in at 68.6 points versus 69.6 points at the start of the year (measured on a comparable basis). This slight decline is due in part to the trend in the Systems Solutions operating segment, which was not able to fully match its high prior-year level. Our goal for the coming years is to achieve a steady overall improvement in customer satisfaction.

Integrated gigabit networks

Convergent products require integrated networks. So we are systematically building out and interlinking our fixed and mobile networks so that we can offer our customers the fastest possible connection at top quality, wherever they are at all times. Integrated management also improves the capacity utilization of our infrastructure and increases efficiency in operations and maintenance. SDG

Fiber optic-based fixed networks are the basis for an integrated network experience. We already operate the largest fiber-optic network in Germany with more than 455,000 kilometers of fiber-optic cable. In 2018, we will add nearly 60,000 more kilometers. Overall, the Germany operating segment currently invests around EUR 4 billion per year primarily in building out and operating networks – more than any of our competitors. In 2017, for example, we gave some 2,200 municipalities fast Internet access through vectoring technology; by the end of 2019, we want to be able to offer approximately 80 percent of households a download bandwidth of at least 50 Mbit/s. At the same time, we are again stepping up the pace of the fiber-optic roll-out to offices and homes: In the next five years, for example, we plan to supply up to 3,000 business parks with FTTH and thus offer optical fiber to around 80 percent of companies in business parks. Across Europe, we are migrating our entire fixed network to the Internet protocol (IP) step by step. We have already completed this migration in five national companies, most recently also in Hungary. In Germany, the transformation is already well advanced. Existing customers are gradually being migrated to IP-based solutions and in consultation with the customers themselves. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

8 DECENT WORK AND ECONOMIC GROWTH

In mobile communications, we set ourselves apart from our competitors with the outstanding quality of our network. We have regularly come out on top in independent network tests. At the end of 2017, we won the mobile network tests conducted in Germany by the magazines Chip and connect for the seventh and eighth times in succession. In our Europe operating segment, eight national companies were rated as "best in test" by the P3 communications network experts, as was T-Mobile Netherlands.

Furthermore, T-Mobile US came out on top in all six categories of the OpenSignal tests in August 2017. We intend to remain a quality leader and hence are further rolling out our LTE networks: In Germany, we plan to cover approximately 95 percent of the population with LTE by the end of 2018; in our European national companies, coverage is to reach between 89 and 99 percent. Thanks to the successful conclusion of the spectrum auction in April, T-Mobile US will also further improve its national LTE coverage.

We will continue to drive forward seamless integration of fixed and mobile networks with the fifth-generation mobile communications standard (5G). To this end, network functions will be decoupled from the access medium (e.g., glass, copper or air). By distributing computing power in the network (mobile edge computing) and creating dedicated network layers for individual applications (network slicing), 5G also creates the basis for future technologies such as virtual reality, autonomous driving, and the Internet of Things. Europe's first 5G antennas have already been transmitting in Berlin with transmission rates of 2 Gbit/s since October 2017. We anticipate that 5G will be ready from 2020.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

3 GOOD HEALTH AND WELL-BEING

Secure ICT solutions & big IoT

We are the leading provider of international connectivity solutions for German business customers. In 2017, our revenues from telecommunications services for corporate customers in the Systems Solutions operating segment, for example, grew by 2.5 percent. Since we want to consolidate and build on this position of strength, we have co-founded the network alliance ngena (Next Generation Enterprise Network Alliance), which comprised 12 partner companies as of the end of 2017. This alliance, which is primarily aimed at international business customers, uses Cisco cloud and virtualization technology to link up the individual partners' local networks into a global network and offers this to the partners as a platform. We launched the first product in this area – Smart SD-WAN powered by ngena – on the market in the reporting year. Step by step, we plan to establish ngena as a global platform for software-defined telecommunications networks (SD-WAN).

Our business with "traditional" IT outsourcing services for international corporate customers has been in decline for a number of years now, mainly due to persistent intense competition. For this reason, we will manage our Systems Solutions operating segment on a portfolio basis going forward and set up an integrated sales organization. We will also tailor our IT and cloud offers even more closely to the needs of our SME customers in the future. In 2017, we generated revenue of some EUR 560 million in this area in our Germany operating segment, up by around 20 percent against 2016. As we expect this business to grow significantly over the coming years, we are expanding our IT and cloud ecosystem for SMEs together with market leading technology partners such as Huawei, Microsoft and Salesforce.

For us, the biggest growth driver in the business customer environment is the Internet of Things. Over the next few years, we expect many millions of new devices – means of production such as machines or tools, everyday objects like cars or fridges, but also public infrastructure like street lights or park benches – to be connected to the Internet. Narrowband-IoT networks, which we have already begun to build out in eight European countries, and machine-to-machine (M2M) connectivity create the basis for cost-effective and energy-efficient networking. SDG For example, since July 2016, BMW has fitted all its vehicles in 65 countries with 4G connectivity from Deutsche Telekom. In addition, we will provide our customers – e.g., in the automotive, healthcare and public sectors – with the platforms to manage these devices and use the data collected for their business. SDG

We supplement these offers with our comprehensive cyber security portfolio. Telekom Security, which was established in early 2017, is already Germany's leading provider of cyber security solutions. Looking ahead at the medium term, our goal is to become a leading provider in Europe in this market. Since cyber attacks pose a growing threat to companies and our customers' need for data privacy and security is increasing, we expect growth rates at Telekom Security to remain high over the next few years.

SUPPORTING AREAS OF OPERATION

Save for growth investments

Future growth requires adequate investment. Thanks to our strict **cost discipline**, we generate the funds we need to finance this investment and safeguard our competitiveness. We will therefore systematically continue on this path of cost transformation. In the long term, we also want to be Europe's leading telecommunications provider in terms of efficiency.

We manage our **portfolio of shareholdings** with the aim of enhancing value. Business areas that cannot be adequately developed within the Group are disposed of, while our growth ambitions are bolstered by means of equity investments and acquisitions. In order to be able to offer convergent products from a single source in Austria and the Netherlands in the future, our subsidiaries in those countries, T-Mobile Austria and T-Mobile Netherlands, signed agreements in December 2017 to acquire the fixed-network providers UPC Austria and Tele2 Netherlands, respectively. Both of these transactions are awaiting approval from the responsible authorities, which is expected in the course of 2018. Also in December of the reporting year, T-Mobile US announced the acquisition of online TV provider Layer3 TV, which was closed on January 22, 2018.

We carefully consider all options in terms of their **added value** for our Group. No transaction is better than a bad one, both for our shareholders and ourselves. Hence we and the management of T-Mobile US decided against a merger of our subsidiary with its competitor Sprint. We do not believe the successful continuation of our growth course is jeopardized by this decision.

Simplify, digitalize, accelerate

Simplicity in our offers and in our organization makes the digital transformation of our core business easier. In this way, we increase our **implementation speed** – both in the interaction with customers and in the implementation of new, strategic initiatives. This is why we want to become simpler, more digital, and ultimately more agile.

There are two main thrusts to our pursuit of **simplicity**. First, we want to offer our customers intuitive products and easy to understand rates: Our convergent products such as MagentaEins are a first step in this direction. Going forward, we want to significantly further reduce product complexity. Second, we want our internal operation to be as efficient as possible, i.e., in terms of time and costs. Hence we will scrutinize our organization, processes, and decision-making procedures and further optimize them wherever possible.

With the **digitalization** of our core business, we want to improve customer experience and increase our efficiency. In Germany, more than 1,500 front-end assistants provide fully-automated support in up to 2.9 million transactions per month. This frees up our employees from technical service to provide more detailed consultations and deal with complex customer issues. Another application is the use of chatbots in direct dialog with customers: At T-Mobile Austria, Tinka currently answers the queries of around 50,000 customers per month. Our long-term aim is to completely digitalize all stages of the value chain: including a standardized app landscape, predictive maintenance of customer hardware, use of standardized data structures, and analysis models and artificial intelligence based on this.

Simplicity and digitalization require new **skills**, incentive models, and a culture of change. In 2017, therefore, we created levelUP!, an innovative development program for executives, and further developed our "Lead to win" leadership model, adapting it to changes in the world of work. Future Work offers our employees modern, open office environments that enable flexibility and new ways of working together. One of our focuses for the future will be on skills management. Ultimately, we want to identify and further develop the skills of our employees at an early stage. SDG

8 DECENT WORK AND ECONOMIC GROWTH

In summary, our Leading European Telco strategy is reflected in our goal:

To be the leading European telecommunications provider.

- We want to be a **leader** in terms of customer experience, technology, and the implementation of advances in productivity for our business customers. Because only when we lead can we grow and meet the demands of our investors in the long term.
- This growth will be made possible by carefully managing our **financial resources** and **systematically transforming** the Company to be simple, digital, and agile in every sense.
- We play a responsible and active role in **society**. We are a partner, not just at a social level, but also at a political one, and we work in the interests of ensuring the open, forward-looking development of all countries in which we are active. SDG

8 DECENT WORK AND ECONOMIC GROWTH

MANAGEMENT OF THE GROUP

- Finance strategy implemented consistently
- Group-wide value management

We continue to be committed to the concept of value-oriented corporate governance. We want to strike a balance between the contrasting expectations of our stakeholders so that sufficient funding is available for an attractive dividend, debt repayment, responsible staff restructuring, and new investment for a positive customer experience.

- Shareholders expect an appropriate, reliable return on their capital employed.

- Providers of debt capital expect an appropriate return and that Deutsche Telekom is able to repay its debts.

- Employees expect jobs that are secure, prospects for the future, and that any necessary staff restructuring will be done in a responsible manner.

- "Entrepreneurs within the enterprise" expect sufficient investment funding to be able to shape Deutsche Telekom's future business and develop products, innovations, and services for the customer.

FINANCE STRATEGY

In 2017, we continued to systematically execute the finance strategy that we announced at the Capital Markets Days in February 2015. Part of our finance strategy was to achieve our target financial ratios – relative debt (ratio of net debt to adjusted EBITDA) and equity ratio – along with a liquidity reserve that covers our maturities of the coming 24 months at least. With these clear statements we intend to maintain our rating in a corridor from A- to BBB and safeguard undisputed access to the capital market.

There is a reliable dividend policy for shareholders, which is subject to approval by the relevant bodies and the fulfillment of other legal requirements. We intend to pay a dividend of at least EUR 0.50 per dividend-bearing share for the financial years 2015 to 2018. Relative growth in free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years. Thus we offer our shareholders both an attractive return and planning reliability.

Total capital expenditure is also to remain high in the next few years. The scope for investment is to be used to further roll out our broadband infrastructure and to drive forward the transformation of the Company to an IP-based production model. In mobile communications, the infrastructure build-out will focus on the LTE standard, and in the fixed network, on optical fiber and vectoring.

The finance strategy supports the transformation of our Group into the Leading European Telco. In order to generate a sustainable increase in value, we intend to earn our cost of capital in the medium term. We aim to achieve this goal in part by optimizing the utilization of our non-current assets. We also intend to achieve our target of earning our cost of capital through strict cost discipline and improved cross-functional collaboration. A good example of this is the pooling of Telekom Deutschland's service activities within the Service business unit. The aim is to establish end-to-end customer process responsibility to serve our customers with an even greater service focus. Improvements like this will ensure our viability. We also focus our performance management on unadjusted EBIT. Taking capital expenditure into consideration brings EBIT closer to the ROCE concept and supports our rigorous focus on the efficient allocation of capital at the Deutsche Telekom Group.

For more information about the ROCE performance indicator, please refer to the section "Value management and performance management system," page 39 et seq.

Our finance strategy until 2018

Equity

Reliable shareholder remuneration policy

Dividend [a]
Following free cash flow growth

Floor at EUR 0.50 per share and year

Equity Leading European Telco strategy

One connectivity & perfect service | **Integrated gigabit networks** | **Secure ICT solutions & big IoT**

Value creation: ROCE > WACC

1. **Infrastructure transformation**
   Support fast IP migration and transform network infrastructure
2. **Cost transformation**
   Reduce indirect cost
3. **Portfolio management**
   Deliver on preferred business model (integrated + B2C/B2B) and value generation
4. **Risk management**
   Maintain a low-risk country portfolio

Debt

Undisputed access to debt capital markets

Rating:
A–/BBB

Net debt/adj. EBITDA:
2 to 2.5 x

Equity ratio:
25 to 35 %

Liquidity reserve:
covers maturities of coming 24 months

[a] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

We will inform you about the further development of our finance strategy for the years following 2018 at our Capital Markets Day, which is planned for the end of May 2018.

VALUE MANAGEMENT AND PERFORMANCE MANAGEMENT SYSTEM

In order to set and achieve our strategic goals more effectively, we are pursuing a Group-wide value management approach. Ultimately, specific performance indicators are required to measure success. The basis for this is a reliable and understandable performance management system. The following tables and information provide an overview of our key financial and non-financial performance indicators.

Financial performance indicators

		2017	2016	2015	2014	2013
ROCE	%	5.8	5.7	4.8	5.5	3.8
Net revenue	billions of €	74.9	73.1	69.2	62.7	60.1
Profit (loss) from operations (EBIT)	billions of €	9.4	9.2	7.0	7.2	4.9
EBITDA (adjusted for special factors)	billions of €	22.2	21.4	19.9	17.6	17.4
Free cash flow (before dividend payments, spectrum investment) [a]	billions of €	5.5	4.9	4.5	4.1	4.6
Cash capex [b]	billions of €	(12.1)	(11.0)	(10.8)	(9.5)	(8.9)
Rating (Standard & Poor's, Fitch)		BBB+	BBB+	BBB+	BBB+	BBB+
Rating (Moody's)		Baa1	Baa1	Baa1	Baa1	Baa1

[a] And before AT&T transaction and compensation payments for MetroPCS employees.
[b] Before spectrum investment.

PROFITABILITY

In order to underline the importance of the successful long-term development of our Group, we have incorporated sustainable growth in enterprise value into our medium-term aims and implemented it as a separate KPI (key performance indicator) for the entire Group. **Return on capital employed (ROCE)** is our central performance indicator. ROCE is the ratio of operating result after depreciation, amortization and impairment losses plus imputed taxes (net operating profit after taxes (NOPAT)) to the average value of the assets tied up for this purpose in the course of the year (net operating assets, NOA).

ROCE is the performance indicator that helps us to embed our aim of sustainably increasing the value of our Group across all operational activities. Additional value accrues when the return on capital employed exceeds the cost of capital. Our goal, therefore, is to achieve or exceed the return targets imposed on us by providers of debt capital and equity on the basis of capital market requirements. We measure return targets using the weighted average cost of capital (WACC).

Calculation of the ROCE financial performance indicator
millions of €

		2017	2016	2015
ROCE	%	5.8	5.7	4.8
Profit from operations (EBIT)		9,383	9,164	7,028
Share of profit (loss) of associates and joint ventures accounted for using the equity method		76	(53)	24
Interest component of unrecognized rental and lease obligations		525	573	725
Other NOPAT adjustments		0	0	0
NET OPERATING PROFIT (NOP)		**9,984**	**9,684**	**7,777**
Tax (imputed tax rate 2017: 31.5 %; 2016: 30.3 %; 2015: 30.3 %)		(3,145)	(2,934)	(2,356)
NET OPERATING PROFIT AFTER TAXES (NOPAT)		**6,839**	**6,750**	**5,421**
Cash and cash equivalents		3,312	7,747	6,897
Operating working capital		(3,555)	(5,056)	(5,311)
Intangible assets		62,865	60,599	57,025
Property, plant and equipment		46,878	46,758	44,637
Non-current assets and disposal groups held for sale [a]		161	372	849
Investments accounted for using the equity method		651	725	822
Other assets		410	279	532
Present value of unrecognized rental and lease obligations		13,127	14,320	18,137
Other provisions		(6,527)	(6,388)	(6,345)
Other NOA adjustments		0	0	0
NET OPERATING ASSETS (NOA)		**117,322**	**119,356**	**117,243**
AVERAGE NET OPERATING ASSETS (Ø NOA)		**118,927**	**119,101**	**112,441**

[a] Excluding the carrying amounts of companies accounted for using the equity method.

NOPAT is an earnings indicator derived from the income statement. As it does not take cost of capital into account, it also includes the interest component of unrecognized rental and lease obligations.

NOA include all assets that make a direct contribution to revenue generation. These include all elements on the asset side of the consolidated statement of financial position that are essential to the rendering of services. Operating working capital is calculated from trade and other receivables, inventories, trade and other payables, as well as additional current and non-current assets and liabilities selected in line with the internal steering logic. NOA also include rental and operating lease obligations recognized by the lessor where required for operations. The figure for other provisions is deducted as no return target exists for this.

We believe that ROCE best reflects the expectations of the four aforementioned stakeholders. The indicator measures how efficiently we generate revenues with the capital employed. ROCE is especially informative when taking a long-term view, because it takes into account both the immense value of the assets that are tied up in our capital-intensive infrastructure, and their utilization. This reveals the crucial advantage of this KPI. It does not focus on the absolute amount of the earnings generated, but rather how much earnings the capital employed generates. ROCE has given us a holistic perspective from which to consider our investments with fresh insight.

REVENUE AND EARNINGS

Revenue corresponds to the value of our operating activities. Absolute revenue depends on how well we are able to sell our products and services on the market. The development of our revenue is an essential indicator for measuring the Company's success. New products and services as well as additional sales activities are only successful if they increase revenue.

EBITDA corresponds to EBIT (profit/loss from operations) before depreciation, amortization and impairment losses. EBIT and EBITDA measure the short-term operational performance and the success of individual business areas. We also use the EBIT and EBITDA margins to show how these indicators develop in relation to revenue. This makes it possible to compare the earnings performance of profit-oriented units of different sizes. Taking unadjusted EBIT/EBITDA as performance indicators means special factors are also taken into account. This promotes a holistic view of our costs. However, special factors have an impact on the presentation of operations, making it more difficult to compare performance indicators with corresponding figures for prior periods. For this reason, we additionally adjust our performance indicators to provide transparency. Without this adjustment, statements about the future development of earnings are only possible to a limited extent. The adjusted values are calculated on the basis of the unadjusted performance indicators.

FINANCIAL FLEXIBILITY

We define **free cash flow** as net cash from operating activities less net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. This indicator is the main yardstick for providers of debt capital and equity. It measures the potential for further developing our Company, for generating organic growth, and for the ability to pay dividends and repay debt.

Central free cash flow management is responsible for transparency, steering, forecasts, and performance measurement in relation to free cash flow and especially in relation to working capital. As part of our measures to optimize working capital over the long term, in the reporting year the focus was on further extending the period of payment for our payables in Germany and Europe, expanding inventories management there, and further optimizing receivables management in all our operating segments, which also involved factoring measures. We plan to continue down this route in the coming years by focusing on the following areas: extending the period of payment for payables and improving receivables and inventories management in the United States, Germany, and Europe.

Cash capex (before spectrum investment) relates to cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, which are relevant for cash outflows as a component of free cash flow.

A **rating** is an assessment or classification of the creditworthiness of debt securities and its issuer according to uniform criteria. Assessment of creditworthiness by rating agencies influences interest rates on debt securities and thus also our borrowing costs. As part of our finance policy, we have defined a target range for our ratings. We are convinced that with a rating between A- and BBB (Standard & Poor's, Fitch) or between A3 and Baa2 (Moody's) we essentially have the necessary entry to the capital markets to generate the required financing.

For the reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors, please refer to the table on **page 54.**

NON-FINANCIAL PERFORMANCE INDICATORS

Non-financial performance indicators

		2017	2016	2015	2014	2013
Customer satisfaction (TRI*M index)		68.6	70.2	67.4	65.9	64.9
Employee satisfaction (commitment index)[a]		4.1	4.1	4.1	4.0	4.0
FIXED-NETWORK AND MOBILE CUSTOMERS						
Mobile customers	millions	168.4	165.0	156.4	150.5	142.5
Fixed-network lines	millions	27.9	28.5	29.0	29.8	30.8
Broadband lines[b]	millions	19.0	18.5	17.8	17.4	17.1
SYSTEMS SOLUTIONS						
Order entry[c]	millions of €	5,241	6,851	5,608	7,107	7,792

[a] Commitment index according to the most recent employee surveys in 2017 and 2015.
[b] Excluding wholesale.
[c] The prior-year comparative for 2016 was adjusted retrospectively due to the change in the structure of the Group implemented as of January 1, 2017.

As one of the leading providers of telecommunications and information technology worldwide, the development of our Group – and thus also our financial performance indicators – is closely linked to the development of **customer figures**. Acquiring and retaining customers are thus essential to the success of our Company. We have different ways of measuring the development of our customer figures according to the business activity in our operating segments: Depending on the activities of each segment, we measure the number of mobile customers and/or the number of broadband and fixed-network lines.

We want our customers to be satisfied – or even delighted – as satisfied customers act as multipliers for our Company's success. As a responsible, service-oriented company, the needs and opinions of our customers are of great importance to us, and we want them to stay with our Company in the long term. For this reason we measure **customer retention/satisfaction** in our companies using the globally recognized **TRI*M** method. The results of systematic surveys are expressed by an indicator known as the TRI*M index. To underscore the major significance of customer retention/satisfaction for our operations, since 2010 we have made this key indicator one of four parameters for the long-term variable remuneration (Variable II) for our Board of Management members. It is also used as a parameter in the long-term incentive plan, which was launched in 2015 and is offered to our managers (with the

For more information, please refer to Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

exception of Board of Management members). We take the TRI*M indexes calculated for the operating entities as an approximation of the respective entities' percentage of total revenue to create an aggregate TRI*M Group value. Over a period of four years, the eligible managers can benefit from the development of customer retention/satisfaction across the Group.

For more information on customer satisfaction, please refer to the section "Group strategy," page 34 et seq.

Our employees want to contribute to the further development of the Company and identify with it. We want to establish an open dialog and a productive exchange with our employees: New ways of working and modern means of communication help us achieve this, as do regular surveys. The most important feedback instruments across the Group (excluding T-Mobile US) for assessing **employee satisfaction** include regular employee surveys and the pulse survey carried out twice a year. In our Company, we measure the employee satisfaction performance indicator using the **commitment index** – derived from the results of the last employee survey and updated with the results of the last pulse survey. SDG

8 DECENT WORK AND ECONOMIC GROWTH

In view of the major significance of employee satisfaction for the success of the Company, Board members are now also being managed and incentivized by means of the long-term variable performance-based remuneration (Variable II). Employee feedback as one of four parameters has been relevant for Variable II since 2010, and for the long-term incentive plan which was relaunched in 2015 for our managers (excluding Board members). This allows Board members and eligible managers to benefit from the development of employee satisfaction across the Group.

For more information on employee satisfaction, please refer to the section "Employees," page 96 et seq.

In our Systems Solutions operating segment, we use **order entry** as a non-financial performance indicator. We define and calculate order entry as the total of all amounts resulting from customer orders that are yet to be processed. Order entry in the form of long-term contracts is of great significance to the Group in order to estimate revenue potential. In other words, order entry is an indicator that provides a high degree of planning reliability.

THE ECONOMIC ENVIRONMENT

- Economic development in our markets positive
- Regulatory intervention continues to impact negatively on the telecommunications market

MACROECONOMIC DEVELOPMENT

The global economy continued to gain momentum over the course of the reporting year. This was driven on the hand by strong private consumption and thriving global trade, and, on the hand, by highly dynamic investment growth in most industrial and emerging economies. In its January 2018 forecast, the International Monetary Fund (IMF) estimates that in 2017 gross domestic product (GDP) increased by 4.7 percent in the emerging and developing countries and by 2.3 percent in the industrialized countries.

In our core markets, economic growth rates largely recorded positive trends in 2017. GDP in Germany increased by 2.2 percent year-on-year, again driven in particular by growth in exports and private consumption. Averaging 5.7 percent, the unemployment rate in 2017 was at its lowest level since German reunification. The U.S. economy grew by 2.3 percent in the reporting year, with unemployment falling to 4.1 percent as of the end of the year, its lowest level in 17 years. GDP growth rates continued to develop very positively in 2017 in virtually all countries in our Europe operating segment. The economies continued to profit from rising domestic consumption and stable demand, primarily from the eurozone. Even the Greek economy has stabilized.

The situation in the national labor markets in our Europe operating segment continued to improve in most countries thanks to positive economic growth. The deep recession of the last few years means that Greece continues to suffer from high structural unemployment. High structural unemployment rates lead to reduced purchasing power among those affected and impact on their willingness to spend. Some customers have adapted their demand behavior. In addition to long-term unemployment, austerity measures in the public sector and the low willingness to invest also had a detrimental effect on demand for telecommunications and ICT services. In some countries, the intense pressure to shore up state finances led to special taxes being maintained for telecommunications companies.

The following table shows the GDP growth rate trends and the unemployment rates in our most important markets.

Development of GDP and the unemployment rate in our core markets from 2015 to 2017
%

	GDP for 2015 compared with 2014	GDP for 2016 compared with 2015	GDP estimate for 2017 compared with 2016	Unemployment rate in 2015	Unemployment rate in 2016	Estimated unemployment rate for 2017
Germany	1.7	1.9	2.2	6.4	6.1	5.7
United States	2.9	1.5	2.3	5.3	4.9	4.4
Greece	(0.2)	(0.1)	1.3	25.0	23.6	21.4
Romania	3.9	4.9	6.5	6.8	5.9	5.2
Hungary	3.2	1.9	3.8	6.2	4.3	4.2
Poland	3.8	2.7	4.3	7.5	6.2	6.1
Czech Republic	5.3	2.6	4.4	5.1	4.0	3.7
Croatia	2.2	3.0	2.9	17.4	14.8	12.1
Netherlands	2.3	2.2	3.1	6.9	6.0	5.0
Slovakia	3.8	3.3	3.3	11.5	9.7	8.1
Austria	1.1	1.5	2.7	5.7	6.0	5.4
United Kingdom	2.3	1.8	1.6	5.4	4.9	4.4

Sources: National authorities, Bloomberg Consensus, January 2018.

TELECOMMUNICATIONS MARKET

Worldwide, the market for information and communications technologies (ICT) grew by 4.0 percent in the reporting year to EUR 3.2 trillion. This increase was due in part to strong demand for telecommunications equipment and services, especially in India, China, and the United States. The high-tech association Bitkom (Federal Association for Information Technology, Telecommunications and New Media) and the EITO (European Information Technology Observatory) expect the telecommunications market segment (services and equipment) to record an increase of 4.0 percent worldwide to EUR 1.82 trillion and the information technology (IT) market segment to record an increase of 3.9 percent for 2017. In the European Union, revenue in the telecommunications market segment rose by 1.0 percent, primarily due to the capex-driven 5.0 percent increase in equipment. The European Telecommunications Network Operators' Association (ETNO) expects service revenues in the EU telecommunications market to have grown slightly by 0.1 percent compared with 2016 to EUR 223 billion in the reporting year. Radical regulatory interventions, such as the reduction in the European roaming and national termination rates as well as substitution by OTT (over-the-top) players, continue to have a negative impact on traditional voice and messaging services, which declined as a result. In 2017, these declines were offset by growth in data revenues.

The digitalization of the economy and society continues to advance steadily. This changes on the one hand the existing market structures, and on the other, the market realities of many industries that have previously been exclusively analog. Use of data services is growing exponentially. Demand is also rising for more speed, both download and upload, in fixed and mobile networks. New technological developments, like the Internet of Things (IoT), Industry 4.0, big data, or cloud computing place high demands on network infrastructure: Ubiquitous connectivity and high performance standards and security are critical to success for many applications. In a market environment in which the network infrastructure needs to be substantially upgraded and a broad ecosystem of rival market players has developed, investment incentives must be created – for the good of consumers, the industry, and a digitally sovereign economy.

Consolidation pressure remains high in the telecommunications industry, partly due to declining revenues in many markets as a result of regulatory interventions, increasing competition, and technological change. In addition, high investments are needed for the network build-out, for innovation, and for the acquisition of spectrum. In Germany, the Bundeskartellamt approved the merger of United Internet and Drillisch without conditions; Drillisch profited from conditions imposed by the European Commission on the merger of E-Plus and O_2. In March 2017, the European Commission approved our procurement joint venture with Orange, deeming it not to result in any restriction of competition. The European Commission conditionally approved Vivendi's de-facto control over Telecom Italia: In order to avoid restrictions to competition, Vivendi must sell its 70 percent stake in Telecom Italia to the TV service provider Persiderain. In order to ensure the continued provision of high-quality telecommunications services to European consumers in the long term, the European competition authorities should take care that short-term price effects are not the only focus of their competition analyses.

European General Data Protection Regulation. The European General Data Protection Regulation will enter into force on May 25, 2018. The new data protection law closes a major gap in the regulation of service providers outside of the EU by imposing the same rules for all market players operating in the EU. The Regulation assures Europe of a high level of data protection and, at the same time, will pave the way for new digital business models.

The General Data Protection Regulation applies directly in the member states and does not need to be transposed into national law. Contrary or redundant German law must be repealed by way of a specific act (Rechtsbereinigungsgesetz).

IT Security Act. In the course of implementing the EU Network and Information Security Directive, a number of provisions were added to the German IT Security Act (IT-Sicherheitsgesetz), requiring online marketplaces, search engine operators, and cloud service providers to comply with minimum requirements designed to safeguard the security of their infrastructures and to report incidents. On a positive note, the legislator included additional powers for telecommunications providers to enable the detection and clearing of network outages and security incidents – a significant step forward in view of the necessary inclusion of all parties involved in the value chain. It remains to be seen whether the new German government will make any further attempt to address the remaining deficits in the IT Security Act (lack of systematic involvement of hardware and software manufacturers). SDG

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

EU subsidies for Croatia. On June 6, 2017, the EU Commission granted its approval for EU subsidies for Croatia. The Croatian government plans to use this money to fund a new state-owned network operator. The development increases the risk of a massive distortion of competition and of other countries following suit.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Payment Services Directive 2, which replaces Payment Services Directive 1 from 2007, must be implemented in the EU member states by the start of 2018. In Germany, this is being done by the German Payment Service Oversight Act (Zahlungsdiensteaufsichtsgesetz – ZAG), under which providers of telecommunications services must limit billing models for voice and non-voice services for invoicing third-party services via the telephone bill to a maximum of EUR 300 per month and EUR 50 per transaction – unless they have a payment services license. In addition, it will impose additional reporting obligations on the Federal Financial Supervisory Authority (BaFin). At the start of December, the Federal Financial Supervisory Authority published an information sheet on the practical implementation of the ZAG provisions.

GERMANY

According to EITO, revenue from IT products and services, telecommunications, and consumer electronics increased by 2.3 percent to around EUR 135.6 billion in Germany in the reporting year. Information technology recorded growth of 4.3 percent. Telecommunications revenues (telecommunications services, hardware, and infrastructure systems) decreased slightly by 0.3 percent to around EUR 57.7 billion. The positive development in data services could not completely offset weakening business with terminal equipment – caused in part by a further decline in smartphone revenues in 2017 – and steadily declining revenues from fixed-network and mobile services. Regulatory effects such as the reduction in EU roaming charges and interconnection rates were the main reason for slightly lower revenues from telecommunications services.

8 DECENT WORK AND ECONOMIC GROWTH

The German broadband market grew by 3.5 percent in 2017. As of the end of year, there were some 33 million broadband lines in Germany. Companies with their own infrastructure benefited the most from this market growth, along with resellers and regional providers. High-bandwidth lines are increasingly marketed in cable and VDSL/vectoring networks. The offerings in this area are supported by innovative hybrid connection technologies. The availability of high bandwidths in Germany and the large choice of HD content and video-on-demand services are stimulating customer growth in IPTV business. Integrated offers comprising fixed-network and mobile communications offer customers many advantages and help increase customer retention. The trend towards integrated offerings continued in the reporting year, with more and more providers expanding their portfolios. We launched our first integrated offering, MagentaEins, on the market in fall 2014. Since then, we have been gradually enhancing the service both in the area of traditional communication and add-on services such as smart home, cloud services, and security applications. Vodafone and O_2 made up ground in terms of integrated offers. SDG

In the German mobile market, service revenues decreased slightly by around 0.7 percent against 2016 to approximately EUR 18.1 billion, driven largely by the aforementioned regulatory effects and ongoing price pressure. The use of mobile data is growing exponentially, the percentage of voice and data rate plans is rising steadily. Traditional voice and text messaging services are increasingly being replaced by free IP messaging services like WhatsApp and social networks like Facebook. Connected products such as smartphones and tablets, as well as watches, shoes, bicycles, and much more, are growing ever more popular, pushing up demand for mobile broadband speeds and for large data volumes in the rate plan portfolios.

Digitalization is continuing apace, and as a result there is also growing demand by the industry for even more connectivity to allow machines and production sites to be networked and to tap efficiencies in value chains. Extensive IT and cloud solutions, as well as intelligent approaches to M2M communication (machine-to-machine) are needed in order to meet these demands. We believe that the M2M sector alone grew by around 30 percent in the reporting year, and this growth is unlikely to slow in the coming years. In the IT sector, we expect market growth to be around 5 percent, driven primarily by the substantial increase in cloud services of around 17 percent. SDG

UNITED STATES

The mobile communications market in the United States continues to be divided between four major nationwide providers – AT&T, Verizon Wireless, T-Mobile US, and Sprint – and various regional network operators. In addition there are a number of mobile virtual network operators, which rely on the networks of one or more of the four national carriers to transport their mobile and data traffic. The two largest national network operators are AT&T and Verizon Wireless, followed by T-Mobile US and Sprint.

The market continues to be very dynamic. For example, the cable companies Comcast and Charter have activated their respective MVNO agreements with Verizon, and Comcast has already begun offering mobile services to its customers. Additionally, in May 2017, Comcast and Charter agreed to explore cooperation in the development of wireless products and services, and also agreed that each party must attain approval from the other before acquiring control of a full mobile network operator. Altice, whose 2016 acquisitions of Cablevision and Suddenlink created the nation's fourth largest cable operator, announced its own MVNO partnership with Sprint. AT&T is still planning to acquire media giant Time Warner Inc. for USD 85.4 billion, pending a legal challenge by the U.S. antitrust authorities. The consolidation and convergence of the U.S. telecommunications market is expected to continue, as fixed and wireless become more integrated and wireless companies acquire content providers.

After three quarters of decline due to high market penetration, the U.S. wireless market has grown slightly since the third quarter of 2017, although down on a year-on-year basis. Although revenues were down overall, profit improved due to expenditure cuts, with operators also prepping for 5G strategies in 2018-19. Smartphone penetration continues to rise steadily, sitting now at 92 percent. Accordingly, mobile data consumption continues to rise and average usage surpassed 6 GB/month by the end of 2017.

Since 2013, T-Mobile US has brought about a significant operational turnaround and intensified competition in the U.S. mobile market. This is mainly due to improvements in their network, as well as successful implementation of the Un-carrier initiatives, which contributed very successfully to customer satisfaction.

The FCC has noted the fierce competition in the market and has embarked on a deregulatory agenda. It has eased wireless infrastructure deployment by removing administrative obstacles; it has adopted new sharing tools in the 3.5 GHz band to free up 150 MHz of spectrum for broadband services; and it is working to free up spectrum above 24 GHz to enable deployment of 5G services. The Broadcast Incentive Auction (600 MHz) ended in April 2017. T-Mobile US purchased an average of 31 MHz of 600 MHz low-band spectrum covering 100 percent of the United States. In addition, the FCC adopted new rules on December 14, 2017, that pare down net neutrality regulation to just a transparency requirement. Bright line rules (no blocking, no throttling) will be eliminated and paid priority will be permitted. The rules are expected to be challenged in court.

EUROPE

Following a period of steady recovery, the traditional telecommunications markets in our Europe operating segment saw a return to moderate revenue growth for the first time in 2017 on a full-year basis. Steady growth in broadband and TV business offset some of the ongoing decline in voice business. Mobile data usage grew rapidly, especially due to video services. Overall, mobile business recorded growth and more than offset the decline in fixed-network business. The continued levying of special taxes on telecommunications services in some countries had a negative impact, for example in Greece and Hungary. The acquisition of new spectrum and extension of existing mobile licenses had a relatively low impact in 2017 (e.g., in Greece). There was only limited consolidation activity in the countries of our Europe operating segment in the reporting year (e.g., T-Mobile Austria, UPC Austria, Digi/Invitel in Hungary, and UPC/Mulimedia Polska in Poland; both transactions are awaiting approval from the responsible authorities).

The trend towards convergent product bundles combining fixed-network and mobile communications (FMC) continues, for example with Kombinieren & Sparen (combine & save) in Austria, Love in Poland, and MagentaOne and CosmoteOne in our subsidiaries with integrated telecommunications infrastructure. These offers are enjoying strong growth and for some providers, already address the majority of consumers. New providers pursuing aggressive pricing policies (e.g., in Hungary and Slovakia), whose market shares are still small, are intensifying competitive pressure. Services from OTT (over-the-top) players, like WhatsApp and Facebook, are increasingly replacing traditional voice and messaging services. Video streaming services like Netflix and Amazon Prime have so far had limited significance in our Europe operating segment (with the exception of Austria).

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

In the business customer segment, the advance of digitalization has prompted massive growth in M2M/IoT applications; we participate in this with our Smart City projects, for instance in Hungary, Romania and Greece. SDG SDG

SYSTEMS SOLUTIONS

In the information and communications technology (ICT) industry in our core market of Western Europe, the volume addressed by our Systems Solutions operating segment and the T-Systems brand increased by 4.1 percent in the reporting year to EUR 192 billion. However, this trend impacted the business areas of the market in very different ways.

In the telecommunications (TC) segment, the market was dominated by continued price erosion in telecommunications services and by intense competition, while the economic recovery had relatively little impact. The focus in this segment continues to be on the substitution of elements of the portfolio and demand for stable, intelligent and secure network solutions with increasingly large bandwidths. Growth in ICT security (cyber security), Internet of Things (IoT), cloud computing, and unified communications is leading to a long-term stabilization of the markets served by our operating segment. Substitution effects between fixed-network and mobile operations continue to intensify. The migration to all-IP solutions, e.g., the combination of Internet access, Voice over IP, IP VPN, and Unified Communications, continues to increase.

In terms of IT services, demand has grown further for cloud services and cyber security services, as has the importance of digitalization, intelligent networks, the Internet of Things (including Industry 4.0), and communication between machines (M2M). The advance of digitalization and the shift towards cloud solutions also transformed demand in the systems integration business. Traditional project business – application development and the associated integration – declined by 0.9 percent. By contrast, the market for consultation and integration services for cloud solutions grew by 28 percent.

The market for outsourcing computing and desktop services (CDS) shrank by 0.6 percent in the reporting year to EUR 58 billion. Two contrasting trends played a role in this context: Business from long-term, rather traditional outsourcing contracts declined by 4 percent, while the market for cloud computing grew by 10 percent.

Competitive and price pressure persisted in all submarkets of our Systems Solutions operating segment. This was caused in part by competitors such as BT Global Services, Orange Business Services, and NTT Communication in the telecommunications market, and IBM, Atos, and Capgemini in the IT segment; in addition, the IT segment in particular came under price pressure from cloud providers such as Amazon Web Services, Google, and Salesforce. This effect is further intensified by providers of services rendered primarily offshore. We are positioning ourselves in this environment as a digital enabler, a cloud transformer, and an ICT operator, with a focus on quality, data security, and end-to-end responsibility for the transformation, integration, and operation of ICT services. Furthermore, we are increasingly entering into strategic partnerships with our competitors with the aim of offering our customers innovative solutions.

GROUP DEVELOPMENT

The environment of our Group Development operating segment is largely dominated by the markets served by our companies T-Mobile Netherlands and Deutsche Funkturm (DFMG).

The mobile communications market in the Netherlands has been marked by high price and competitive pressure for quite some time, and this situation intensified again in 2017. One of the trends contributing toward this is the growing bundling of fixed-network and mobile products into convergent offers (FMC). The merger of Vodafone and Ziggo, for instance, has created a second strong nationwide FMC provider alongside market leader KPN. As in the past, the trend towards bundled offers brings pressure to bear on prices for mobile products. The strong discount segment, comprising mobile providers' secondary brands and MVNOs, has further intensified competition. In December 2017, we signed an agreement with the Tele2 Group on the acquisition of telecommunications provider Tele2 Netherlands by T-Mobile Netherlands.

DFMG is the biggest provider of passive wireless infrastructure for mobile communications and broadcasting in Germany. The market also saw increased demand for cell sites in financial year 2017, due on the one hand to the fact that network operators plan to close gaps in coverage, and on the other to the fact that demand for mobile data services is growing, which calls for a further increase in the density of mobile networks.

MAJOR REGULATORY DECISIONS

Our business activities are largely subject to national and European regulation, which is associated with extensive powers to intervene in our product design and pricing. We were again subject to extensive regulation in our mobile and fixed-network businesses in 2017. The focus was primarily on the regulation of services for wholesale customers and the corresponding charges as well as the award of mobile frequencies.

REGULATION

Federal Network Agency consultation on the FTTH/B roll-out. The Federal Network Agency held a public consultation process from March 14, 2017 to April 26, 2017 on proposals for how regulatory support could be provided to accelerate the roll-out of fiber-optic networks (FTTH/B) with a view to rates regulation. All market players were asked to respond to the consultation paper. The 17 responses received were published on May 17, 2017. The Federal Network Agency said it will first analyze these responses, some of which are extensive, before announcing any conclusions.

Further vectoring roll-out agreed. The Federal Network Agency reviewed the specific conditions required for nearshore vectoring by way of a reference offer procedure. It announced its ruling in its official journal on August 9, 2017. The deadlines for the three planned nearshore build-out tranches have thus now been set. A parallel rate approval procedure was also carried out at the Federal Network Agency from the end of March 2017 to set the rates for a nearshore ULL substitute product. The ruling for this process was also announced on August 9, 2017, finally giving the green light for our nearshore vectoring roll-out.

Regulation of termination rates. The Federal Network Agency issued final approval for fixed-network and mobile termination rates in the reporting year, with retroactive effect from January 1, 2017 (fixed-network termination rates) and December 1, 2016 (mobile termination rates), with no changes to the rates provisionally approved back in 2016. In these rate rulings, the Federal Network Agency followed for the first time the recommendation of the European Commission to set charges based on the “pure LRIC cost standard.” In the approval period, the charges declined by 30 percent overall for mobile termination and by as much as around 58 percent for fixed-network termination.

International roaming. The new EU Regulation to abolish roaming surcharges (commonly referred to as Roam Like at Home) within the European Union as well as in Iceland, Liechtenstein and Norway entered into force on June 15, 2017. In addition, on May 17, 2017, the European Council and European Parliament adopted amended regulations for wholesale roaming charges, significantly reducing regulated price caps at wholesale level. We had already launched customer-friendly Roam Like at Home offers on the market before this date.

Federal Network Agency decision on StreamOn. On December 15, 2017, the Federal Network Agency prohibited elements of the MagentaMobil StreamOn add-on option. According to the Federal Network Agency, two aspects of this option breach the EU Regulation on net neutrality and roaming. The ruling stipulates that, from April 1, 2018, we must transmit all StreamOn data traffic at the maximum available bandwidth and that this also cannot be deducted from the included data volume contingent when roaming within the EU. We remain of the opinion that our offer complies with EU law and will appeal against the ruling.

Federal Network Agency decision on bitstream charges. On November 30, 2017, the Federal Network Agency provisionally approved as of December 1, 2017 the rates we can charge to wholesale customers for access to our broadband lines for “layer 2 bitstream access.” We had requested an increase in the monthly rate as part of contingent models, but this was not approved. The Federal Network Agency will only set the final charges with retroactive effect once the national and EU-wide consultation processes are complete.

AWARDING OF SPECTRUM

The table below provides an overview of the main spectrum awards through auctions as well as license extensions in Germany and at our international subsidiaries. It also indicates spectrum to be awarded in the near future in various countries.

For further information on the spectrum awards, please refer to the section "Risk and opportunity management," page 111 et seq.

Main spectrum awards

	Start of award procedure	End of award procedure	Frequency ranges (MHz)	Award process	Acquired spectrum (MHz)	Spectrum investment
Albania	Q3 2018	Q4 2018	800	Sealed bid[a] or auction	tbd	tbd
Germany	Q2 2018	Q4 2018	2,000 / 3,400 – 3,700	Auction (SMRA[b]) expected	tbd	tbd
Greece	Q4 2017	Q4 2017	1,800	Sealed bid[a]	25 MHz	€ 83.2 million
Macedonia	Q1 2018	Q4 2018	900 / 2,100	Extension of licenses (expected)	tbd	tbd
Netherlands	Q1 2019	Q2 2019	700 / 1,500 / 2,100	Auction, details tbd	tbd	tbd
Austria	Q3 2018	Q4 2018	3,400 – 3,800	Auction (CCA[c]) (expected)	tbd	tbd
Austria	Q3 2019	Q4 2019	700 / 1,500 / 2,100	Auction, details tbd	tbd	tbd
Poland	Q2 2017	Q2 2017	3,700	Sealed bid	No spectrum acquired	–
Poland	Q2 2018	Q3 2018	1,500	tbd	tbd	tbd
Romania	Q2 2018	Q4 2018	700 / 800 / 1,500 / 2,600 / 3,500	Auction, details tbd	tbd	tbd
Slovakia	Q2 2017	Q2 2017	3,700	Auction (SMRA[b])	40 MHz for Bratislava	€ 200 thousand
Czech Republic	Q2 2017	Q3 2017	3,700	Auction (SMRA[b])	No spectrum acquired	–
Czech Republic	Q3 2017	Q4 2017	900 / 1,800	Extension of licenses (expected)	No spectrum acquired	–
Czech Republic	Q4 2018	Q2 2019	700 / 3,500	Auction, details tbd	tbd	tbd
Hungary	Q3 2018	Q4 2018	700 / 1,500 / 2,100 / 2,300 / 2,600 and 26,000	Details tbd	tbd	tbd
United States	Q3 2016	Q2 2017	600	Incentive Auction[d]	Regional licenses; mostly 2x20 MHz	$ 7.99 billion

[a] Submission of an individual bid in a sealed envelope, in some cases sequential, in several awards.
[b] Simultaneous electronic multi-round auction with ascending, parallel bids for all ranges.
[c] Combinatorial Clock Auction, three-stage, multi-round auction for spectrum from all frequency ranges.
[d] Quantity and prices of spectrum to be traded depends on spectrum surrendered by radio broadcasters.

DEVELOPMENT OF BUSINESS IN THE GROUP

- Adjusted EBITDA of EUR 22.2 billion
- Free cash flow of EUR 5.5 billion

STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2017

Bonn, February 13, 2018

2017 was another successful financial year. In 2017, we once again met our key company targets. Net revenue increased by 2.5 percent to EUR 74.9 billion. We grew year-on-year in our domestic market, Germany, and in the Europe operating segment, and continued to record strong growth in the United States. The revenue trend was driven by strong customer additions both in mobile and broadband business. While we continued to win mobile market shares with our Un-carrier strategy in the United States, the success in Germany and Europe was primarily attributable to the marketing of convergent products. To further strengthen our competitiveness in Europe, we also want to transform our subsidiaries in Austria as well as in the Netherlands into convergent providers. To this end, at the end of 2017, we signed agreements to acquire the fixed-network providers UPC Austria and Tele2 Netherlands.

Adjusted EBITDA grew by 3.8 percent to EUR 22.2 billion. Free cash flow (before dividend payments and spectrum investments) totaled EUR 5.5 billion as forecast; this represents year-on-year growth of around 11.3 percent.

In the reporting year, profit/loss from operations (EBIT) increased to EUR 9.4 billion, which was higher than expected. The main reason for this increase is a sound operational development, driven by revenue growth and further enhanced cost efficiency. In addition, profit/loss from operations was positively affected by some special factors in the reporting year, including the reversal of the impairment loss on spectrum licenses at T-Mobile US and the sale of Strato and Scout24 AG. This trend was partially offset by higher amortization of intangible assets (including goodwill) and higher depreciation of property, plant and equipment compared with 2016 as a result of the high level of investment in building and expanding our mobile networks and fixed-network infrastructure, as well as for the forward-looking migration to IP as part of our integrated network strategy. Net profit increased by just under 30 percent to EUR 3.5 billion, mainly due to the improved development of operations and the reduction in the U.S. federal tax rate, which resulted in a non-cash deferred tax benefit at T-Mobile US. Developments in the share price and exchange rate prompted us to also recognize an impairment on our financial stake in BT in 2017. In addition, loss from financial activities was also impacted as a result of negative remeasurement effects from the exercise and measurement of embedded derivatives at T-Mobile US – mainly relating to the early repayment of financial liabilities to third parties outside of the Group. ROCE improved slightly year-on-year due largely to the positive special factors.

Net debt increased from EUR 50.0 billion to EUR 50.8 billion, primarily due to the acquisition of spectrum and a further year-on-year increase in capital expenditure for network build-out and modernization in the United States, Germany, and Europe.

Subject to approval by the relevant bodies and the fulfillment of other legal requirements, we continue to adhere to our shareholder remuneration strategy as planned and will propose to the shareholders' meeting a dividend of EUR 0.65 per dividend-bearing share. We thus once again kept the promise we made at our Capital Markets Days in February 2015, which was to include our shareholders in the relative growth of free cash flow.

The trends in the industry, in particular on the European telecommunications markets, remain challenging, e.g., rising competition and strict regulatory requirements. The market for information and communications technologies, however, continues to grow. In order to succeed in the future, we continue to invest heavily in the key to our success: our network infrastructure. In 2017, we made investments (before spectrum) of EUR 12.1 billion, a substantially higher amount than in the prior year. In the fixed network, our focus was on investments in fiber-optic roll-out, IPTV, and the continued migration to an IP-based network. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for high-speed data transmission rates. Including the spectrum payments, this figure was as much as EUR 19.5 billion, of which EUR 7.2 billion was attributable to the acquisition of valuable spectrum at the auction in the United States, where T-Mobile US was particularly successful. Despite this high level of investment, our rating remained solid through 2017, and we had unrestricted access to the capital market at all times.

Against this backdrop, we are reasserting our commitment to the strategic goal we set ourselves in 2014 of being the leading European telecommunications provider. With this goal in mind, in 2017 we continued to focus intently on delivering state-of-the-art networks, products, and services that give our customers simple, convenient access to the digital world. This keeps us in a good position to remain the driving force behind the creation of a modern and competitive digital Europe.

COMPARISON OF THE GROUP'S EXPECTATIONS WITH ACTUAL FIGURES

In the 2016 Annual Report, we outlined expectations for the 2017 financial year for our financial and non-financial key performance indicators anchored in our management system. The following tables summarize the pro-forma figures for 2016, the results expected for the reporting year, and the actual results achieved in 2017. The performance indicators that we also forecast in the 2016 Annual Report and their development are presented in the individual sections.

Comparison of the expected financial key performance indicators with actual figures

		Pro-forma figures for 2016	Expectations for 2017	Results in 2017
ROCE	%	5.7	strong decrease	5.8
Net revenue	billions of €	73.2	increase	74.9
Profit (loss) from operations (EBIT)	billions of €	9.2	decrease	9.4
EBITDA (adjusted for special factors)	billions of €	21.4	22.4 to 22.5 [c]	22.2
Free cash flow (before dividend payments and spectrum investment)	billions of €	4.9	5.5	5.5
Cash capex [a]	billions of €	11.0	12.0	12.1
Rating (Standard & Poor's, Fitch)		BBB+	from A- to BBB	BBB+
Rating (Moody's)		Baa1	from A3 to Baa2	Baa1

Comparison of the expected non-financial key performance indicators with actual figures

		Pro-forma figures for 2016	Expectations for 2017	Results in 2017
Customer satisfaction (TRI*M index)		70.2	slight increase	68.6
Employment satisfaction (commitment index) [b]		4.1	stable trend	4.1
FIXED-NETWORK AND MOBILE CUSTOMERS				
GERMANY				
Mobile customers	millions	41.8	increase	43.1
Fixed-network lines	millions	19.8	slight decrease	19.2
Broadband lines	millions	12.9	increase	13.2
UNITED STATES				
Branded postpaid	millions	34.4	strong increase	38.0
Branded prepay	millions	19.8	increase	20.7
EUROPE				
Mobile customers	millions	48.0	slight decrease	48.8
Fixed-network lines	millions	8.5	stable trend	8.4
Retail broadband lines	millions	5.4	increase	5.6
SYSTEMS SOLUTIONS				
Order entry	billions of €	7.1	decrease [c]	5.2

[a] Before spectrum investment.
[b] Commitment index according to the most recent employee surveys in 2017 and 2015.
[c] Contrary to the forecasts published in the 2016 combined management report (2016 Annual Report, page 87 et seq.), we adjusted the forecast figures for 2017 during the course of the year (Interim Group Report as of June 30, 2017, page 27, and Interim Group Report as of September 30, 2017, page 27).

We once again look back on a successful financial year. Our performance in 2017 was dominated by substantial growth in revenue and adjusted EBITDA. Net revenue grew in line with expectations to total EUR 74.9 billion at the year-end. We also met expectations with regard to adjusted EBITDA, which amounted to EUR 22.2 billion. Adjusted for exchange rate effects and changes to the composition of the Group, this put us exactly within the target corridor of EUR 22.4 to EUR 22.5 billion communicated most recently. Free cash flow of EUR 5.5 billion was also right on target. At EUR 12.1 billion, cash capex (before spectrum investments) was slightly higher than the communicated figure of around EUR 12.0 billion, representing yet another substantial increase to the already extremely high level of investment in the prior year.

Our key performance indicator ROCE (return on capital employed) improved by 0.1 percentage points in the reporting period to reach 5.8 percent. This moderately positive trend was due to an increase in net operating profit after taxes (NOPAT) while the average amount of net operating assets (NOA) remained virtually stable over the year. NOPAT increased in 2017 as a result of a substantial improvement in adjusted EBITDA, as well as positive special factors – mainly attributable to the partial reversal of impairment losses recognized on spectrum licenses at T-Mobile US (EUR 1.7 billion), to the sale of Strato (EUR 0.5 billion) and of further shares in Scout24 AG (EUR 0.2 billion), and to a settlement agreement concluded with BT (EUR 0.2 billion). NOPAT was negatively affected by impairment losses totaling EUR 2.2 billion recognized in the reporting year on goodwill and property, plant and equipment, in particular in the Systems Solutions and Europe operating segments (prior year: EUR 0.7 billion in the Europe operating segment). In the prior year, proceeds from the sale of our stake in the EE joint venture (EUR 2.5 billion) and proceeds from the exchange of mobile spectrum licenses at T-Mobile US (EUR 0.5 billion) had a positive effect on NOPAT. Despite the acquisition of spectrum in the United States and a consistently high level of investment in connection with our integrated network strategy, average NOA remained virtually unchanged in 2017 due to lower cash and cash equivalents on average and lower carrying amounts of goodwill, among other effects.

EBIT defied expectations of a decline and increased by EUR 0.2 billion to EUR 9.4 billion, primarily as a result of the same special factors that also had a positive effect on net operating profit after taxes (NOPAT).

We are also very well on track with our non-financial key performance indicators, especially with regard to the development of fixed-network and mobile customer numbers. In our United States operating segment, in particular, we again recorded continued strong mobile customer additions, both in the postpaid and prepay segments. At the end of the reporting year, customer satisfaction came in at 68.6 points versus 69.6 points at the start of the year (measured on a comparable basis). This slight decline is due in part to the trend in the Systems Solutions operating segment, which was not able to fully match its high prior-year level. Our goal for the coming years is to achieve a steady overall improvement in customer satisfaction. Order entry at our Systems Solutions operating segment declined markedly year-on-year and was well below our expectations for the reporting year. Although we concluded new deals in 2017, the level achieved was lower than expected. One reason for the decline in order entry was the market trend away from traditional IT business and toward cloud computing and digitalization, which resulted in shorter terms of contract.

RESULTS OF OPERATIONS OF THE GROUP

NET REVENUE

In 2017, we generated net revenue of EUR 74.9 billion, which was 2.5 percent or EUR 1.9 billion up on the prior-year level. Our United States operating segment contributed to this positive trend with revenue growth of 5.9 percent: T-Mobile US' successful Un-carrier initiatives and the success of the MetroPCS brand gave a strong boost to the number of new customers and thus also to service revenues. Terminal equipment revenues continued to rise, in part due to the stronger focus on offering terminal equipment under installment plans. In our German home market, there was a slight positive trend in revenue, with an increase of 0.7 percent compared with the prior year. This was partly due to a rise in mobile revenues and, primarily, growth in non-contract handset revenues. Increased IT and broadband revenues also had a positive impact on fixed-network revenue, although it was not sufficient to offset the overall decline in revenue in the fixed-network business. In the Europe operating segment, revenue also increased slightly by 1.2 percent compared with the prior year. Revenue development in our growth areas and an increase in terminal equipment revenue had a positive effect. By contrast, lower roaming charges in many countries and ongoing intense competition in the telecommunications footprint markets put further pressure on revenue. In the Systems Solutions operating segment, revenue decreased by 1.1 percent against the prior year. This decline was primarily attributable to the completion in 2016 of the set-up phase for the toll collection system in Belgium. Excluding this toll collection effect from the prior year, however, our telecommunications business posted revenue growth. By contrast, revenue from our traditional IT business continued to decrease due to the general downward trend in market prices and to a decline in order entry, especially at international level. Our strategic growth areas cloud, Internet of Things, and our new Telekom Security unit made a positive contribution. Revenue generated in our Group Development operating segment decreased by 3.6 percent in 2017 compared with the prior year, which was largely attributable to the revenue lost as a result of the sale of Strato as of March 31, 2017. By contrast, revenue growth at T-Mobile Netherlands had a positive impact.

Excluding the negative net exchange rate effects of EUR 0.6 billion – in particular from the translation of U.S. dollars into euros – and slightly negative effects of changes in the composition of the Group of EUR 0.1 billion – mainly from the sale of Strato – revenue even increased by EUR 2.6 billion or 3.6 percent.

Details on the trends in our financial and non-financial key performance indicators can be found in this section as well as in the section "Development of business in the operating segments," page 61 et seq.

For detailed information on revenue development, please refer to the section "Development of business in the operating segments," page 61 et seq.

Contribution of the segments to net revenue
millions of €

	2017	2016	Change	Change %	2015
NET REVENUE	**74,947**	**73,095**	**1,852**	**2.5**	**69,228**
Germany[a]	21,931	21,774	157	0.7	22,185
United States	35,736	33,738	1,998	5.9	28,925
Europe[a]	11,589	11,454	135	1.2	11,674
Systems Solutions[a]	6,918	6,993	(75)	(1.1)	6,837
Group Development[a]	2,263	2,347	(84)	(3.6)	2,428
Group Headquarters & Group Services[a]	2,943	3,467	(524)	(15.1)	3,355
Intersegment revenue	(6,433)	(6,678)	245	3.7	(6,176)

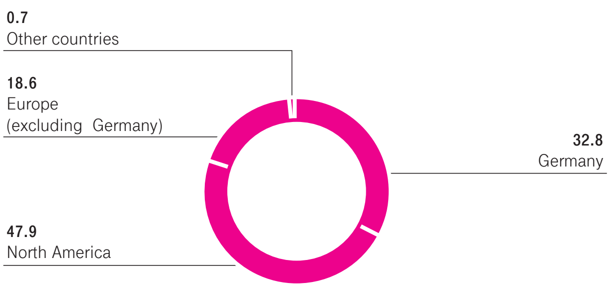
[a] Since January 1, 2017, we have reported on the Group Development operating segment and within the Group Headquarters & Group Services segment on the Board of Management department Technology and Innovation. Comparative figures have been adjusted retrospectively.

For more information on changes in the organizational structure, please refer to the section "Group organization," page 31 et seq, and Note 31 "Segment reporting" in the notes to the consolidated financial statements, page 220 et seq.

At 47.7 percent, our United States operating segment again provided the largest contribution to net revenue of the Group. This was an increase of 1.5 percentage points compared with the prior year, due in particular to ongoing strong customer additions. By contrast, the contributions by our other operating segments and the Group Headquarters & Group Services segment decreased. The proportion of net revenue generated internationally continued to increase, from 66.3 percent to 67.2 percent.

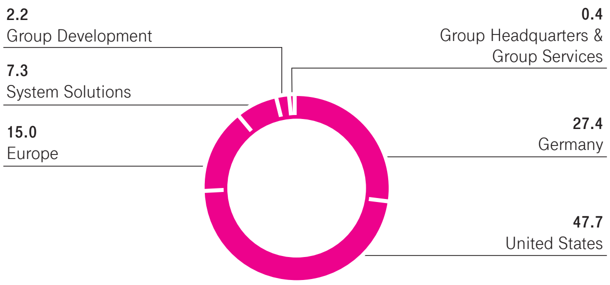
Breakdown of revenue by region

%



Contribution of the segments to net revenue

%



For more information on net revenue, please refer to Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

EBITDA, ADJUSTED EBITDA

Excluding special factors, adjusted EBITDA increased year-on-year by EUR 0.8 billion or 3.8 percent to EUR 22.2 billion in 2017. This development was primarily driven by our United States operating segment, which recorded an increase in its adjusted EBITDA contribution of 8.8 percent, mainly as a result of the continued success of the Un-carrier initiatives. EBITDA adjusted for special factors also grew in our Germany operating segment by 2.8 percent compared with 2016, driven by efficiency enhancement measures while revenue increased slightly. Adjusted EBITDA declined due to higher market investments and revenue-driven cost increases at the B2B/ICT business customer unit in our Europe operating segment. Slight revenue growth and increased cost efficiency had an offsetting effect. Adjusted EBITDA in our Systems Solutions operating segment also recorded a downward trend; however, this was largely due to the non-recurring effect already mentioned from the prior year and the tense situation in the ICT market. In the Group Development operating segment, adjusted EBITDA declined mainly due to the forgone earnings following the sale of Strato. A positive trend at T-Mobile Netherlands had a contrasting effect. Adjusted for negative net exchange rate effects and slightly negative effects of changes in the composition of the Group of EUR 0.2 billion, adjusted EBITDA even increased by EUR 1.0 billion or 4.9 percent.

EBITDA increased by EUR 1.4 billion or 6.3 percent year-on-year to EUR 24.0 billion. Special factors were positive on balance, increasing by EUR 0.6 billion compared with 2016 to EUR 1.7 billion. These factors included a partial reversal of impairment losses on spectrum licenses at T-Mobile US, increasing the carrying amount by EUR 1.7 billion as of September 30, 2017. Other positive factors were income from divestitures in connection with the sale of Strato completed as of midnight, March 31, 2017 (EUR 0.5 billion), income from the sale of the remaining shares in Scout24 AG (EUR 0.2 billion), and income from a settlement agreement concluded with BT in July 2017 (EUR 0.2 billion). Special factors in connection with staff-related measures and non-staff-related restructuring expenses amounted to EUR 0.6 billion, EUR 1.1 billion lower than the expenses reported in the prior-year period. Special factors in the prior year included income of EUR 2.5 billion from the sale in early 2016 of our stake in the EE joint venture and income in the amount of EUR 0.5 billion from transactions for the exchange of spectrum licenses between T-Mobile US and two telecommunications companies.

For detailed information on the development of EBITDA/adjusted EBITDA in our segments, please refer to the section "Development of business in the operating segments," **page 61 et seq.** For an overview of the development of special factors, please refer to the table on **page 54.**

Contribution of the segments to adjusted Group EBITDA

	2017 millions of €	Proportion of adjusted Group EBITDA %	2016 millions of €	Proportion of adjusted Group EBITDA %	Change millions of €	Change %	2015 millions of €
EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP	**22,230**	**100.0**	**21,420**	**100.0**	**810**	**3.8**	**19,908**
Germany[a]	8,468	38.1	8,237	38.5	231	2.8	8,273
United States	9,316	41.9	8,561	40.0	755	8.8	6,654
Europe[a]	3,749	16.9	3,866	18.0	(117)	(3.0)	3,944
Systems Solutions[a]	509	2.3	530	2.5	(21)	(4.0)	581
Group Development[a]	915	4.1	943	4.4	(28)	(3.0)	1,050
Group Headquarters & Group Services[a]	(716)	(3.2)	(670)	(3.1)	(46)	(6.9)	(554)
Reconciliation	(11)	(0.1)	(47)	(0.3)	36	76.6	(40)

[a] Since January 1, 2017, we have reported on the Group Development operating segment and within the Group Headquarters & Group Services segment on the Board of Management department Technology and Innovation. Comparative figures have been adjusted retrospectively.

For more information on changes in the organizational structure, please refer to the section "Group organization," page 31 et seq., and Note 31 "Segment reporting" in the notes to the consolidated financial statements, page 220 et seq.

MARKETING EXPENSES

Marketing communication in our Group mainly takes the form of product and brand campaigns, such as Family Card, Stream On, Entertain, SmartHome, or of corporate campaigns such as our network build-out campaign. In 2017, marketing expenses amounted to EUR 2.4 billion, up slightly on the prior-year level of EUR 2.3 billion. The marketing expenses comprise expenses incurred through market research, market analysis, target market studies, determining marketing strategies, designing the marketing mix, and carrying out and managing marketing initiatives. They also include expenses arising from customer retention programs, market planning and segmentation, and product forecasts.

EBIT

Group EBIT stood at EUR 9.4 billion, up EUR 0.2 billion or 2.4 percent against the prior year. This increase is partly due to the effects described under EBITDA. A year-on-year increase in depreciation, amortization and impairment losses of EUR 1.2 billion reduced EBIT. EBIT was negatively impacted by the impairment losses recognized on goodwill in the Systems Solutions operating segment of EUR 1.2 billion and in the Europe operating segment in our national companies in Poland, Romania, and Albania of EUR 0.8 billion in total. Goodwill impairment losses of EUR 0.5 billion had been recognized in the prior year, mainly in the Netherlands cash-generating unit. In addition, impairment losses on property, plant, and equipment totaling EUR 0.1 billion were recognized (prior year: EUR 0.2 billion). Depreciation of property, plant and equipment and amortization of intangible assets were slightly lower than in the prior year.

PROFIT BEFORE INCOME TAXES

Profit before income taxes increased from EUR 4.5 billion in the prior year to EUR 5.0 billion. This is due to the positive trend in EBIT, as well as to a year-on-year decrease in the loss from financial activities by EUR 0.2 billion to EUR 4.4 billion. As in the prior year, impairments of our financial stake in BT, which in 2017 totaled EUR 1.5 billion recognized in profit and loss, were one of the main factors affecting profit/loss from financial activities. These impairments comprise both the share price effect and the exchange rate effect. In 2016, the impairment amounted to EUR 2.2 billion. Negative remeasurement effects from the exercise and measurement of embedded derivatives at T-Mobile US – mainly relating to the early repayment of financial liabilities to third parties outside of the Group – increased the loss from financial activities. As in 2016, we received dividend payments amounting to EUR 0.2 billion from our financial stake in BT in the reporting year. The prior-year figure included a final dividend of EUR 0.2 billion received in connection with the sale of our stake in the former EE joint venture. Finance costs decreased by EUR 0.3 billion to EUR 2.2 billion.

NET PROFIT/LOSS

Net profit increased year-on-year by EUR 0.8 billion to EUR 3.5 billion. After recording a tax expense of EUR 1.4 billion in the prior year, in 2017 we recorded a tax benefit of EUR 0.6 billion, mainly attributable to the reduction in the U.S. federal tax rate from 35 percent to 21 percent, which resulted in a non-cash deferred tax benefit of EUR 2.7 billion at T-Mobile US. Profit attributable to non-controlling interests increased compared with 2016 by EUR 1.7 billion to EUR 2.1 billion. Alongside positive business performance and the partial reversal of impairment losses on spectrum licenses acquired previously in the United States operating segment, the increase in profit attributable to non-controlling interests was driven in particular by the deferred tax benefit recognized.

The following table presents a reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors.

For further information, please refer to Note 26 "Income taxes" in the notes to the consolidated financial statements, page 212 et seq.

For further details, please refer to Note 22 "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, page 210.

For further information on the development of our results of operations, please refer to the disclosures under "Notes to the consolidated income statement" in the notes to the consolidated financial statements, page 209 et seq.

Consolidated income statement and effects of special factors
millions of €

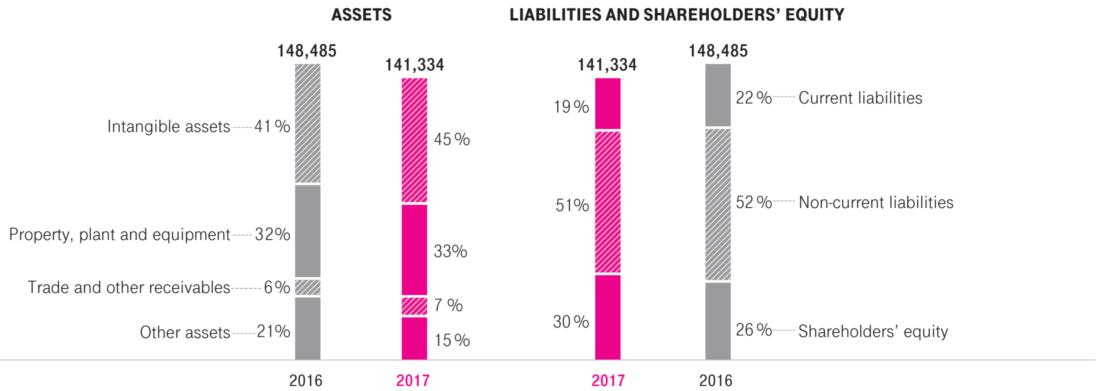
	EBITDA 2017	EBIT 2017	EBITDA 2016	EBIT 2016	EBITDA 2015	EBIT 2015
EBITDA/EBIT	**23,969**	**9,383**	**22,544**	**9,164**	**18,388**	**7,028**
GERMANY	**(306)**	**(306)**	**(910)**	**(910)**	**(545)**	**(545)**
Staff-related measures	(219)	(219)	(854)	(854)	(402)	(402)
Non-staff-related restructuring	(26)	(26)	(38)	(38)	(112)	(112)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	0	0
Other	(61)	(61)	(18)	(18)	(31)	(31)
UNITED STATES	**1,633**	**1,633**	**406**	**406**	**(425)**	**(425)**
Staff-related measures	(7)	(7)	(11)	(11)	(50)	(50)
Non-staff-related restructuring	0	0	0	0	0	0
Effects of deconsolidations, disposals and acquisitions	(11)	(11)	417	417	(382)	(382)
Reversal of impairment losses on non-current assets	1,651	1,651	–	–	–	–
Impairment losses	–	–	–	0	–	0
Other	0	0	0	0	7	7
EUROPE	**(130)**	**(995)**	**(93)**	**(277)**	**(207)**	**(250)**
Staff-related measures	(92)	(92)	(100)	(100)	(166)	(166)
Non-staff-related restructuring	(3)	(3)	(4)	(4)	(12)	(12)
Effects of deconsolidations, disposals and acquisitions	18	18	25	25	33	33
Impairment losses	–	(866)	–	(184)	–	(43)
Other	(53)	(52)	(14)	(14)	(62)	(62)
SYSTEMS SOLUTIONS	**(229)**	**(1,477)**	**(252)**	**(276)**	**(481)**	**(548)**
Staff-related measures	(132)	(132)	(136)	(136)	(233)	(233)
Non-staff-related restructuring	(2)	(2)	(5)	(5)	(229)	(229)
Effects of deconsolidations, disposals and acquisitions	0	0	0	0	(4)	(4)
Impairment losses	–	(1,242)	–	0	–	0
Other	(94)	(100)	(111)	(135)	(15)	(82)
GROUP DEVELOPMENT	**893**	**893**	**2,547**	**2,132**	**556**	**556**
Staff-related measures	1	1	(35)	(35)	(6)	(6)
Non-staff-related restructuring	(5)	(5)	(3)	(3)	(2)	(2)
Effects of deconsolidations, disposals and acquisitions	708	708	2,585	2,585	580	580
Impairment losses	–	–	–	(415)	–	0
Other	189	189	0	0	(16)	(16)
GROUP HEADQUARTERS & GROUP SERVICES	**(121)**	**(121)**	**(574)**	**(574)**	**(416)**	**(432)**
Staff-related measures	(109)	(109)	(502)	(502)	(353)	(353)
Non-staff-related restructuring	(49)	(49)	(31)	(31)	(78)	(78)
Effects of deconsolidations, disposals and acquisitions	63	63	(11)	(11)	(8)	(8)
Impairment losses	–	0	–	0	–	0
Other	(26)	(26)	(29)	(29)	23	7
GROUP RECONCILIATION	**0**	**(1)**	**(1)**	**(1)**	**(2)**	**(1)**
Staff-related measures	0	(1)	0	0	(1)	(1)
Non-staff-related restructuring	0	0	0	0	0	1
Effects of deconsolidations, disposals and acquisitions	0	0	(1)	(1)	1	1
Other	0	0	0	0	(2)	(2)
TOTAL SPECIAL FACTORS	**1,740**	**(374)**	**1,124**	**501**	**(1,520)**	**(1,645)**
EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)	**22,230**	**9,757**	**21,420**	**8,663**	**19,908**	**8,673**
Profit (loss) from financial activities (adjusted for special factors)		(2,895)		(2,323)		(2,233)
PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)		**6,863**		**6,340**		**6,440**
Income taxes (adjusted for special factors)		949		(1,858)		(1,927)
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)		**7,812**		**4,482**		**4,513**
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO						
Owners of the parent (net profit (loss)) (adjusted for special factors)		6,039		4,114		4,113
Non-controlling interests (adjusted for special factors)		1,773		368		400

FINANCIAL POSITION OF THE GROUP

Condensed consolidated statement of financial position
millions of €

	Dec. 31, 2017	Change	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
ASSETS						
CURRENT ASSETS	**20,392**	**(6,246)**	**26,638**	**32,184**	**29,798**	**21,963**
Cash and cash equivalents	3,312	(4,435)	7,747	6,897	7,523	7,970
Trade and other receivables	9,723	361	9,362	9,238	10,454	7,712
Non-current assets and disposal groups held for sale	161	(211)	372	6,922	5,878	1,033
Other current assets	7,196	(1,961)	9,157	9,127	5,943	5,248
NON-CURRENT ASSETS	**120,943**	**(904)**	**121,847**	**111,736**	**99,562**	**96,185**
Intangible assets	62,865	2,266	60,599	57,025	51,565	45,967
Property, plant and equipment	46,878	120	46,758	44,637	39,616	37,427
Investments accounted for using the equity method	651	(74)	725	822	617	6,167
Other non-current assets	10,548	(3,217)	13,765	9,252	7,764	6,624
TOTAL ASSETS	**141,334**	**(7,151)**	**148,485**	**143,920**	**129,360**	**118,148**
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES	**27,366**	**(5,760)**	**33,126**	**33,548**	**28,198**	**22,496**
Financial liabilities	8,358	(6,064)	14,422	14,439	10,558	7,891
Trade and other payables	10,971	530	10,441	11,090	9,681	7,259
Current provisions	3,372	304	3,068	3,367	3,517	3,120
Liabilities directly associated with non-current assets and disposal groups held for sale	–	(194)	194	4	6	113
Other current liabilities	4,664	(337)	5,001	4,648	4,436	4,113
NON-CURRENT LIABILITIES	**71,498**	**(5,016)**	**76,514**	**72,222**	**67,096**	**63,589**
Financial liabilities	49,171	(1,057)	50,228	47,941	44,669	43,708
Non-current provisions	11,530	(241)	11,771	11,006	10,838	9,077
Other non-current liabilities	10,798	(3,717)	14,515	13,275	11,589	10,804
SHAREHOLDERS' EQUITY	**42,470**	**3,625**	**38,845**	**38,150**	**34,066**	**32,063**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**141,334**	**(7,151)**	**148,485**	**143,920**	**129,360**	**118,148**

Structure of the consolidated statement of financial position
millions of €



Total assets amounted to EUR 141.3 billion, down by EUR 7.2 billion against December 31, 2016. This decrease is largely attributable to the repayment of financial liabilities. Exchange rate effects, in particular from the translation of U.S. dollars into euros, also contributed to the decline.

Cash and cash equivalents decreased by EUR 4.4 billion year-on-year due in part to the outflows for the spectrum license purchased in the United States amounting to EUR 5.2 billion.

For detailed information on the change in cash and cash equivalents, please refer to the consolidated statement of cash flows, page 152, and Note 30 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, page 217 et seq.

Trade and other receivables increased by EUR 0.4 billion to EUR 9.7 billion. Receivables increased slightly as of year-end in each of the Europe, Group Development, and Germany operating segments. In the United States operating segment, receivables remained more or less unchanged from the prior-year level. The higher volume of receivables for terminal equipment sold under installment plans in connection with the market launch of higher-priced smartphones had an increasing effect. This increase was offset in particular by exchange rate effects from the conversion of U.S. dollars into euros and factoring agreements concluded in the reporting period on revolving monthly sales of trade receivables due.

Non-current assets and disposal groups held for sale decreased by EUR 0.2 billion to EUR 0.2 billion. The sale of Strato completed in March 2017 had a decreasing effect of EUR 0.1 billion. In addition, the transaction completed by T-Mobile US in March 2017 on the exchange of spectrum licenses also reduced this item by EUR 0.1 billion. Further transactions on the exchange of spectrum licenses were agreed and completed in the United States operating segment in the course of the year.

Other current assets developed as follows until December 31, 2017: Other current financial assets decreased by EUR 2.4 billion to EUR 3.3 billion. This decline was mainly attributable to the utilization of a cash deposit of EUR 2.0 billion placed with the FCC in June 2016 in connection with the spectrum auction concluded in April 2017 in the United States operating segment. Exchange rate effects from the translation of U.S. dollars into euros also contributed to the decline. Inventories increased by EUR 0.4 billion to EUR 2.0 billion, primarily due to higher inventories of terminal equipment (in particular new, higher-priced smartphone models) as of the reporting date in our United States and Germany operating segments. Exchange rate effects from the translation of U.S. dollars into euros decreased the carrying amount here again.

Intangible assets and property, plant and equipment increased by EUR 2.4 billion compared with the end of 2016 to EUR 109.7 billion in total.

Intangible assets grew by EUR 2.3 billion to EUR 62.9 billion, mainly due to additions totaling EUR 11.6 billion. In particular, investments in new mobile spectrum licenses by the United States operating segment at the spectrum auction that ended in April 2017 had an increasing effect of EUR 7.2 billion. In addition, the partial reversal recognized as of September 30, 2017 of impairment losses on spectrum licenses previously acquired by T-Mobile US increased the carrying amount by EUR 1.7 billion. By contrast, in the Systems Solutions operating segment, the unexpected decline in order entry prompted intra-year impairment testing of the assets assigned to this unit. An impairment loss on goodwill of EUR 1.2 billion was recognized as of September 30, 2017 as a result. In the Europe operating segment, the annual impairment test resulted in impairment losses on goodwill of EUR 0.8 billion in total in our national companies in Poland, Romania, and Albania. Negative exchange rate effects of EUR 4.5 billion, primarily from the translation of U.S. dollars into euros, and amortization of EUR 4.1 billion, decreased the carrying amount. The reclassification of intangible assets worth EUR 0.3 billion to non-current assets and disposal groups held for sale also reduced the carrying amount.

Property, plant and equipment increased by EUR 0.1 billion compared to December 31, 2016 to EUR 46.9 billion. Additions of EUR 11.5 billion resulted from investments in intensifying the network build-out in the United States operating segment and investments in the Germany and Europe operating segments in the broadband and fiber-optic roll-out, the IP transformation, and mobile infrastructure. This also included EUR 1.0 billion for capitalized higher-priced mobile handsets in connection with the JUMP! On Demand business model introduced at T-Mobile US under which customers do not purchase the device but lease it. Of the additions, 69 percent related to investments intended to increase operating capacities. Exchange rate effects of EUR 1.9 billion, primarily from the translation of U.S. dollars into euros, reduced the carrying amount, as did depreciation of EUR 8.3 billion, impairment losses of EUR 0.1 billion, and disposals of EUR 1.0 billion. Of these disposals, EUR 0.7 billion was attributable to terminal equipment returned by customers under the JUMP! On Demand model.

As of December 31, 2017, other non-current assets included the following significant effects compared with the end of 2016: The carrying amount of other non-current financial assets decreased by EUR 2.2 billion to EUR 5.7 billion. This was largely attributable to the impairment losses of EUR 1.5 billion recognized in profit and loss in 2017 on the exchange-traded shares in BT, and to the exercise and remeasurement of early repayment options embedded in bonds issued by T-Mobile US. Deferred tax assets decreased by EUR 1.2 billion compared with the prior year, due in part to the remeasurement of deferred taxes undertaken as a result of the reduction in the applicable U.S. federal tax rate as of the 2018 financial year.

Current and non-current financial liabilities decreased by EUR 7.1 billion compared with the end of 2016 to EUR 57.5 billion. This is primarily the result of the early repayment of T-Mobile US' debt instruments in the amount of EUR 9.5 billion (translated into euros) and regular repayments of bond liabilities of EUR 3.3 billion. New bonds of EUR 10.2 billion (translated into euros) were issued. In our United States operating segment, the Mandatory Convertible Preferred Stock issued by T-Mobile US in December 2014 was converted into T-Mobile US ordinary shares in December 2017. In connection with this conversion, EUR 0.8 billion were reclassified from financial liabilities to capital reserves, and associated conversion rights of a further EUR 0.9 billion embedded in these preferred shares were reclassified from financial liabilities to capital reserves.

Trade and other payables increased by EUR 0.5 billion compared with the end of 2016 to EUR 11.0 billion, mainly due to higher inventories of terminal equipment (in particular new higher-priced smartphone models) in our United States and Germany operating segments. Exchange rate effects from the translation from U.S. dollars into euros have an offsetting effect.

Current and non-current **provisions** increased slightly against the prior-year level by EUR 0.1 billion to EUR 14.9 billion, of which EUR 8.4 billion (December 31, 2016: EUR 8.5 billion) related to provisions for pensions and other employee benefits. The slight decrease in pension provisions is mainly due to the positive yield development from plan assets at fair value that resulted in an actuarial gain of EUR 0.1 billion recognized under other comprehensive income. At EUR 6.5 billion, other provisions were slightly higher than in the prior year.

Other non-current liabilities decreased by EUR 3.7 billion compared with the prior year to EUR 10.8 billion and included **deferred tax liabilities**, which decreased by EUR 3.0 billion compared with the end of 2016 to EUR 7.0 billion. The decrease was mainly attributable to our United States operating segment, where the reduction in the applicable U.S. federal tax rate from 35 percent to 21 percent as of the 2018 financial year prompted a remeasurement of the surplus amount of deferred tax liabilities. Other liabilities also decreased due to the decline in liabilities to Bundesanstalt für Post- und Telekomunikation (Federal Posts and Telecommunications Agency) resulting from the early retirement model, and to exchange rate effects, in particular from the translation of U.S. dollars into euros.

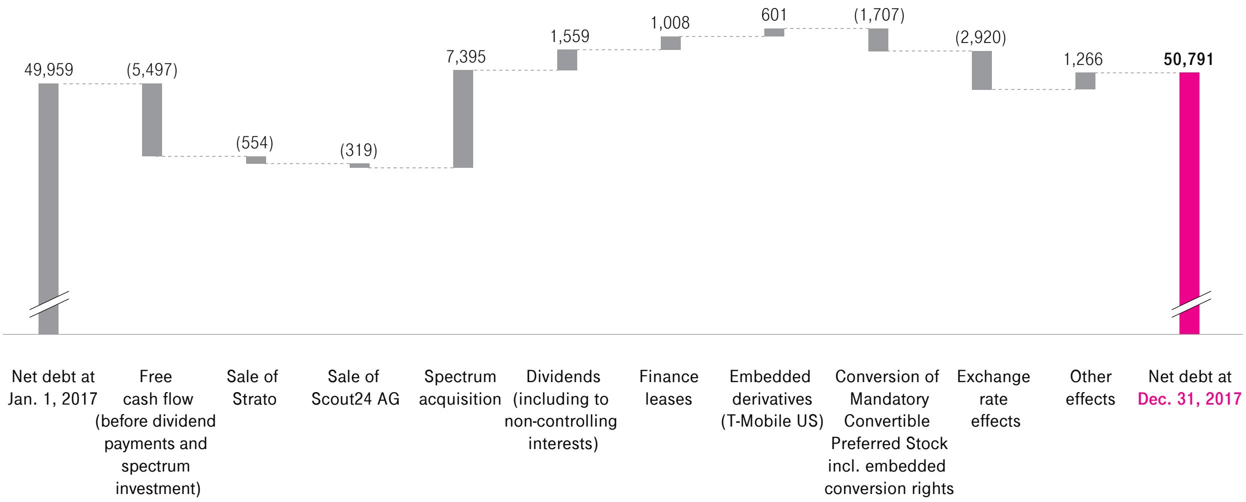
Shareholders' equity increased from EUR 38.8 billion as of December 31, 2016 to EUR 42.5 billion, due to profit after taxes of EUR 5.6 billion. Shareholders' equity increased by EUR 1.7 billion overall in connection with the conversion of Mandatory Convertible Preferred Stock into ordinary shares of T-Mobile US in our United States operating segment in December 2017, including the transfer of the conversion rights embedded in these preferred shares. In addition, in connection with the option granted to our shareholders to have their dividend entitlements for 2016 converted into shares, a capital increase of EUR 1.4 billion was carried out involving the contribution of the dividend entitlements. Dividend payments for the 2016 financial year to Deutsche Telekom AG shareholders of EUR 2.8 billion and to non-controlling interests of EUR 0.1 billion had an offsetting effect. As of December 31, 2017, ordinary shares in the amount of USD 0.4 billion (around EUR 0.4 billion) had been purchased under the share buy-back program announced at T-Mobile US in early December 2017. Under the program, T-Mobile US may, until the end of 2018, buy back ordinary shares of the company for a total amount of up to USD 1.5 billion. Currency translation effects recognized directly in equity reduced shareholders' equity by EUR 2.2 million.

For further information on the development of financial liabilities, please refer to the explanations in Note 10 "Financial liabilities" in the notes to the consolidated financial statements, **page 192 et seq.**

Net debt
millions of €

	Dec. 31, 2017	Change	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Financial liabilities (current)	8,358	(6,064)	14,422	14,439	10,558	7,891
Financial liabilities (non-current)	49,171	(1,057)	50,228	47,941	44,669	43,708
FINANCIAL LIABILITIES	**57,529**	**(7,121)**	**64,650**	**62,380**	**55,227**	**51,599**
Accrued interest	(692)	263	(955)	(1,014)	(1,097)	(1,091)
Other	(781)	248	(1,029)	(857)	(1,038)	(881)
GROSS DEBT	**56,056**	**(6,610)**	**62,666**	**60,509**	**53,092**	**49,627**
Cash and cash equivalents	3,312	(4,435)	7,747	6,897	7,523	7,970
Available-for-sale financial assets/ financial assets held for trading	7	(3)	10	2,877	289	310
Derivative financial assets	1,317	(1,062)	2,379	2,686	1,343	771
Other financial assets	629	(1,942)	2,571	479	1,437	1,483
NET DEBT	**50,791**	**832**	**49,959**	**47,570**	**42,500**	**39,093**

Changes in net debt
millions of €



Our **net debt** increased by EUR 0.8 billion year-on-year to EUR 50.8 billion. The reasons for this are presented in the graphic above. Other effects of EUR 1.3 billion include, among other factors, liabilities for the acquisition of media broadcasting rights and financing options under which the payments for trade payables become due at a later point in time by involving banks in the process. This figure also includes the acquisition of ordinary shares in T-Mobile US under the aforementioned share buy-back program.

Off-balance sheet assets and other financing formats. In addition to the assets recognized in the statement of financial position, we use off-balance sheet assets. This primarily relates to leased property.

For more information, please refer to the explanations in Note 33 "Leases," **pages 226 and 227**, and Note 34 "Other financial obligations," **page 228**, in the notes to the consolidated financial statements.

Off-balance-sheet financial instruments mainly relate to the sale of receivables by means of factoring. Total receivables sold as of December 31, 2017 amounted to EUR 4.7 billion (December 31, 2016: EUR 4.9 billion). This mainly relates to factoring agreements in the United States and Germany operating segments. The agreements are used in particular for active receivables management.

Furthermore, in the reporting year, we chose financing options totaling EUR 0.3 billion (2016: EUR 0.2 billion) which extended the period of payment for trade payables from operating and investing activities by involving banks in the process and which upon payment are shown under cash flows used in/from financing activities. As a result, we show these payables under financial liabilities in the statement of financial position.

In 2017, we leased network equipment for a total of EUR 1.0 billion (2016: EUR 0.9 billion), primarily in the United States operating segment, which is recognized as a finance lease. In the statement of financial position, we therefore also recognize this item under financial liabilities and the future repayments of the liabilities in net cash from/used in financing activities.

Finance management. Our finance management ensures our Group's ongoing solvency and hence its financial equilibrium. The fundamentals of Deutsche Telekom's finance policy are established each year by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management.

The rating of Deutsche Telekom AG

	Standard & Poor's	Moody's	Fitch
LONG-TERM RATING			
Dec. 31, 2013	BBB+	Baa1	BBB+
Dec. 31, 2014	BBB+	Baa1	BBB+
Dec. 31, 2015	BBB+	Baa1	BBB+
Dec. 31, 2016	BBB+	Baa1	BBB+
DEC. 31, 2017	**BBB+**	**Baa1**	**BBB+**
OUTLOOK	**Stable**	**Stable**	**Stable**
SHORT-TERM RATING	**A-2**	**P-2**	**F2**

Financial flexibility

		2017	2016	2015	2014	2013
RELATIVE DEBT	Net debt / EBITDA (adjusted for special factors)	2.3 x	2.3 x	2.4 x	2.4 x	2.2 x
EQUITY RATIO	%	30.0	26.2	26.5	26.3	27.1

To ensure financial flexibility, we primarily use the KPI relative debt. This is a core component of our finance strategy and an important performance indicator for investors, analysts, and rating agencies.

Condensed consolidated statement of cash flows
millions of €

	2017	2016	2015
NET CASH FROM OPERATING ACTIVITIES	17,196	15,533	14,997
Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment (CASH CAPEX)	(12,099)	(10,958)	(10,818)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	400	364	367
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)	5,497	4,939	4,546
NET CASH USED IN INVESTING ACTIVITIES	(16,814)	(13,608)	(15,015)
NET CASH USED IN FINANCING ACTIVITIES	(4,594)	(1,322)	(876)
Effect of exchange rate changes on cash and cash equivalents	(226)	250	267
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	3	(3)	1
Net increase (decrease) in cash and cash equivalents	(4,435)	850	(626)
CASH AND CASH EQUIVALENTS	3,312	7,747	6,897

Free cash flow. Free cash flow of the Group before dividend payments and spectrum investment grew from EUR 4.9 billion in the prior year to EUR 5.5 billion, with net cash from operating activities increasing by EUR 1.7 billion to EUR 17.2 billion. Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment increased by EUR 1.1 billion.

The increase in net cash from operating activities was mainly attributable to the positive business development of our United States operating segment. In the reporting period, factoring agreements were concluded for monthly revolving sales of trade receivables, mainly in the United States and Germany operating segments. Their effect on net cash from operating activities amounted to EUR 0.3 billion and was thus EUR 0.5 billion lower than in the prior year. In 2016, cash inflows from the cancellation of or changes in the terms of interest rate derivatives had a negative effect of EUR 0.3 billion. A year-on-year increase of EUR 0.1 billion in cash outflows for income taxes also had a negative impact. The dividend payments received from BT amounted to EUR 0.2 billion compared with the prior year in which dividend payments comprised EUR 0.1 billion from BT and EUR 0.2 billion from the former joint venture EE. By contrast, net interest payments that were EUR 0.1 billion lower year-on-year had a positive impact on net cash from operating activities.

The EUR 1.1 billion increase in cash capex compared with 2016 primarily related to the United States, Germany, and Europe operating segments. Cash outflows relate to network modernization and the continued network build-out, including roll-out of the 4G/LTE network and the broadband/fiber-optic build-out.

For further details, please refer to Note 30 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **page 217 et seq.**

Reconciliation for the change in disclosure of key figures for the prior-year comparative period in 2017
millions of €

	Total revenue	Profit (loss) from operations (EBIT)	EBITDA	Adjusted EBITDA	Depreciation and amortization	Impairment losses	Segment assets	Segment liabilities
FY 2016/DECEMBER 31, 2016 PRESENTATION AS OF DECEMBER 31, 2016 – AS REPORTED								
Germany	22,041	4,081	7,890	8,800	(3,796)	(13)	33,353	26,423
United States	33,738	3,685	8,967	8,561	(5,282)	–	68,349	49,791
Europe	12,747	717	3,963	4,094	(2,594)	(652)	30,778	12,519
Systems Solutions	7,907	(330)	245	582	(575)	–	9,031	6,073
Group Headquarters & Group Services	2,212	1,001	1,522	(576)	(493)	(28)	42,628	50,502
TOTAL	**78,645**	**9,154**	**22,587**	**21,461**	**(12,740)**	**(693)**	**184,139**	**145,308**
Reconciliation	(5,550)	10	(43)	(41)	53	–	(35,654)	(35,668)
GROUP	**73,095**	**9,164**	**22,544**	**21,420**	**(12,687)**	**(693)**	**148,485**	**109,640**
FY 2016/DECEMBER 31, 2016 +/– CHANGE IN DISCLOSURE: TECHNOLOGY AND INNOVATION BOARD DEPARTMENT AND GROUP DEVELOPMENT OPERATING SEGMENT								
Germany	(267)	(457)	(563)	(563)	106	–	(1,336)	(829)
United States	–	–	–	–	–	–	–	–
Europe	(1,293)	467	(190)	(228)	242	415	(4,178)	(1,528)
Systems Solutions	(914)	180	33	(52)	147	–	(1,569)	(830)
Group Development	2,347	2,730	3,490	943	(345)	(415)	11,221	2,417
Group Headquarters & Group Services	1,255	(2,920)	(2,765)	(94)	(155)	–	(4,926)	(19)
TOTAL	**1,128**	**–**	**5**	**6**	**(5)**	**–**	**(788)**	**(789)**
Reconciliation	(1,128)	–	(5)	(6)	5	–	788	789
GROUP	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
FY 2016/DECEMBER 31, 2016 = PRESENTATION AS OF DECEMBER 31, 2017								
Germany	21,774	3,624	7,327	8,237	(3,690)	(13)	32,017	25,594
United States	33,738	3,685	8,967	8,561	(5,282)	–	68,349	49,791
Europe	11,454	1,184	3,773	3,866	(2,352)	(237)	26,600	10,991
Systems Solutions	6,993	(150)	278	530	(428)	–	7,462	5,243
Group Development	2,347	2,730	3,490	943	(345)	(415)	11,221	2,417
Group Headquarters & Group Services	3,467	(1,919)	(1,243)	(670)	(648)	(28)	37,702	50,483
TOTAL	**79,773**	**9,154**	**22,592**	**21,467**	**(12,745)**	**(693)**	**183,351**	**144,519**
Reconciliation	(6,678)	10	(48)	(47)	58	–	(34,866)	(34,879)
GROUP	**73,095**	**9,164**	**22,544**	**21,420**	**(12,687)**	**(693)**	**148,485**	**109,640**

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

GERMANY

CUSTOMER DEVELOPMENT

thousands

	Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
Mobile customers[a]	43,125	41,849	1,276	3.0	40,373
Contract customers	25,887	25,219	668	2.6	23,709
Prepay customers	17,238	16,630	608	3.7	16,665
Fixed-network lines	19,239	19,786	(547)	(2.8)	20,227
Of which: retail IP-based	11,996	9,042	2,954	32.7	6,887
Broadband lines	13,209	12,922	287	2.2	12,644
Of which: optical fiber	5,803	4,250	1,553	36.5	2,923
Television (IPTV, satellite)	3,139	2,879	260	9.0	2,683
Unbundled local loop lines (ULLs)	6,138	7,195	(1,057)	(14.7)	8,050
Wholesale unbundled lines	5,539	4,212	1,327	31.5	3,015
Of which: optical fiber	3,783	2,555	1,228	48.1	1,444
Wholesale bundled lines	100	165	(65)	(39.4)	227

[a] As of January 1, 2017, reporting of contract customers in business customer operations excludes test cards (minus 41 thousand). In addition, there was a one-time effect in the Business Customers segment from a change in system reporting for prepay customers (plus 180 thousand). Prior-year figures have not been adjusted.

For information on changes in the organizational structure, please refer to the section "Group organization," **page 31 et seq.**, and Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

Total

In Germany we continue to be market leader both in terms of fixed-network and mobile revenues. This success is attributable to our high-performance networks. We offer best customer experience with multi-award-winning network quality – in the fixed network and in mobile communications – and with a broad product portfolio. So far, we have won 3.6 million customers for our integrated product, MagentaEINS.

In mobile communications, we won another 1.1 million customers in 2017. Thanks to strong demand for mobile rate plans with integrated data volumes, the number of contract customers under our Telekom and congstar brands grew. We also recorded substantial growth in the number of prepay customers.

By the end of 2017, we had already migrated 17.3 million retail and wholesale lines to IP, which corresponds to a migration rate of 69 percent.

Strong demand for our fiber-optic products continued. The number of lines increased to 9.6 million overall by the end of 2017, which means we connected 2.8 million lines to our fiber-optic network in Germany over the reporting year. With the progress in fiber-optic roll-out and innovative vectoring technology, we also successfully drove forward the marketing of higher bandwidths. With our contingent model, we create incentives for the migration from traditional wholesale products – such as bundled wholesale lines or unbundled local loop lines (ULLs) – to higher-quality fiber-optic wholesale lines.

Mobile communications

In 2017, we won a total of 676 thousand contract customers under the Telekom and congstar brands and at Telekom Deutschland Multibrand GmbH. The contract customer business of resellers (service providers) remained at the prior-year level. The number of prepay customers increased by 428 thousand.

Fixed network

Due to the persistently challenging development in the fixed-network market, primarily owing to aggressive pricing offers of competitors, we are pursuing new paths in marketing, focusing on integrated offers and on TV and fiber-optic lines. As a result, the number of broadband lines increased by 287 thousand in 2017 compared with the prior year and the number of TV customers rose by 260 thousand. In the traditional fixed network, the number of lines decreased by 547 thousand.

Our MagentaZuhause rate plans offer a comprehensive product portfolio for the fixed network based on IP technology and rate plan-specific bandwidths. MagentaZuhause Hybrid bundles fixed-network and mobile technology in a single router. To date, 370 thousand customers, primarily based in rural areas, have selected this innovative product.

By the end of 2017, we had also connected a total of 218 thousand apartments to our network through our partnerships in the housing sector.

Wholesale

As of December 31, 2017, fiber-optic lines accounted for 32.1 percent of all lines – 10.0 percentage points higher than the prior-year figure. The strong growth in our wholesale unbundled lines by 1.3 million or 31.5 percent compared with 2016 was primarily attributable to the strong demand for our contingent model. By contrast, the number of bundled wholesale lines decreased by 65 thousand. This trend is likely to continue for the next few years due to the fact that our competitors are switching from bundled to unbundled wholesale products with more bandwidth, or to their own infrastructure. The number of unbundled local loop lines decreased by 1.1 million or 14.7 percent compared with the end of the prior year. This is due first to the move to higher-quality fiber-optic wholesale lines, and second to retail customers switching to cable operators. In addition, wholesale customers are migrating their retail customers to their own fiber-optic lines. The total number of lines in the wholesale sector increased compared with 2016 to 11.8 million.

DEVELOPMENT OF OPERATIONS

millions of €

		2017	2016	Change	Change %	2015
TOTAL REVENUE		21,931	21,774	157	0.7	22,185
Consumers		11,797	11,739	58	0.5	12,146
Business Customers [a]		6,017	5,923	94	1.6	5,943
Wholesale		3,747	3,742	5	0.1	3,677
Other [a]		370	370	0	0.0	419
Profit from operations (EBIT)		4,334	3,624	710	19.6	4,081
EBIT margin	%	19.8	16.6			18.4
Depreciation, amortization and impairment losses		(3,828)	(3,703)	(125)	(3.4)	(3,646)
EBITDA		8,162	7,327	835	11.4	7,728
Special factors affecting EBITDA		(306)	(910)	604	66.4	(545)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		8,468	8,237	231	2.8	8,273
EBITDA margin (adjusted for special factors)	%	38.6	37.8			37.3
CASH CAPEX		(4,214)	(4,031)	(183)	(4.5)	(5,459)

[a] As of July 1, 2017, a share of revenue previously recognized under "Other" was assigned to Business Customers on account of a reorganization. Prior-year figures have not been adjusted.

Total revenue

Total revenue increased by 0.7 percent year-on-year in 2017, due mainly to a 2.5 percent rise in mobile revenues and a 10.8 percent growth in non-contract handset revenues. Higher IT and broadband revenues also had a positive impact on fixed-network revenue. This was not quite sufficient to completely offset the decrease of 0.9 percent in fixed-network revenue compared with 2016.

Revenue from **Consumers** grew by 0.5 percent year-on-year. Volume-related revenue decreases continued to drive the traditional fixed-network business. By contrast, revenue from broadband business increased by 1.1 percent, while revenue from mobile business increased by 2.3 percent, primarily due to successful terminal equipment sales.

Revenue from **Business Customers** increased by 1.6 percent, with mobile revenues increasing by 2.7 percent and IT revenues by 19.5 percent compared with 2016. In the fixed network, by contrast, a decline was recorded in traditional voice telephony, due largely to the increasing number of customers moving to flat-rate plans.

Wholesale revenue remained at the prior-year level in 2017. Adjusted for regulatory price effects (from December 1, 2016), there was a positive trend, thanks primarily to higher revenues with unbundled lines, in particular as part of our contingent model.

EBITDA, adjusted EBITDA

EBITDA amounted to EUR 8.2 billion in 2017, an increase of 11.4 percent against the prior year, due mainly to lower special factors for expenses in connection with our staff restructuring. EBITDA adjusted for special factors increased by 2.8 percent compared with 2016 in the reporting year to EUR 8.5 billion, driven mainly by efficiency enhancement measures in all functions while revenue increased slightly. Our adjusted EBITDA margin increased to 38.6 percent (prior-year figure: 37.8 percent).

EBIT

Profit from operations increased by 19.6 percent year-on-year to EUR 4.3 billion. The increase in the level of EBITDA more than offset the slight increase in depreciation, amortization and impairment losses.

Cash capex

Cash capex increased year-on-year by 4.5 percent. As part of our integrated network strategy, we again made significant investments in the broadband and fiber-optic roll-out, our IP transformation, and our mobile infrastructure.

UNITED STATES

CUSTOMER DEVELOPMENT

thousands

	Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
Mobile customers	72,585	71,455	1,130	1.6	63,282
Branded customers [a]	58,715	54,240	4,475	8.3	49,326
Branded postpaid [a]	38,047	34,427	3,620	10.5	31,695
Branded prepay [a]	20,668	19,813	855	4.3	17,631
Wholesale customers [a,b]	13,870	17,215	(3,345)	(19.4)	13,956

[a] On September 1, 2016 T-Mobile US sold its marketing and distribution rights to certain of T-Mobile US' existing co-branded customers to a current wholesale partner for nominal consideration (the MVNO Transaction). Upon the sale, the transaction resulted in a transfer of 1,365 thousand branded postpaid customers and 326 thousand branded prepay customers to wholesale customers. Prospectively from September 1, 2016, net customer additions for these customers are included within wholesale customers.

[b] T-Mobile US believes current and future regulatory changes have made the Lifeline program offered by T-Mobile US' wholesale partners uneconomical. T-Mobile US will continue to support its wholesale partners offering the Lifeline program, but has excluded the Lifeline customers from the reported wholesale subscriber base resulting in the removal of 4,528 thousand reported wholesale customers beginning in the second quarter of 2017. No further Lifeline adjustments are expected in future periods.

At December 31, 2017, the United States operating segment (T-Mobile US) had 72.6 million customers compared to 71.5 million customers at December 31, 2016. Net customer additions were 5.7 million for the year ended December 31, 2017 – excluding Lifeline customer activity beginning in the second quarter of 2017 – compared to 8.2 million net customer additions for the year ended December 31, 2016 due to the factors described below.

Branded customers. Branded postpaid net customer additions were 3,620 thousand for the year ended December 31, 2017, compared to 4,097 thousand branded postpaid net customer additions for the year ended December 31, 2016. Branded postpaid net customer additions for the year ended December 31, 2017 were lower compared to the year ended December 31, 2016, primarily due to higher deactivations from a growing customer base, a decrease in the number of qualified branded prepay customers migrating to branded postpaid plans, and lower gross customer additions from increased competitive activity in the marketplace.

Branded prepay net customer additions were 855 thousand for the year ended December 31, 2017, compared to 2,508 thousand branded prepay net customer additions for the year ended December 31, 2016. The decrease was due primarily to higher MetroPCS brand deactivations from a growing customer base and increased competitive activity in the marketplace. Additional decreases resulted from the optimization of T-Mobile US' third-party distribution channels.

Wholesale customers. T-Mobile US believes current and future regulatory changes have made the Lifeline program offered by T-Mobile US wholesale partners uneconomical. T-Mobile US will continue to support its wholesale partners offering the Lifeline program, but has excluded the Lifeline customers from the reported wholesale subscriber base resulting in a removal of 4,528 thousand reported wholesale customers beginning in the second quarter of 2017. No further Lifeline adjustments are expected in future periods. Taking the aforementioned approach into consideration Wholesale net customer additions were 1,183 thousand for the year ended December, 2017, compared to wholesale net customer additions of 1,568 thousand for the year ended December 31, 2016. The decrease was due primarily to lower gross customer additions, partially offset by lower customer deactivations. Net customer activity for Lifeline was also excluded beginning in the second quarter of 2017.

DEVELOPMENT OF OPERATIONS

millions of €

		2017	2016	Change	Change %	2015
TOTAL REVENUE		35,736	33,738	1,998	5.9	28,925
Profit from operations **(EBIT)**		5,930	3,685	2,245	60.9	2,454
EBIT margin	%	16.6	10.9			8.5
Depreciation, amortization and impairment losses		(5,019)	(5,282)	263	5.0	(3,775)
EBITDA		10,949	8,967	1,982	22.1	6,229
Special factors affecting EBITDA		1,633	406	1,227	n. a.	(425)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		9,316	8,561	755	8.8	6,654
EBITDA margin (adjusted for special factors)	%	26.1	25.4			23.0
CASH CAPEX		(11,932)	(5,855)	(6,077)	n. a.	(6,381)

Total revenue

Total revenue for the United States operating segment of EUR 35.7 billion in 2017 increased by 5.9 percent compared to EUR 33.7 billion in 2016. In U.S. dollars, T-Mobile US' total revenues increased by 8.1 percent year-on-year due primarily to service revenue growth resulting from increases in T-Mobile US' average branded customer base from strong customer response to T-Mobile US' Un-carrier initiatives and success of the MetroPCS brand. Additionally, equipment revenues increased due primarily to a higher average revenue per device sold, an increase from the purchase of leased devices at the end of the lease term, and increased proceeds from liquidation of returned customer handsets, partially offset by a decrease in lease revenues due to T-Mobile US' continued focus on equipment installment plan sales.

EBITDA, adjusted EBITDA

Adjusted EBITDA increased by 8.8 percent to EUR 9.3 billion in 2017, compared to EUR 8.6 billion in 2016. In U.S. dollars, adjusted EBITDA increased by 10.7 percent in 2017, compared to 2016. Adjusted EBITDA increased due primarily to an increase in branded postpaid and prepay service revenues resulting from strong customer response to T-Mobile US' Un-carrier initiatives, the ongoing success of promotional activities, and the continued strength of the MetroPCS brand, partially offset by higher commissions, employee-related costs, promotional costs, higher costs associated with network expansion, and the negative impact from hurricanes in Texas, Florida and Puerto Rico. The negative impact in 2017 from lost revenue, assets damaged or destroyed and other hurricane-related costs incurred was approximately EUR 250 million. As of December 31, 2017, T-Mobile US expects additional expenses to be incurred and customer activity to be impacted in the first quarter of 2018, primarily related to T-Mobile US' operations in Puerto Rico. T-Mobile US has not recognized any potential insurance recoveries related to those hurricane losses as it continues to assess the damage and hold discussions with its insurance carriers. Adjusted EBITDA margin increased to 26.1 percent in 2017, compared to 25.4 percent in 2016 due to the factors described above.

EBITDA in 2017 included special factors of EUR 1.6 billion compared to special factors of EUR 0.4 billion in 2016. The increase in special factors related primarily to a spectrum impairment reversal in 2017. Overall, EBITDA increased to EUR 10.9 billion in 2017, compared to EUR 9.0 billion in 2016 due to the factors described above, including the impact of special factors.

EBIT

EBIT increased to EUR 5.9 billion in 2017, compared to EUR 3.7 billion in 2016 driven by higher EBITDA and lower depreciation expense related to devices leased under T-Mobile US' JUMP! On Demand program, partially offset by an increase from the continued build-out of T-Mobile US' 4G/LTE network.

Cash capex

Cash capex increased to EUR 11.9 billion in 2017, compared to EUR 5.9 billion in 2016, due primarily to EUR 7.3 billion of spectrum licenses acquired in 2017, compared with EUR 1.7 billion of spectrum licenses acquired in 2016. Excluding the effects of spectrum acquisitions, cash capex increased by EUR 0.4 billion in 2017, compared to 2016, due primarily to growth in network build as T-Mobile US continues deployment of low band spectrum and begins deployment of 600 MHz spectrum.

EUROPE

CUSTOMER DEVELOPMENT

thousands

		Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
EUROPE, TOTAL	Mobile customers	48,842	47,952	890	1.9	49,060
	Contract customers	25,483	24,315	1,168	4.8	23,657
	Prepay customers	23,359	23,637	(278)	(1.2)	25,403
	Fixed-network lines	8,439	8,531	(92)	(1.1)	8,763
	Of which: IP-based	5,734	5,016	718	14.3	4,132
	Retail broadband lines	5,647	5,393	254	4.7	5,189
	Television (IPTV, satellite, cable)	4,244	4,049	195	4.8	3,905
	Unbundled local loop lines (ULLs)/wholesale PSTN	2,265	2,259	6	0.3	2,239
	Wholesale bundled lines	143	123	20	16.3	121
	Wholesale unbundled lines	246	247	(1)	(0.4)	199
GREECE	Mobile customers	7,981	7,725	256	3.3	7,399
	Fixed-network lines	2,547	2,564	(17)	(0.7)	2,586
	Broadband lines	1,843	1,682	161	9.6	1,531
ROMANIA	Mobile customers	5,258	5,722	(464)	(8.1)	5,992
	Fixed-network lines	1,865	1,969	(104)	(5.3)	2,091
	Broadband lines	1,182	1,194	(12)	(1.0)	1,186
HUNGARY	Mobile customers	5,293	5,332	(39)	(0.7)	5,504
	Fixed-network lines	1,632	1,629	3	0.2	1,674
	Broadband lines	1,105	1,040	65	6.3	1,023
POLAND	Mobile customers	10,454	10,634	(180)	(1.7)	12,056
	Fixed-network lines	32	20	12	60.0	18
	Broadband lines	15	16	(1)	(6.3)	15
CZECH REPUBLIC	Mobile customers	6,176	6,049	127	2.1	6,019
	Fixed-network lines	197	140	57	40.7	154
	Broadband lines	167	134	33	24.6	134
CROATIA	Mobile customers	2,244	2,234	10	0.4	2,233
	Fixed-network lines	967	1,001	(34)	(3.4)	1,004
	Broadband lines	783	783	0	0.0	741
SLOVAKIA	Mobile customers	2,243	2,225	18	0.8	2,235
	Fixed-network lines	858	850	8	0.9	855
	Broadband lines	669	638	31	4.9	599
AUSTRIA	Mobile customers	5,702	4,594	1,108	24.1	4,323
OTHER[a]	Mobile customers	3,490	3,438	52	1.5	3,299
	Fixed-network lines	340	358	(18)	(5.0)	381
	Broadband lines	274	279	(5)	(1.8)	285

[a] Other: national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the lines of the GTS Central Europe group in Romania.

For information on changes in the organizational structure, please refer to the section "Group organization," **page 31 et seq.**, and Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

Total

The European market was again dominated by intense competition in the reporting year. We met this challenge successfully thanks to our convergent product portfolio MagentaOne, recording a strong increase of around 58.5 percent in our FMC customer base as of December 31, 2017. Our TV business has also established itself as a consistent revenue growth driver. In the mobile communications business, we recorded a year-on-year increase in the number of high-value contract customers of 4.8 percent to 25.5 million. We are systematically driving forward the roll-out of fast, fiber-optic lines (FTTH, FTTB, and FTTC) in the fixed network. As part of our pan-European network strategy, we also increased the number of IP lines – primarily thanks to the migration from traditional PSTN lines to IP technology.

Mobile communications

As of the end of December 2017, we had a total mobile customer base of 48.8 million – up by 1.9 percent compared with 2016. The rise was attributable to the positive trend in the high-value contract customer business, especially at our national companies in Poland, Hungary, and the Czech Republic. Overall, we recorded growth in the number of contract customers of 4.8 percent or some 1.2 million net contract additions; thus the growth trend continues. At the end of the reporting year, contract customers accounted for 52.2 percent of the total customer base. Thanks to our continued build-out of our mobile networks with 4G/LTE technology, our customers enjoy better network coverage with fast mobile broadband. As of December 31, 2017, we already covered 94 percent of the population in the countries of our operating segment with LTE, reaching around 106 million people in total. The high level of data volumes used as well as the sales figures for mobile devices prove that our customers actually use these high bandwidths: At the end of December 2017, smartphones accounted for 81 percent of all mobile terminal equipment sales, a further increase against the prior year. This enabled us to entirely offset customer losses in the prepay business. The effects of regulatory prepay registration requirements in Poland had a negative effect on customer development. We recorded a return to slight growth in prepay customers from the third quarter of 2017 compared with the prior quarter.

Fixed network

Our TV and Entertainment offers generated positive impetus again in the reporting year: The number of TV customers grew by 4.8 percent compared with the end of 2016 to 4.2 million, with the majority of the net customer additions – 195 thousand – at our national companies in Hungary, Slovakia and Greece.

Our convergence product portfolio, MagentaOne, is available to our customers in all of our integrated countries. By December 31, 2017, we had already gained 2.2 million FMC customers in total, with demand rising substantially in Greece in particular. We have been increasingly successful in marketing our MagentaOne Business product to business customers. A simplified and standardized network based on IP technology provides the technical underpinnings of FMC products. Overall, we have converted five of our national companies to IP technology. As of December 31, 2017, we recorded 5.7 million IP-based lines – up 14.3 percent compared with the prior year. IP lines accounted for around 67.9 percent of all fixed-network lines. The number of fixed-network lines in our Europe operating segment decreased slightly compared with 2016 to 8.4 million as of the end of the reporting year.

The number of retail broadband lines increased by 4.7 percent to 5.6 million overall, with fiber-optic-based lines accounting for the majority of net customer additions, once again growing considerably faster than DSL business. Romania, Hungary, and Slovakia were the main contributors to this growth. We continued to increase our overall fiber-optic coverage, with our national companies reaching around 32 percent of households as of December 31, 2017. This success bears out our continued investment in forward-looking, fiber optic-based technologies.

DEVELOPMENT OF OPERATIONS

millions of €

	2017	2016	Change	Change %	2015
TOTAL REVENUE	11,589	11,454	135	1.2	11,674
Greece	2,846	2,883	(37)	(1.3)	2,878
Romania	972	985	(13)	(1.3)	984
Hungary	1,808	1,673	135	8.1	1,848
Poland [a]	1,509	1,488	21	1.4	1,544
Czech Republic	1,011	959	52	5.4	958
Croatia	955	925	30	3.2	909
Slovakia	748	766	(18)	(2.3)	783
Austria	900	855	45	5.3	829
Other [b]	1,069	1,132	(63)	(5.6)	1,155
Profit from operations **(EBIT)**	462	1,184	(722)	(61.0)	1,342
EBIT margin %	4.0	10.3			11.5
Depreciation, amortization and impairment losses	(3,157)	(2,589)	(568)	(21.9)	(2,395)
EBITDA	3,619	3,773	(154)	(4.1)	3,737
Special factors affecting EBITDA	(130)	(93)	(37)	(39.8)	(207)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	3,749	3,866	(117)	(3.0)	3,944
Greece	1,135	1,120	15	1.3	1,118
Romania	166	175	(9)	(5.1)	205
Hungary	545	539	6	1.1	526
Poland [a]	419	482	(63)	(13.1)	580
Czech Republic	406	400	6	1.5	390
Croatia	386	374	12	3.2	367
Slovakia	315	302	13	4.3	296
Austria	266	258	8	3.1	259
Other [b]	110	215	(105)	(48.8)	202
EBITDA margin (adjusted for special factors) %	32.3	33.8			33.8
CASH CAPEX	(1,874)	(2,600)	726	27.9	(1,469)

The contributions of the national companies correspond to their respective unconsolidated financial statements and do not take consolidation effects at operating segment level into account.

[a] The business of T-Systems Polska Sp. z o.o., which was previously organizationally assigned to the Systems Solutions operating segment, is now disclosed under the Europe operating segment as of September 1, 2017. Figures for prior periods were not adjusted.

[b] "Other": national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as ICSS (International Carrier Sales & Solutions), the ICSS business of the local business units, GTS Central Europe group in Romania, and Europe Headquarters.

Total revenue

Our Europe operating segment generated total revenue of EUR 11.6 billion in the reporting year, a slight year-on-year increase of 1.2 percent. Revenue was 0.5 percent up on the prior-year figure in organic terms, i.e., assuming constant exchange rates and the same organizational structure.

Our national companies increased their revenues from growth areas by a substantial 11.0 percent in 2017, with growth areas accounting for around 33 percent of total segment revenue. Mobile data business made a key contribution to this, growing by 17.2 percent to EUR 1.6 billion. All of the countries in our operating segment contributed to this success, in particular Poland, Hungary, Greece, and Austria. Thanks to our innovative TV and program management, the uptrend continued in TV and broadband business, with TV revenue rising by 6.9 percent to EUR 498 million and broadband revenue rising by 2.9 percent to EUR 711 million in the reporting year. Our B2B/ICT business customer operations also recorded a year-on-year increase in revenues in 2017, mainly thanks to the particularly strong results with ICT solutions in Europe, primarily in Hungary. Thanks to our innovative and future-oriented business solutions we also recorded double-digit growth rates in revenue from cloud business and from convergent solutions for the SMEs (MagentaOne Business). We laid important groundwork in the reporting year to firmly establish ourselves as a preferred digitalization partner for customers.

In addition, we recorded higher revenue from terminal equipment sales and visitors (revenues with third parties from roaming in our home networks). This offset the overall revenue decline at segment level, which was primarily attributable to voice telephony. From a country perspective, Hungary, Austria, the Czech Republic, and Croatia made the biggest contributions to the organic development of revenue in the reporting year, offsetting declining revenue from Greece, Slovakia, Poland, and Romania in particular, as well as from international wholesale business. Intense competition on the telecommunications markets as well as lower roaming charges in many countries of our operating segment had a negative impact on our organic revenue.

EBITDA, adjusted EBITDA

Our Europe operating segment generated adjusted EBITDA of EUR 3.7 billion in the reporting year, a year-on-year decrease of 3.0 percent. In organic terms, i.e., assuming constant exchange rates, and adjusted for the internal reallocation to the new Board of Management department Technology and Innovation, adjusted EBITDA declined only slightly by 1.0 percent.

The positive revenue effect was offset by higher market investments and revenue-related cost increases in B2B/ICT business customer operations, among other factors. By contrast, increased cost efficiency had a positive effect on adjusted EBITDA at segment level. From a country perspective, the slight decline in organic adjusted EBITDA is primarily attributable to developments at our national companies in Poland, Romania, and Albania. In Poland in particular, the decrease in revenue from the smaller customer base resulting from the prepay SIM registration requirement and intense competition had a negative effect on adjusted EBITDA. Regulatory effects, such as the reduction in EU roaming surcharges and interconnection rates, as well as higher market investment costs also reduced adjusted EBITDA. These developments were contrasted by increases in adjusted EBITDA in Greece, Slovakia, Croatia, and Austria in particular. Adjusted EBITDA was also impacted by decisions by regulatory authorities and the introduction of special taxes.

Our unadjusted EBITDA decreased by 4.1 percent year-on-year to EUR 3.6 billion, due in part to the decline in adjusted EBITDA, and in part to an increase in negative special factors. In organic terms, EBITDA decreased by 2.0 percent.

Development of operations in selected countries

Greece. At EUR 2.8 billion, revenue in Greece was only slightly down against 2016. We performed well in the fixed-network business, with increased revenues from broadband and TV business as well as with our exclusive TV content. Revenue in the B2B/ICT business also performed well. However, we were not able to entirely offset the negative effects from the wholesale business and voice telephony. Mobile revenues were slightly up year-on-year, with rising revenues from mobile data services and visitors more than offsetting the primarily price-driven decline in revenue from voice telephony.

In 2017, adjusted EBITDA in Greece increased slightly year-on-year by 1.3 percent to EUR 1.1 billion. Thanks to increased cost efficiency, we more than offset the decline in revenues.

Hungary. In Hungary, revenue grew by 8.1 percent compared with the prior year to EUR 1.8 billion. In organic terms, it increased by 7.4 percent. This growth was driven by the fixed-network business with clear revenue growth in the B2B/ICT business customer operations. TV business also made a positive contribution to total revenues, as did our FMC offering MagentaOne for consumers and business customers. In mobile business, revenue from mobile data services increased by 23.5 percent compared with the prior year. Revenue from terminal equipment sales also increased significantly, more than offsetting the decline in voice revenue. Our high-speed, high-reach mobile network also contributed to the positive trend in mobile business.

Adjusted EBITDA increased by 1.1 percent year-on-year to EUR 545 million. In organic terms, adjusted EBITDA remained almost unchanged.

Austria. In Austria, we generated revenue of EUR 900 million in the reporting year, up 5.3 percent compared with the prior year. This was mainly attributable to the mobile data business which saw a further rise in volume and accounted for a share of total revenue of around 33 percent. Higher voice and visitor revenues and a one-time effect from the first quarter of 2017 also positively influenced the revenue trend. Overall, these positive effects more than offset the decrease in revenue from text messaging services and from sales of mobile terminal equipment.

The revenue trend is also evident in the increase in adjusted EBITDA by 3.1 percent to EUR 266 million in 2017.

EBIT

EBIT in our Europe operating segment decreased by 61.0 percent in 2017 to EUR 0.5 billion. In addition to the decline in EBITDA, this was primarily due to the EUR 0.6 billion increase in depreciation, amortization and impairment losses - in particular from the impairment of goodwill and property, plant and equipment amounting to EUR 0.9 billion resulting from the year-end impairment tests in Poland, Albania, and Romania. In the prior year, impairment losses on goodwill and on property, plant and equipment, primarily in Romania, reduced EBIT by EUR 0.2 billion overall.

Cash capex

In the reporting year, our Europe operating segment reported cash capex of EUR 1.9 billion. The decline of EUR 0.7 billion was primarily due to the acquisition of mobile licenses in Poland in the prior year. In 2017, we acquired a small amount of mobile spectrum in Greece. Excluding the effects from the acquisition of spectrum, cash capex increased by 11.8 percent compared with 2016 at segment level. As part of our integrated network strategy, we made significant investments in the broadband and fiber-optic roll-out, our IP transformation, and our mobile infrastructure.

SYSTEMS SOLUTIONS

ORDER ENTRY

millions of €

	Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
ORDER ENTRY	5,241	6,851	(1,610)	(23.5)	5,608

The prior-year comparative for 2016 was adjusted retrospectively due to the change in the structure of the Group implemented as of January 1, 2017.

For information on changes in the organizational structure, please refer to the section "Group organization," page 31 et seq., and Note 31 "Segment reporting" in the notes to the consolidated financial statements, page 220 et seq.

Development of business

Order entry at our Systems Solutions operating segment declined markedly year-on-year and was well below our expectations for the reporting year. Although we managed to conclude new contracts in 2017, the level achieved was lower than the prior year, which had included several major deals. One reason for the decline in order entry was the market trend away from traditional IT business and toward cloud computing and digitalization, which resulted in shorter terms of contract. Strategic partnerships remain a key component of our plan to expand strategic growth areas such as the cloud and the Internet of Things. It means that we offer our partners' services from our data centers in Germany. In addition, we use our global partner alliance ngena (Next Generation Enterprise Network Alliance) to provide our customers with international network connections and services at short notice. In this context, security and high availability play a key role for our customers as well as for us. Launched at the start of the reporting year, our Telekom Security unit provides the key underpinnings for our strategy to grow in digital innovation areas. We continue to offer the main pillars of the digital transformation with our solutions for the Internet of Things and for the cloud – along with the corresponding security solutions.

DEVELOPMENT OF OPERATIONS[a]

millions of €

		2017	2016	Change	Change %	2015
TOTAL REVENUE		6,918	6,993	(75)	(1.1)	6,837
External revenue		5,504	5,678	(174)	(3.1)	5,826
Loss from operations (EBIT)		(1,356)	(150)	(1,206)	n. a.	(373)
Special factors affecting EBIT		(1,477)	(276)	(1,201)	n. a.	(548)
EBIT (adjusted for special factors)		121	126	(5)	(4.0)	175
EBIT margin (adjusted for special factors)	%	1.7	1.8			2.6
Depreciation, amortization and impairment losses		(1,636)	(428)	(1,208)	n. a.	(473)
EBITDA		280	278	2	0.7	100
Special factors affecting EBITDA		(229)	(252)	23	9.1	(481)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)		509	530	(21)	(4.0)	581
EBITDA margin (adjusted for special factors)	%	7.4	7.6			8.5
CASH CAPEX		(383)	(402)	19	4.7	(432)

[a] The business of T-Systems Polska Sp. z o.o., which was previously organizationally assigned to the Systems Solutions operating segment, is now disclosed under the Europe operating segment as of September 1, 2017. Figures for prior periods were not adjusted.

Total revenue

Total revenue in our Systems Solutions operating segment was down slightly year-on-year to EUR 6.9 billion. The revenue trend differed in the course of the year. It decreased in the first half compared with the prior-year period, due to completion of the set-up phase of the toll collection system in Belgium in 2016. By contrast, revenue rose in the second half. Adjusted for the non-recurring effect from 2016, our telecommunications business grew year-on-year. On the other hand, revenue from our traditional IT business continued to decline. This business is marked by generally lower prices and declining order entry, especially for international business. Our strategic growth areas made a positive contribution, with revenue from cloud computing rising 19.2 percent year-on-year and from the Internet of Things by 4.9 percent. Our new Telekom Security unit generated revenue as well.

EBITDA, adjusted EBITDA

In the 2017 reporting year, our Systems Solutions operating segment recorded adjusted EBITDA of EUR 509 million compared with EUR 530 million in the prior year. Excluding the aforementioned non-recurring effect from the prior year, we reported a positive trend in line with our expectations despite a difficult ICT market, the provisions we had to set aside for certain corporate customer contracts, and the all-IP migration for some customer contracts. EBITDA remained roughly stable at EUR 280 million in the reporting year, up 0.7 percent year-on-year.

For further information on changes in the organizational structure, please refer to the notes in the section "Group organization," page 31 et seq., and the disclosures under Note 31 "Segment reporting" in the notes to consolidated financial statements, page 220 et seq.

EBIT, adjusted EBIT

Adjusted EBIT in our Systems Solutions operating segment decreased by EUR 5 million year-on-year. The decline in order entry prompted impairment testing of the assets in the third quarter. An impairment loss on goodwill of EUR 1.2 billion was recognized as a result. That is why EBIT decreased by a substantial EUR 1.2 billion to minus EUR 1.4 billion.

Cash capex

Cash capex in the Systems Solutions operating segment stood at EUR 383 million in the reporting period, down EUR 19 million compared to the prior year. Our consistently high level of capital expenditure is linked to our strategy of investing in the strategic growth areas of digital transformation, the Internet of Things, healthcare solutions, cloud computing, and cyber security. The continued expansion of the European toll collection system also increases the need for investment.

GROUP DEVELOPMENT

Since January 1, 2017, we have reported on the new Group Development operating segment. Group Development actively manages and increases the value of selected Group subsidiaries and equity investments.

CUSTOMER DEVELOPMENT

thousands

		Dec. 31, 2017	Dec. 31, 2016	Change	Change %	Dec. 31, 2015
NETHERLANDS	Mobile customers	3,850	3,746	104	2.8	3,677
	Fixed-network lines	191	164	27	16.5	–
	Broadband lines	191	164	27	16.5	–

Thanks to its successful repositioning in the market, T-Mobile Netherlands' mobile business for both consumers and business customers grew 2.8 percent in the reporting year. This increase was mainly due to the new rate plan portfolio introduced in the first quarter of 2017 and to the enhanced market approach it enabled. The number of customers in the fixed-network consumer portfolio we acquired from Vodafone at the end of 2016 also increased in 2017, by 16.5 percent.

DEVELOPMENT OF OPERATIONS

millions of €

	2017	2016	Change	Change %	2015
TOTAL REVENUE	2,263	2,347	(84)	(3.6)	2,428
Netherlands	1,355	1,331	24	1.8	1,394
Profit from operations (EBIT)	1,504	2,730	(1,226)	(44.9)	1,264
Depreciation, amortization and impairment losses	(304)	(760)	456	60.0	(342)
EBITDA	1,808	3,490	(1,682)	(48.2)	1,606
Special factors affecting EBITDA	893	2,547	(1,654)	(64.9)	556
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	915	943	(28)	(3.0)	1,050
Netherlands	421	358	63	17.6	500
EBITDA margin (adjusted for special factors) %	40.4	40.2			43.2
CASH CAPEX	(290)	(271)	(19)	(7.0)	(373)

Total revenue

Total revenue in our Group Development operating segment decreased by 3.6 percent year-on-year, with the revenue lost following the sale of Strato having a negative impact. Revenue at DFMG remained virtually unchanged compared with 2016. The main positive effect was the revenue trend at T-Mobile Netherlands.

EBITDA, adjusted EBITDA

EBITDA decreased by EUR 1.7 billion year-on-year to EUR 1.8 billion. We are constantly analyzing our portfolio of shareholdings with a focus on ensuring adequate corporate growth. A consequence of this policy was our sale of Strato effective March 31, 2017 and of the remaining shares in Scout24 AG effective June 23, 2017. The disposals resulted in income of around EUR 0.7 billion being recognized as special factors. Positive special factors of EUR 0.2 billion originating from a settlement agreement with BT concluded in July 2017 also had an impact. T-Mobile Netherlands recognized provisions for new consumer credit regulations in its home market. The 2016 figure had included positive net special factors of EUR 2.5 billion, primarily from the sale of our stake in the EE joint venture.

Adjusted EBITDA in our Group Development operating segment was down by 3.0 percent year-on-year, with forgone earnings following the sale of Strato having a negative impact. In addition, there were non-recurring effects as well as effects from the assignment of DFMG to the Group Development operating segment at the beginning of the reporting year. Adjusted EBITDA at T-Mobile Netherlands increased by 17.6 percent year-on-year, mainly because of lower market investment expenditure due to a higher proportion of SIM-only contracts, and of a significant reduction in overheads brought about by the transformation program.

EBIT

EBIT decreased by EUR 1.2 billion year-on-year to EUR 1.5 billion, due to the same factors described under EBITDA. Depreciation, amortization and impairment losses were lower than in the prior year, both due to the impairment loss of EUR 0.4 billion on goodwill recognized in the Netherlands in the previous year, and to the deconsolidation of Strato.

Cash capex

Cash capex in our Group Development operating segment increased by 7.0 percent year-on-year, primarily due to the acquisition of Vodafone's fixed-network consumer portfolio by T-Mobile Netherlands and to the expansion of mobile network capacities.

For information on the effects of our equity investments on profit/loss from financial activities, please refer to the section "Development of business in the Group," page 49 et seq.

For information on changes in the organizational structure, please refer to the notes in the section "Group organization," page 31 et seq., and the disclosures under Note 31 "Segment reporting" in the notes to consolidated financial statements, page 220 et seq.

GROUP HEADQUARTERS & GROUP SERVICES
DEVELOPMENT OF OPERATIONS

millions of €

	2017	2016	Change	Change %	2015
TOTAL REVENUE	2,943	3,467	(524)	(15.1)	3,355
Loss from operations (EBIT)	(1,495)	(1,919)	424	22.1	(1,750)
Depreciation, amortization and impairment losses	(657)	(676)	19	2.8	(780)
EBITDA	(837)	(1,243)	406	32.7	(970)
Special factors affecting EBITDA	(121)	(574)	453	78.9	(416)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	(716)	(670)	(46)	(6.9)	(554)
CASH CAPEX	(1,005)	(936)	(69)	(7.4)	(983)

Total revenue

Total revenue in our Group Headquarters & Group Services segment in 2017 decreased by 15.1 percent year-on-year. This decline was mainly due to the fact that the costs of intragroup development services newly commissioned from Deutsche Telekom IT in Germany have no longer been charged internally since January 2016. Other reasons for the decrease were forgone revenue from DeTeMedien, the sale of which was completed in June 2017, and lower intragroup revenue from land and buildings, essentially due to further optimization of the use of space. In addition, lower intragroup revenue from Telekom Training and Deutsche Telekom IT – due to a reduction in the amounts charged for licenses and a narrower revenue-relevant cost base – had a negative impact. There was a positive effect on revenue from the structural further development of Deutsche Telekom Services Europe (DTSE).

EBITDA, adjusted EBITDA

Adjusted EBITDA at Group Headquarters & Group Services decreased by EUR 46 million compared with 2016 in the reporting year, primarily due to lower intragroup revenue from land and buildings, forgone earnings following the sale of DeTeMedien, and higher additions to provisions. By contrast, the following factors had a positive effect on adjusted EBITDA: the establishment of our Board department Technology and Innovation, higher income from the sale of real estate, the reduction in headcount brought about by ongoing restructuring of the Vivento workforce, and lower operating costs at Group Services.

Overall, negative special factors of EUR 121 million impacted EBITDA in 2017, largely due to staff-related expenses. Proceeds from the sale of DeTeMedien had an offsetting effect. Negative special factors of EUR 574 million in 2016 were mainly due to staff-related expenses.

EBIT

The improvement in EBITDA was the main cause of the year-on-year increase of EUR 424 million in EBIT. Depreciation, amortization and impairment losses were down EUR 19 million year-on-year, due in particular to lower depreciation and impairment losses on land and buildings as a result of our ongoing efforts to optimize our real estate portfolio.

Cash capex

Cash capex increased by EUR 69 million year-on-year, primarily owing to increased development activities in the Board department Technology and Innovation.

DEVELOPMENT OF BUSINESS AT DEUTSCHE TELEKOM AG

Deutsche Telekom AG prepares its annual financial statements in accordance with the principles of German GAAP, as specified in the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG).

As the Headquarters of the Deutsche Telekom Group, we perform strategic and cross-segment management functions and provide services for other Group companies. The profits and losses of our subsidiaries and Group financing measures have a material effect on our financial position and results of operations. In our home market, there was a slight upward trend in revenue. This was partly due to a rise in mobile revenues and, in particular, in non-contract handset business. Increased IT and broadband revenues also had a positive impact on fixed-network revenue, although it was not sufficient to offset the overall decline in revenue in the fixed-network business. In our Systems Solutions operating segment, business was negatively affected by the continued decrease in revenues from the traditional IT business, characterized by a general downward trend in prices in the market as well as a decline in order entry. A positive revenue trend in our growth areas and an increase in terminal equipment revenue, but also lower roaming charges and ongoing intense competition impacted on the Europe operating segment in 2017.

Deutsche Telekom AG reported income after taxes for the 2017 financial year of EUR 4.9 billion. In addition to the operating business, the development of business in the reporting year was influenced by a number of very different factors, including the intragroup restructuring within the DFMG group, the reversal of a write-down (indirect stake held in T-Mobile US, Inc., Bellevue) as well as a write-down at T-Mobile Global Zwischenholding GmbH, Bonn (indirect stake held in the BT Group plc, London), and a write-down of the carrying amount for the investment in T-Systems International GmbH, Frankfurt/Main, arising from both the company's own business and from income related to subsidiaries, associated and related companies.

RESULTS OF OPERATIONS OF DEUTSCHE TELEKOM AG

Statement of income of Deutsche Telekom AG under German GAAP (total cost method)
millions of €

	2017	2016	Change	Change %	2015
NET REVENUE	**3,603**	**3,927**	**(324)**	**(8.3)**	**3,313**
Other own capitalized costs	4	4	0	–	7
TOTAL OPERATING PERFORMANCE	**3,607**	**3,931**	**(324)**	**(8.2)**	**3,320**
Other operating income	2,769	2,120	649	30.6	4,065
Goods and services purchased	(1,060)	(1,151)	91	7.9	(1,165)
Personnel costs [a]	(2,732)	(3,516)	784	22.3	(2,949)
Depreciation, amortization and write-downs	(341)	(338)	(3)	(0.9)	(387)
Other operating expenses [a]	(4,251)	(3,570)	(681)	(19.1)	(4,186)
OPERATING RESULTS	**(2,008)**	**(2,524)**	**516**	**20.4**	**(1,302)**
Financial income (expense), net	7,151	4,717	2,434	51.6	3,492
Income taxes	(198)	(154)	(44)	(28.6)	(282)
INCOME AFTER INCOME TAXES	**4,945**	**2,039**	**2,906**	**n. a.**	**1,908**
Other taxes	(18)	(19)	1	5.3	(19)
INCOME AFTER TAXES	**4,927**	**2,020**	**2,907**	**n. a.**	**1,889**

[a] Pursuant to the provisions of IDW RS HFA 30, as amended, which was adopted in December 2016, the expenses arising from the collateral promise for pensions are recognized under personnel costs; in 2015, they had been included under other operating expenses. Figures for 2015 have been adjusted accordingly.

The negative operating results improved by approximately EUR 0.5 billion year-on-year, due mainly to a year-on-year decrease in personnel costs of EUR 0.8 billion and an increase in other operating income of EUR 0.6 billion. Higher other operating expenses of EUR 0.7 billion and a decline of EUR 0.3 billion in net revenue had an offsetting effect.

The decline in net revenue compared with the previous year is primarily attributable to lower revenue from renting and leasing out. An increase of EUR 0.4 billion in foreign currency translation gains and income from derivatives were the main drivers of the year-on-year growth in other operating income, which was up by EUR 0.6 billion. The foreign currency translation gains in the reporting year result in particular from exchange rate effects realized from the repayment of U.S. dollar loans extended or taken out. Offsetting effects from hedging are included in other operating expenses. Furthermore, other operating income improved in the reporting year as a result of the sale of the remaining shares in Scout24 AG, Munich, which generated EUR 0.3 billion.

Other operating expenses were up EUR 0.7 billion year-on-year, due mainly to an increase of EUR 0.7 billion as a result of higher foreign currency transaction losses and expenses arising from derivatives, caused in particular by the repayment in the current year of U.S. dollar loans extended or taken out and by effects from the market performance of U.S. dollar currency derivatives. Offsetting effects from hedging are included in other operating income.

The decrease in personnel costs of EUR 0.8 billion is mainly attributable to lower expenses arising from the early retirement program for civil servants.

Net financial income increased by EUR 2.4 billion to EUR 7.2 billion, primarily as a result of a EUR 3.2 billion increase in income related to subsidiaries, associated and related companies. The increase of EUR 1.0 billion in write-downs on financial assets, primarily due to the write-down of the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main, had an offsetting effect.

Income related to subsidiaries, associated and related companies, which increased by EUR 3.2 billion compared with the prior year, was positively affected in the reporting year by profits transferred by DFMG Holding GmbH, Bonn, T-Mobile Global Zwischenholding GmbH, Bonn, and Telekom Deutschland GmbH, Bonn. The transfer of the loss from Deutsche Telekom IT GmbH, Bonn, and from T-Systems International GmbH, Frankfurt/Main, had an offsetting effect.

In addition to the operating business of the consolidated subsidiaries, the income related to subsidiaries, associated and related companies resulted from effects arising from reorganization measures as well as from a write-up to the original acquisition costs at a subsidiary. A write-down on the investment held indirectly by T-Mobile Global Holding GmbH, Bonn, in the British BT Group plc, London, had an offsetting effect.

The reduction of EUR 0.2 billion in the net interest expense compared with the prior year was primarily the result of higher interest income from subsidiaries in the amount of EUR 0.3 billion, especially from T-Mobile USA, Inc., Bellevue. By contrast, expenses in connection with the interest added back on noncurrent accruals increased by EUR 0.2 billion.

Income after income taxes was particularly impacted by the aforementioned effects and increased by a total of EUR 2.9 billion year-on-year in 2017.

Other tax expense of EUR 18 million combined with the aforementioned factors resulted in income after taxes of EUR 4,927 million in 2017. Taking into account EUR 1,001 million in unappropriated net income carried forward, unappropriated net income totaled EUR 5,928 million.

FINANCIAL POSITION OF DEUTSCHE TELEKOM AG

Balance sheet of Deutsche Telekom AG under German GAAP
millions of €

	Dec. 31, 2017	Dec. 31, 2017 %	Dec. 31, 2016	Change	Dec. 31, 2015
ASSETS					
Intangible assets	195	0.2	249	(54)	261
Property, plant and equipment	2,698	2.2	2,993	(295)	3,295
Financial assets	93,807	77.3	81,240	12,567	84,469
NONCURRENT ASSETS	**96,700**	**79.7**	**84,482**	**12,218**	**88,025**
Inventories	1	0.0	1	0	1
Receivables	22,073	18.2	16,308	5,765	15,795
Other assets	1,659	1.4	1,629	30	1,338
Cash and cash equivalents	157	0.1	208	(51)	221
CURRENT ASSETS	**23,890**	**19.7**	**18,146**	**5,744**	**17,355**
Prepaid expenses and deferred charges	676	0.6	516	160	418
Difference between plan assets and corresponding liabilities	51	0.0	36	15	16
TOTAL ASSETS	**121,317**	**100.0**	**103,180**	**18,137**	**105,814**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Capital stock and reserves	53,011	43.7	51,651	1,360	50,615
Unappropriated net income	5,928	4.9	3,795	2,133	4,299
SHAREHOLDERS' EQUITY	**58,939**	**48.6**	**55,446**	**3,493**	**54,914**
Pensions and similar obligations [a]	3,164	2.6	3,247	(83)	3,512
Tax accruals	238	0.2	238	0	255
Other accruals [a]	2,321	1.9	1,642	679	1,493
ACCRUALS	**5,723**	**4.7**	**5,127**	**596**	**5,260**
Debt	6,398	5.3	5,021	1,377	9,428
Other liabilities	50,101	41.3	37,413	12,688	36,019
LIABILITIES	**56,499**	**46.6**	**42,434**	**14,065**	**45,447**
Deferred income	156	0.1	173	(17)	193
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**121,317**	**100.0**	**103,180**	**18,137**	**105,814**

[a] Pursuant to the provisions of IDW RS HFA 30, as amended, which was adopted in December 2016, the accruals from the collateral promise for pensions are recognized under pension accruals; in 2015, they had been included under other accruals. Figures for 2015 have been adjusted accordingly.

In addition to shareholders' equity, our financial position is mainly determined by noncurrent assets, and receivables from and payables to Group companies. Loans recognized under financial assets as well as receivables from and payables to subsidiaries primarily resulted from Deutsche Telekom AG's financing function for its subsidiaries, whereby financing on the external capital market is generally handled by Deutsche Telekom AG International Finance B.V., Maastricht, and passed on to Deutsche Telekom AG.

The balance sheet total increased by EUR 18.1 billion year-on-year to EUR 121.3 billion.

The development of total assets was attributable in particular to the increase of EUR 12.2 billion in noncurrent assets and the increase of EUR 5.8 billion in receivables.

The growth in financial assets of EUR 12.6 billion year-on-year was mainly due to the increase in loans to T-Mobile USA, Inc., Bellevue, of EUR 8.7 billion (net). Financial assets also increased by EUR 5.4 billion as a result of the capital increase at CTA Holding GmbH, Bonn. In particular, the write-down of the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main, in the amount of EUR 1.0 billion had an offsetting effect.

The decrease of EUR 0.3 billion in property, plant and equipment was primarily due to the depreciation of real estate.

The increase of EUR 5.8 billion in receivables from subsidiaries resulted from a EUR 5.4 billion increase in receivables from cash management. The increase in receivables from cash management is attributable to higher income related to subsidiaries, associated and related companies recorded in the reporting year.

The development of total shareholders' equity and liabilities was mainly influenced by the increase of EUR 12.7 billion in other liabilities, of EUR 3.5 billion in shareholders' equity, and of EUR 1.4 billion in financial liabilities. Other accruals also increased by EUR 0.7 billion.

The increase of EUR 12.7 billion in other liabilities was in particular the result of net loans of EUR 6.0 billion taken out from Deutsche Telekom International Finance B.V., Maastricht, as well as loans of EUR 5.4 billion taken out from CTA Holding GmbH, Bonn.

The increase in shareholders' equity was mainly due to income after taxes for the financial year of EUR 4.9 billion and its effect on unappropriated net income as well as to the deposits of EUR 1.4 billion reported in capital stock and reserves by shareholders who chose to exchange their dividend entitlement for the 2016 financial year for shares as part of the fulfillment of dividend entitlements. The EUR 2.8 billion dividend payment for the previous year had an offsetting effect.

The increase in financial liabilities was mainly due to new loans taken out for a net amount of EUR 0.7 billion and the issue of commercial paper for a net amount of EUR 0.5 billion.

The increase in other accruals is mostly attributable to the addition in the amount of EUR 0.5 billion to accruals arising from the new arrangement for early retirement for civil servants.

Statement of cash flows of Deutsche Telekom AG under German GAAP
millions of €

	2017	2016	Change	2015
INCOME AFTER TAXES	**4,927**	**2,020**	**2,907**	**1,889**
Net cash provided by (used for) operating activities	2,988	(1,531)	4,519	(134)
Net cash (used for) provided by investing activities	(12,890)	4,156	(17,046)	1,470
Net cash provided by (used for) financing activities	9,851	(2,638)	12,489	(1,502)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(51)**	**(13)**	**(38)**	**(166)**
Cash and cash equivalents, at the beginning of the year	208	221	(13)	387
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	**157**	**208**	**(51)**	**221**

Net cash provided by/used for operating activities increased year-on-year by EUR 4.5 billion, resulting in net cash provided by operating activities of EUR 3.0 billion. This increase was due mainly to the positive change in income after taxes after elimination of the non-cash write-downs, which were EUR 1.0 billion higher than in the previous year, but also to the EUR 1.2 billion lower net increase in receivables from cash management compared with the previous year. In particular, the decrease in liabilities from the early retirement program for civil servants compared with an increase in the previous year had an offsetting effect.

Net cash used for investing activities in the reporting year was largely attributable to medium- and long-term investments at subsidiaries of EUR 10.8 billion, mainly due to the increase in loans to T-Mobile USA, Inc., Bellevue, and to a capital increase at CTA Holding GmbH, Bonn. Primarily repayments of medium- and long-term investments by subsidiaries in the amount of EUR 3.0 billion, mainly by T-Mobile USA, Inc., Bellevue, had an offsetting effect. Net cash used for investing activities also included interest received of EUR 0.8 billion. In the previous year, net cash provided by investing activities of EUR 4.2 billion had included in particular an equity repayment by Deutsche Telekom IT GmbH (formerly T-Mobile Worldwide Holding GmbH), Bonn, in the amount of EUR 2.0 billion, repayments of medium- and long-term investments by subsidiaries of EUR 2.1 billion, interest received of EUR 0.6 billion, and cash inflows from the disposal of property, plant and equipment of EUR 0.2 billion and from the sale of further shares in Scout24 AG, Munich, of EUR 0.1 billion. Medium- and long-term investments of EUR 0.9 billion at subsidiaries had an offsetting effect.

Net cash provided by financing activities increased by EUR 12.5 billion year-on-year to EUR 9.9 billion and primarily comprised the net issuance of medium- and long-term liabilities of EUR 9.7 billion and the net issuance of current financial liabilities in the amount of EUR 2.8 billion in the reporting year. Interest paid of EUR 1.2 billion and the payment of the cash dividend for the 2016 financial year of EUR 1.4 billion had an offsetting effect. In the prior year, net cash used for financing activities of EUR 2.6 billion had primarily comprised net repayments of current financial liabilities of EUR 8.7 billion, the payment of the cash dividend for the 2015 financial year of EUR 1.5 billion, and interest paid of EUR 1.3 billion. The issuance of medium- and long-term liabilities of EUR 8.3 billion and cash inflows from the close-out of interest rate and currency derivatives of EUR 0.6 billion had an offsetting effect.

Combined, this resulted in a decrease in cash and cash equivalents of EUR 51 million in the reporting year.

RISK MANAGEMENT IN HEDGE ACCOUNTING

We use derivatives to hedge interest rate and currency exposures; i.e., exclusively for hedging purposes, not for speculative gains. In the process, we continuously monitor the effectiveness of the hedges.

CORPORATE RESPONSIBILITY AND NON-FINANCIAL STATEMENT

■ Act responsibly. Enable sustainability.

We are more than a company providing society with telecommunications infrastructure. In an ever more complex and digital world, we are a trusted adviser through every stage of life. As such, we take our responsibility for society and the environment seriously. We work systematically to minimize the potentially negative impact of our business activities while creating effective, positive impetus for sustainable change. We have been reporting transparently on our corporate responsibility (CR) activities for over 20 years. Every year – in our CR report and annual report, and on our website – we provide comprehensive information on the challenges we face and the progress we have made as a responsible company focused on sustainable action. We regularly prepare a materiality analysis to help us align our sustainability activities to the expectations of our stakeholders and structure our reporting accordingly.

We have prepared this combined non-financial statement (NFS) to fulfill our reporting obligations under the CSR Directive Implementation Act: The NFS replaces the CR section in our combined management report. We have not only considered legal requirements in selecting which topics to report on, but also based our decision on many years of experience with our materiality process. This helps us ensure we fulfill our stakeholders' expectations. The Supervisory Board of Deutsche Telekom AG has reviewed the content of the NFS with the support of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (independent auditor) in the form of a limited assurance engagement. The audit was based on the International Standards on Assurance Engagements ISAE 3000 (revised). Unless stated otherwise, all disclosures in the NFS apply in equal measure to the Group and the parent company. To avoid repetitions within our management report, we refer to further information provided in other sections wherever relevant. References to disclosures not contained in the combined management report are provided as background information; these disclosures are not part of the NFS and thus are not covered by the review. In addition, this year we once again explain how our core business contributes to achieving the UN Sustainable Development Goals (SDGs) as part of the 2030 Agenda. In the reporting year, we received the Building Public Trust Award for best integrated reporting on the SDGs. Relevant passages in the management report are marked with the respective SDG symbol. With the publication of our 2017 CR report in April 2018, we will continue to use a proven format to fulfill our stakeholders' expectations of transparency, basing our work on the guidelines of the Global Reporting Initiative (GRI). In the reporting year, our CR report once again received the Platinum Econ Award for outstanding reporting. The concepts described in this NFS are in line with this longstanding reporting tradition and make reference to the GRI Standards.

EXPLANATION OF THE BUSINESS MODEL

We are one of the leading telecommunication companies worldwide. We offer our consumers fixed-network/broadband, mobile, Internet, and Internet-based TV products and services, as well as ICT solutions for our business and corporate customers.

For detailed information on our business model, please refer to the sections "Group organization," **page 31 et seq.**, and "Group strategy," **page 34 et seq.**

STRATEGIC AND ORGANIZATIONAL APPROACH TO SUSTAINABILITY

We see ourselves as a responsible company on the basis of our Leading European Telco strategy: We want to be the leading telecommunications provider in Europe. For us, social and ecological responsibility is inseparably connected with such a leadership role. We believe it is part of our mission to "Act responsibly. Enable sustainability." We are committed to implementing sustainability along our entire value chain and to playing an important role in meeting today's ecological, economic, and social challenges. We are expressly committed to the principles of the United Nations Global Compact, the German Sustainability Code, and the Code of Responsible Conduct for Business. Furthermore, we support the UN SDGs; in particular, we contribute to goals no. 3: Good health and well-being, 4: High-quality education, 5: Gender equality, 8: Decent work and economic growth, 9: Industry, innovation, and infrastructure, 11: Sustainable cities and communities, and 13: Climate action. We were awarded the distinguished National German Sustainability Award in December 2017 for our comprehensive sustainability management.

Our CR strategy, which is aligned with our core business, includes three fields of action: "Connected life and work – enabling a sustainable lifestyle," "Connect the unconnected," and "Low-carbon society." In addition, the following topics are of particular importance within our sustainability management system: data security and data privacy, digitalization, sustainable supply chains, human rights, circular economy, and resource decoupling, as well as responsible employers.

Our Board of Management bears overall responsibility for our CR goals, discussing and making decisions on key CR-related issues. The Group Corporate Responsibility (GCR) unit develops Group-wide guidelines and principles. It is also responsible for positioning and aligning CR strategically, and monitors all of the corresponding processes. The CR managers from the different business units and national companies are responsible for implementing our CR strategy, and work closely together in the international CR Manager Network. GCR is also advised by the CR Board, composed of the heads of key Group areas, in order to ensure direct feedback between CR and our core business. Our values and basic principles are anchored in our Guiding Principles, the Code of Conduct, and the Code of Human Rights & Social Principles. The cornerstones of our sustainability management activities are formally set out in our CR Policy for all Group units.

We record environmental, social and governance (ESG) data and performance indicators as part of our CR controlling system. We use this data primarily to calculate our Group-wide ESG KPIs (key performance indicators), which we use to measure and control our CR performance. We regularly review these KPIs to ensure they provide reliable information, revising them as needed. In some cases, the KPIs and other metrics can be linked to the SDGs to show the progress we are making in the SDG focus areas.

8 DECENT WORK AND ECONOMIC GROWTH

We use the Socially Responsible Investment ESG KPI to determine how the finance markets rate our sustainability activities. This indicator measures the proportion of T-Shares held by investors whose investment strategy is based not only on economic but also at least partially on the ecological and social aspects of corporate governance. As of September 30, 2017, roughly 18 percent of all T-Shares were held by SRI (socially responsible investment) investors, and around 3 percent were held by investors who manage their funds primarily in accordance with SRI aspects. In addition, during the reporting year our share was again listed on leading sustainability indexes, such as RobecoSAM's prominent DJSI World and DJSI Europe. Our share also continued to be listed on the FTSE4Good and UN Global Compact 100 indexes. SDG

Listing of the T-Share in sustainability indexes/ratings

Rating agency	Indexes/ratings/ranking	2017	2016	2015	2014	2013
RobecoSAM	DJSI World	✔	✔	✔	✘	✘
	DJSI Europe	✔	✔	✔	✘	✘
CDP	STOXX Global Climate Change Leaders	✔	✔	✔	✔	✔
oekom research AG	"Prime" (Sector Leader)	✔	✔	✔	✔	✔
Sustainalytics	STOXX Global ESG Leaders	✔	✔	✔	✔	✔
	iSTOXX 50 SD KPI	✔	✔	✔	✔	✔
	UN Global Compact 100	✔	✔	✔	✔	✔
FTSE Financial Times Stock Exchange	FTSE4Good	✔	✔	✔	✔	✔

✔ Successfully listed ✘ Not listed

PROCESS FOR DETERMINING SIGNIFICANT TOPICS

Our materiality process has been in place at our Company since 2015 in compliance with the method suggested by the Global e-Sustainability Initiative (GeSI) for our industry. This allows us to ensure we consider all issues key to the ICT sector. We actively and systematically integrate relevant stakeholders into the process. For more detailed information on our approach, please refer to our CR report.

We first held an interdisciplinary internal workshop to discuss how we can best fulfill the requirements of the CSR Directive Implementation Act. We then developed a concept for the content of the NFS based on the results of our materiality process. This involved identifying and clustering topics that are important to understanding the course of business, the outcome of business, and the situation of the Company, and to understanding the effects on non-financial aspects. We discussed and adjusted the concept during another interdisciplinary workshop. The Board of Management decided to issue the NFS as part of the annual management report, and the Supervisory Board agreed to this in its meeting in September 2017. Group Corporate Responsibility presented and discussed the concept in a meeting with the Audit Committee in November 2017.

As part of our comprehensive system of risk and opportunity management, we also determine current and potential risks and opportunities arising from ecological, economic, or social aspects, or from the management of our Company. Topics like climate protection, suppliers, data privacy, and data security, as well as mobile communications and health, involve potential risks, which we previously described in the "Risk and opportunity management" section of the management report. We maintain this practice to provide the transparency our stakeholders expect, even if the risk assessment has found that these topics have a "low" risk significance and do not therefore need to be rated as "very likely severe" in the meaning of the CSR Directive Implementation Act. This NFS focuses on these risks and opportunities in relation to relevant aspects.

ASPECT 1: ENVIRONMENTAL CONCERNS

"We assume responsibility for a low-carbon society" is one of the action areas of our CR strategy. It not only expresses our commitment to minimize the potential climate impacts of our business activities, but also our desire to utilize the opportunities offered by digitalization for sustainable development. The impacts of our business activities are comparatively minor in relation to other topics, such as water or waste, covered by our comprehensive environmental management system based on the international standard ISO 14001. Therefore, they are not included in this NFS, but rather in our CR report.

CLIMATE CHANGE AND ITS REPERCUSSIONS

Demand for fast data services with full-coverage availability is growing rapidly. That is why we continue to push the build-out of our infrastructure and increase data transmission rates. Our investments in the network build-out make us one of the biggest investors in the industry. Operating our network consumes energy. Increasing energy consumption is associated not only with higher costs, but can also lead to an increase in CO_2 emissions and thereby accelerate climate change and its repercussions. For this reason, we need to ensure our energy consumption grows at a slower rate than the volumes of data we transmit and, at the same time, promote the use of renewable energies to decouple energy use from CO_2 emissions. We are also required to utilize the possibilities offered by digitalization, as it too can help save energy and slow climate change.

Further information on the opportunities and risks associated with climate protection is provided in the section "Risk and opportunity management," page 111 et seq.

Our integrated climate strategy includes four aspects of climate protection: CO_2 emissions, renewable energy, energy efficiency, and sustainable products. The climate strategy applies Group-wide and is implemented on an interdisciplinary basis at the level of the national companies. Our Board of Management set a climate-related goal as early as in 2013: By the year 2020, we intend to reduce total CO_2 emissions in the Group (excluding T-Mobile US) by 20 percent compared with 2008. 40 business units in 29 countries have committed themselves to this goal. Our national companies are helping us achieve this goal in different ways and to different extents, depending on developments in their local markets. Group Corporate Responsibility reports to the Board of Management on the status quo on an annual basis. We have already achieved a moderate reduction in emissions (excluding T-Mobile US) over the past few years. Despite the challenges posed by rapidly growing data volumes and the continuous build-out of networks to cope with demand, we continue to stand by our ambitious climate goal and look into further measures that could be needed to help us meet this goal, such as increasing the relative share of energy obtained from renewable sources.

For further information, please refer to the section "Risk and opportunity management," page 111 et seq.

In order to achieve our climate goal, we are focusing on areas with especially high energy consumption, such as our networks and data centers. For instance, we are migrating our network infrastructure to IP technology, which is not only more powerful, but also consumes less electricity than existing technologies. By the end of 2017, we had migrated 69 percent of our lines – around 17.3 million – to IP. We are working to process data traffic from no more than a few, particularly efficient data centers. The PUE metric serves as an indicator for improvements in energy efficiency. We calculate this metric using the method recommended by The Green Grid Association, which takes the total energy consumed by data centers into account, not only that used to operate the servers. We reduced the average PUE metric at T-Systems data centers in Germany from 1.85 to 1.54 between 2008 and 2017. Our data center in Biere, Saxony-Anhalt, is extremely efficient. It was also awarded the respected LEED Gold sustainability certification (Leadership in Energy and Environmental Design). By migrating data from existing data centers to Biere, we achieved a PUE value of 1.43 by the end of 2017. During the course of 2018, we will migrate additional servers to Biere. The PUE metric is expected

For further information, please refer to the section "Development of business in the operating segments," page 61 et seq.

For further information, please refer to "Deployment of ICT products to the benefit of society" in this section, pages 83 and 84.

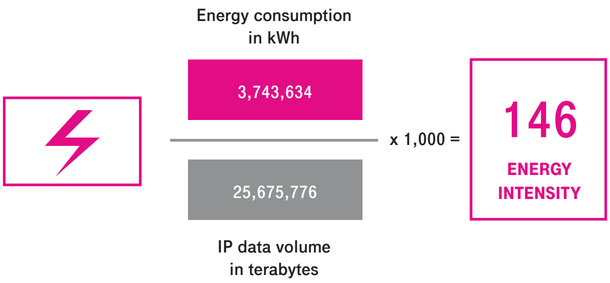
to rise further as a result of the increased utilization of our data center capacity there.

We are increasing our share of renewable energy – both through direct purchases and the acquisition of certificates for electricity from renewable energy sources – in order to reduce CO_2 emissions. In addition, we also invest in our own systems whenever possible and reasonable, for instance constructing cogeneration plants or installing photovoltaic systems. Climate protection is also an important consideration in the way we manage our fleet of vehicles in Germany, which includes testing out alternative drive concepts.

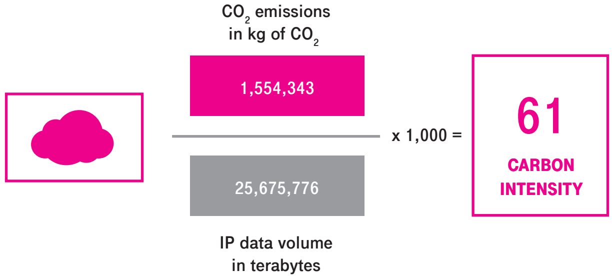
We determine the effectiveness of our climate protection measures using key performance indicators (KPIs). We have been recording two new KPIs since 2016: Energy Intensity and Carbon Intensity. These replaced the Energy Consumption and CO_2 Emissions KPIs. The two new ESG KPIs reflect our energy consumption and our CO_2 emissions in relation to the volume of data transmitted. They thus show the specific trend in the energy and emissions efficiency of our network. The KPI values for Deutsche Telekom in Germany are shown in the following graphics for 2016. The result for the Energy Intensity KPI is 146 and 61 for Carbon Intensity. We expanded the coverage of these KPIs to further parts of the Group in the course of 2017 and initial positive trends became apparent even before the year-end. We will publish the KPIs for the 2017 reporting year in our CR report. The Renewable Energy KPI shows how much of our Company's entire electricity consumption is obtained from renewable sources. In 2016, the share was 33 percent. The figure takes into account the share of renewable energy purchased directly, Guarantees of Origin, Renewable Energy Certificates, autoproduction, and the share of renewable energies in the national mix. We will also disclose this KPI for 2017 in our CR report to be published in April 2018. We use the Enablement Factor ESG KPI to calculate the positive CO_2 effects facilitated for our customers through the use of our products.

For further information, please refer to "Deployment of ICT products to the benefit of society" in this section, pages 83 and 84.

Energy Intensity ESG KPI
Deutsche Telekom Group in Germany 2016



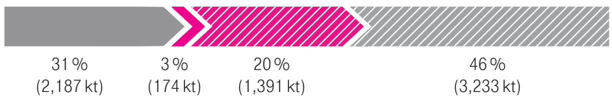
Carbon Intensity ESG KPI
Deutsche Telekom Group in Germany 2016



We use the internationally recognized GHG protocol to calculate our CO_2 emissions. This allows us to take measures to reduce our ecological footprint at the corporate and product levels. The standard distinguishes between three CO_2 emissions categories (Scope 1, 2, and 3). As part of the CDP, in June of every year we publish a Group-wide report not only on Scope 1 and Scope 2 emissions, but also Scope 3 emissions from our business operations in Germany and virtually all European subsidiaries.

The following graphic visualizes emissions of the different scopes from our business activities in Germany; shown as CO_2-equivalent emissions (CO_2e emissions).

CO_2e emissions (Scope 1–3)
Deutsche Telekom Group in Germany in % and kilotons of CO_2e



- **Scope 3 emissions from upstream activities:** Transport services, products and services purchased, capital goods, production waste, energy and fuel upstream chains, business travel, and journey to work.
- **Scope 1 emissions from Deutsche Telekom's own activities:** Emissions from the operation of Deutsche Telekom's systems, buildings and vehicles.
- **Scope 2 emissions from energy procured:** Emissions from the generation of electricity and district heating procured by Deutsche Telekom.
- **Scope 3 emissions from downstream activities:** Emissions from the transport of products sold to the customer, use of products sold or leased, and disposal and recycling of products sold.

We are aware that, to effectively contain climate change, all those involved need to collaborate and take determined action. That is why we participate in many national and international associations and organizations. One of them is GeSI – a corporate association with the vision of making society more climate-friendly and sustainable with ICT solutions. We also want to promote dialog within society on the opportunities the digital transformation offers for climate protection. Within the scope of the 23rd World Climate Change Conference in Bonn, we invited numerous stakeholders to an event to discuss "The Impact of ICT on climate change – curse or blessing," in November 2017. We are also working systematically and successfully on improving climate protection throughout our supply chain. Since 2016, CDP's supplier engagement rating has assessed how well companies have integrated the topic of climate protection into their supply chains. Over 3,300 companies participated in the rating; in 2016, just 29 companies qualified for the Supplier Engagement Leader Board, and Deutsche Telekom was one of them. SDG

ASPECT 2: EMPLOYEE CONCERNS

The digital transformation is supposed to improve everyone's lives. That is why people will remain a priority for us. This applies in particular to the around 217,300 employees working in our Company. They use their commitment, their expertise, and their abilities to smooth the path towards a digital society and make a key contribution to our business success. Five Guiding Principles, representing our values, form the cornerstones for collaboration within our Company. Our strategic priorities in HR focus on four areas. We value participation and cooperation based on fairness, we promote diversity, and engage in systematic health management. SDG

COLLABORATION WITH EMPLOYEES' REPRESENTATIVES AND TRADE UNIONS

Digitalization is fundamentally changing the way we work together. Employees are expected to show more flexibility, social skills, and personal responsibility. They also need to be life-long learners and be more self-directed. We have made it our goal to support our employees in this transformation – and to help them not only manage change, but also take an active role in shaping it.

Codetermination rights play a key role in the digital transformation. We want to create the working world of the future together with employees' representatives and trade unions – with an eye to the needs of our workforce and the success of our Company. We negotiated and signed over 250 agreements in 2017 through constructive dialog with our works councils. One key project was the organizational measure "Einfach Anders" (Simply different), which focused on a re-alignment of the entities within the Germany operational segment. The new organizational structure allowed us to harmonize the management of service responsibilities combined within the Service board department, to establish a customer-centric sales process for consumers and business customers in separate sales entities, and to combine the activities for the network build-out in a single entity. We concluded another 65 collective agreements with the ver.di union in 2017. In order to make phased retirement an even more attractive option for leaving working life early with sufficient social security, a general collective agreement on phased retirement was concluded in 2017 between Arbeitgeberverband für Telekommunikation und IT e.V. (agv:comunity e.V., the employers' association for the telecommunications and IT industry) and the ver.di union. As the underlying laws and contracts vary from country to country, codetermination matters with trade unions and employee representatives are managed locally. Group management is involved in all major issues as a matter of principle. SDG

The works councils, central works councils, and Group Works Council represent the interests of the employees at our Group in Germany. Our partner at a European level is the European Works Council (EWC). We also have executive staff representation committees and representatives of disabled employees at unit, company, and Group level. The EWC, which currently has 32 members, has been a key dialog partner for us for many years and represents the interests of Group employees within EU countries. Collective bargaining plays an important role and has a long tradition at our Company, a fact made clear by the percentage of employees covered by collective agreements. As of December 31, 2016, 69 percent of employees in Germany were covered by collective agreements.

17 PARTNERSHIPS FOR THE GOALS

We thoroughly accompanied the union topics in our operative segment USA in 2017 and discussed individual issues in dialogs with T-Mobile US' management. The responsibility for national Human Resources Management matters lies with T-Mobile US' management. This responsibility is carried out with great commitment and accompanied by excellent customer satisfaction results. In a US-wide survey of 360,000 customers carried out by market researcher "HarrisX", T-Mobile US achieved the highest customer satisfaction rates among all mobile providers in the US in each of the four quarters in 2017.

Our Guiding Principles are stated in the section "Group organization," page 31 et seq.

For further information, please refer to the section "Employees," page 96 et seq.

Deutsche Telekom respects freedom of association and the right to collective bargaining in accordance with national regulations. This naturally applies to the USA as well. Employees at T-Mobile US have the right to form and join a trade union. At the same time, employees are also free to choose not to do so. T-Mobile US will not favor or impede employees on the basis of their choice.

8 DECENT WORK AND ECONOMIC GROWTH

T-Mobile US' employee survey results for 2017 show that as many as 93 percent of respondents take pride in working for T-Mobile US. A further 84 percent said their company inspires them to "go above and beyond" their normal job duties to help the company succeed and another 88 percent said they often recommend T-Mobile to others as a great place to work. These results are among the highest in all of Deutsche Telekom group companies.

T-Mobile US has also been honored with a Glassdoor Employees' Choice Award, recognizing the Best Places to Work in 2018. The Employees' Choice Awards program, now in its 10th year, relies solely on the input of employees, who elect to provide feedback on their jobs, work environments and companies via Glassdoor. More than four out of five (81 percent) T-Mobile employees say they recommend the company to a friend – the highest in the US wireless industry. In addition to the Glassdoor award, T-Mobile US also received further recognitions for Best Places to Work throughout 2017.

Collaboration with employee representatives is based on our commitment to trusted cooperation – anchored in our Group-wide Employee Relations Policy. It sets out eleven core elements to describe what we stand for as an employer around the world. The policy also describes our aspiration with regard to the following HR topics: employee development, responsible handling of changes, health and sustainability, fair pay, work-life balance, leadership, diversity, the prohibition of discrimination, and how we communicate and work together with employees' representatives. In order to ensure the Employee Relations Policy is implemented throughout the Group, two or three national companies undergo

17 PARTNERSHIPS FOR THE GOALS

For more detailed information, please refer to the section “Employees,” page 96 et seq.

3 GOOD HEALTH AND WELL-BEING

For detailed information on our diversity measures, including on the advancement of women, please refer to the section “Employees,” page 96 et seq.

10 REDUCED INEQUALITIES

an internal review process each year. If the results of this review deviate from the norm, we initiate improvement measures. Our Code of Human Rights & Social Principles also includes a voluntary commitment to the freedom of association and collective bargaining (in compliance with national law in each case).

Our employee survey, carried out every two years, is a key indicator of the relationship between our Company and its workforce. We supplement it with pulse surveys, which give us a snapshot of the mood across the Group twice a year. In the most recent 2017 employee survey (excluding T-Mobile US), the commitment index was 4.1 (on a scale of 1.0 to 5.0) and therefore remained at a high level.

DIVERSITY AND EQUAL OPPORTUNITY

Social trends like globalization, demographic developments, and different understandings of roles must not result in individual groups being shut out of the labor market. Equal opportunity is not only essential to a stable society, but to our Company as well. Respecting human individuality and harnessing individuals' distinctive traits for joint success is just as important for our Group as developing a shared identity. A Culture & Diversity Team, based in the HR Development unit, was created specifically for this task.

Women and men, young and old as well as people with different abilities and cultural backgrounds from roughly 150 countries work together very effectively at our Company. This diversity helps us remain competitive around the world with good ideas and outstanding products and consolidate our position as an attractive employer. Developments in the share of women in leadership positions and on the supervisory boards are reported to the Board of Management every six months, while the age structure and internationality of the workforce is reported on an annual basis in our Personnel Structure Report. For us, diversity also means offering our employees numerous opportunities to develop personally and grow professionally, regardless of their gender, age, sexual preference, health situation, ethnic background, religion, or culture. Our Group-wide Diversity Policy, five Guiding Principles, Employee Relations Policy, and Code of Human Rights & Social Principles form the foundation for our commitment. We are also a founding member of the Diversity Charter corporate initiative and want to promote diversity within and outside of our Company. In order to comply with the new legal requirements set out in the Act to Promote Transparency of Pay Structures, we filed a separate report, which does not form part of the audited management report. SDG

OCCUPATIONAL HEALTH AND SAFETY

Measures that promote health within the Company not only help individual employees and ensure long-term business success, but also have positive effects on society as a whole. We use health management to take on social responsibility and proactively promote a culture of health. We support our employees in maintaining their health and occupational safety with a host of target audience-specific measures and extensive prevention programs. We consider the statutory requirements to be only the minimum standard we must achieve. Our corporate occupational health and safety measures are effectively incorporated into our structures via certified management systems and appropriate policies and guidelines. We support this Group-wide approach with a uniform Health, Safety & Environmental Management system at international level, based on international standards OHSAS 1800, ISO 14001, and ISO 9001 for health, occupational, and environmental safety, and quality. SDG

The Board of Management assumes overall responsibility for occupational health and safety, and environmental protection. Quarterly reports on the health rate are just one example of its commitment in this area. Our Health & Safety Environment handbook describes the details of our health and safety management system, including the parties involved, their duties, and the programs. The handbook serves to harmonize, simplify, and align our management system with common targets across the Group. We combine and control our occupational and health safety programs at Group level; health and safety managers are responsible for implementing these programs locally. We systematically review our programs to ensure they are effective. To do so, we review the results of our employee survey, evaluating stress prevention measures under collective agreements, competitor benchmarks, and other relevant indicators. We analyze this data each year to derive measures that exceed the statutory requirements. Raising awareness, prevention, and encouraging individual responsibility have a high priority at our Company.

We use Group-wide initiatives to promote health awareness and health literacy among all employees. These include services that can be used by all teams in 30 countries based on the results of the health index, which is determined every two years. Occupational health promotion in Germany covers a range of services for employees, such as stress prevention programs; flu vaccinations; colon cancer screening; information on diet and nutrition, exercise, and relaxation; and a comprehensive annual health check-up. We also offer psychosocial support to our employees and managers. Standards in Germany serve to improve occupational safety by regulating aspects such as safe, ergonomic environments in buildings and vehicles. We also offer driver safety training (car and motorbike) for all employees and their relatives, as well as cycling schemes for employees at various locations across Germany. Alongside generally available services, we also have target group-specific programs in place, such as driver safety training for specific areas of work or training on the prevention of falling accidents in cooperation with the "Tritt sicher" (step safely) campaign developed by Berufsgenossenschaft Verkehr, the German professional association for transport and traffic. By raising awareness and implementing preventive measures, our aim is to promote employees' health and motivation, improve the health rate, and continue to reduce the accident rate.

Many different key figures demonstrate the effectiveness of our corporate health management services. The health rate (including long-term illnesses) at Deutsche Telekom in Germany decreased slightly in 2017, by 0.1 percentage points to 93.7 percent, although it remained at an average level. The health rate is reported to the Board of Management at the end of each quarter. In 2017, we launched a project designed to improve the health rate by 2020. The aim is to achieve a health rate across the Group of 95.9 percent (excluding long-term illnesses). The total number of work-related accidents continued to decline in the reporting year in comparison with the previous year. The accident rate in Germany was 8.5 accidents (resulting in over three days of absence) per thousand employees, well below the industry average. The Group-wide health index – calculated as part of the 2017 employee survey in 30 countries – increased positively by 0.1 to 3.6 (on a scale from 1 to 5). From 2018, new steps will be taken designed primarily to improve the health rate. These include, for example, a workshop in which managers learn about a range of short-, medium-, and long-term strategies to influence the health rate. They will also be given the skills to become more confident at handling healthy and sick employees. The initiative will be piloted in Germany with the goal of rolling it out across the Group by 2020.

The digital transformation is also taking on an increasingly important role in the context of health. In addition to identifying potential stressors triggered by the effects of digitalization, our current products are also being adapted to the demands of rising levels of virtualization, digitalization, and internationalization on a step-by-step basis. For example, we already offer web-based training for managers on health and safety, mental health, and operational integration management.

ASPECT 3: SOCIAL CONCERNS

We are finding new answers to many different challenges our society currently faces through the digital transformation. Since it affects every area of our lives, access to modern information technologies is an important key to participating in the information and knowledge society. As a telecommunications company, we are responsible for providing such access to as many people as possible and for promoting the competent use of ICT. The security of our customers' data is a key concern. Used correctly, ICT can also contribute to sustainable development and help us achieve the SDG goals.

DEPLOYMENT OF ICT PRODUCTS TO THE BENEFIT OF SOCIETY

One of the biggest challenges we must face is climate change. We want to help limit global warming to less than two degrees Celsius, which is why we are working to reduce our own CO_2 footprint. We can make a much larger contribution with our products and services. According to the GeSI study SMARTer2030, ICT products have the potential to save almost ten times as much CO_2 emissions in 2030 in other industries as the ICT industry itself produces. We can also use our products, services, and activities to participate in managing many other ecological and social challenges, as was made clear in a comparison with the 17 sustainability goals (SDGs) put out by the United Nations, page 22. For instance, ICT solutions can help reduce resource consumption in agriculture and increase harvests, help get cities ready for the future in terms of sustainability, stabilize power supply grids, or improve access to education and medical care. SDG These areas of application carry market potential for us. In order to evaluate the concepts described in this NFS, it is important to also look to the opportunities that digitalization opens up for sustainable development. We are thus addressing the topic at this point, even though it is not a holistic concept in the meaning of the CSR Directive Implementation Act. The individual national companies are responsible for developing new products and solutions.

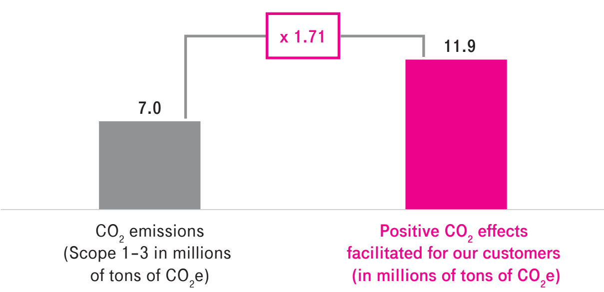
For further information, please refer to the section "Risk and opportunity management," page 111 et seq.

Since 2014, we have been analyzing the scope of the sustainability benefits offered by select products. These advantages include benefits in health care. In Greece, a telemedicine network was set up in 2016 to connect health care centers on the Aegean islands with the mainland. As examinations can be transmitted via live stream directly to hospitals in Piraeus, expensive medical transports from the islands to the mainland are necessary only when the patient actually needs to be treated in a hospital. SDG In South Africa, a smart water meter offered by T-Systems South Africa helps reduce the consumption of scarce water resources. It helps optimize consumption in private households and makes occupants aware of hidden pipeline leaks. SDG ICT can even help better understand illnesses and improve treatment – like our cell phone game Sea Hero Quest, which is helping with dementia research. Overall, we have subjected 22 of our product groups to a detailed investigation of how they contribute to sustainability. We use the Sustainable Revenue Share ESG KPI to determine how much revenue (excluding T-Mobile US) we generate with these products; in the reporting year this share was approximately 40 percent. For detailed information about the methods used in our analysis, please refer to the CR report.

13 CLIMATE ACTION

We also calculate the positive CO_2 effects facilitated for our customers through the use of our products. We combine this figure with our own CO_2 emissions, then use this enablement factor to measure our overall performance in relation to climate protection. According to this figure, the positive CO_2 effects facilitated for our customers in Germany were 71 percent higher in 2017 than our own CO_2 emissions (enablement factor of 1.71 to 1). SDG

Enablement Factor ESG KPI
Deutsche Telekom Group in Germany



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

For further details on our build-out goals, please refer to the section "Group strategy," page 34 et seq.

3 GOOD HEALTH AND WELL-BEING

For more detailed information, please refer to the section "Risk and opportunity management," page 111 et seq.

Sustainable products are another key competition factor at our Company. In order to highlight these sustainability benefits for our customers, we aim to have our products certified by recognized environmental labels such as the Blue Angel. The majority of Telekom Deutschland's fixed-network devices carry the Blue Angel seal of approval. The strict requirements for these environmental awards not only provide us with ways to further improve our products, but also encourage us to do so.

ACCESS AND PARTICIPATION IN THE KNOWLEDGE SOCIETY

All around the world, having access to modern information technologies is a requirement for economic performance and participation in the knowledge and information society. That is why we continue to rapidly expand our infrastructure and improve transmission speeds with new, secure technology. At the same time, we use our social initiatives to reduce potential obstacles to ICT use. Responsibility for shaping the digital transformation has to be assumed by society as a whole. The Board of Management of Deutsche Telekom AG plays an active role in this discussion.

For further information on our investment activities, please refer to the "Statement of the Board of Management on business development in 2017," page 49.

4 QUALITY EDUCATION

Demand for fast data services with full-coverage availability is growing continuously. Each year we invest around EUR 5 billion in Germany alone in building out our network infrastructure. This has made us the biggest investor in this sector for several years. This network build-out is based on the goals of our Europe-wide integrated network strategy, which we use to help achieve the network build-out goals of the EU Commission and the Federal Government's Digital Agenda and broadband strategy. Our strategy is based on four pillars: LTE, optical fiber, VDSL vectoring, and hybrid technology. As one component, we plan to upgrade our mobile networks with 4G/LTE technology to offer greater network coverage with fast mobile broadband. In 2017, we supplied 94 percent of the population of Germany with LTE. We continued to build out the fiber-optic network in 2017, covering around 46 percent of households in Germany with high-speed Internet (at least 50 Mbit/s) by the end of the year. In addition to vectoring technology, we are also using other innovative products, like our hybrid router, which combines the transmission bandwidths of fixed-network and mobile communications, thus enabling much higher transmission speeds, in particular rural areas. SDG

In general, we want to make our network infrastructure and our products as efficient and as environmentally and health-friendly as possible. That is why we are committed to addressing the topic of mobile communications and health responsibly. Our Group-wide EMF Policy (EMF = electro-magnetic fields) has played a key role in this process since 2004: It includes uniform minimum requirements for mobile communications and health which go far beyond applicable national regulations. SDG

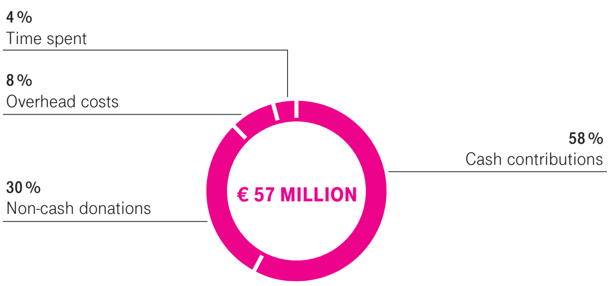
However, simply having access to technology is not enough to ensure everyone can participate in the knowledge and information society. People also need to know how to use media safely, competently, and responsibly. More and more, this issue not only has a private dimension – the protection of personal data – but also a social and political one. Incorrect information and hate posts shape public opinion and can even influence elections. That is why we are working to build media literacy skills in broad swaths of society. Group Corporate Responsibility is in charge of managing this topic at Group level. The individual national companies are responsible for developing and implementing media literacy projects as this allows them to make much greater provision for local conditions. We present all of our initiatives in Germany on the German-language website "Medien, aber sicher!" (Media, sure! But secure) (www.medienabersicher.de). With our award-winning Teachtoday initiative (www.teachtoday.de), we teach children and young people how to confidently and expertly navigate the digital world. Many of our national companies are also working to improve media literacy: For instance, Telekom Romania has been offering programming workshops for children and young adults since 2011. The Deutsche Telekom Foundation is one of Germany's largest corporate foundations working to improve education in the field of digital learning and teaching. Children are not the only ones, however, who need support in navigating the digital world, which is why we offer information and materials for every age and user group. SDG

Data security is another focal point of our efforts. Our German-language online advisory service www.sicherdigital.de and our "We care" app magazine in German and English offer practical hints and tips on how to use digital media safely and securely.

Being able to tell the difference between reliable information and intentionally misleading statements is a key aspect of media literacy in our view. That’s why we invited all of our employees in Bonn to attend the first “1001 Truths – Trust and opinion-forming online” event which was held in July 2017. We provided interesting insights and practical suggestions related to the topic of “fake news” in workshops, panel discussions, and events. For detailed information, please refer to our 2017 CR report.

We measure the impact of our social commitment with a set of three Group-wide ESG KPIs. The Community Investment ESG KPI maps our social engagement in terms of financial, human, and material resources: a total of EUR 57 million.

Community Investment ESG KPI
%



The Beneficiaries ESG KPI indicates the number of people engaged and people reached. This figure totaled 19 million in the reporting year. The Media Literacy ESG KPI determines the percentage of people in our target group we actually reached with measures to enhance media literacy as part of our social engagement. At 41 percent, this metric was slightly higher than the prior-year figure of 40 percent. We aim to reach 45 percent by 2020. The ESG KPI values for the Deutsche Telekom Group in Germany are EUR 32 million (Community Investment), 18 million people reached (Beneficiaries), and 44 percent (Media Literacy).

Our efforts to help refugees is another building block in promoting a diverse society. After concentrating on comprehensive initial aid in response to the large numbers of refugees in 2015, we are now focusing on integrating these refugees into the labor market. Based on current figures, around 86 percent of refugees do not have any formal professional qualifications that are recognized in Germany. That is why, in 2016, we founded the “Internship PLUS direct entry” initiative together with the Deutsche Post DHL Group, Henkel, and the Federal Employment Agency. We also hold special applicant days to provide easier access to internships. Through recruitment measures, communication on social media, and volunteer work, we increased the number of applications received from refugees, bringing the number of applicants per vacant position up from around two to five. In 2017, around 340 refugees benefited from work options offered by our Company, such as internships, training, “Internship PLUS direct entry,” or direct entry. We have helped these people enter the German labor market. SDG

4 QUALITY EDUCATION

DATA PRIVACY AND DATA SECURITY

The process of digitalization comes with new kinds of threats, such as hacker attacks on the sensitive data of private individuals or companies. People will only actually use new ICT solutions if they trust the security of their personal data – and only then can these solutions show their true potential for more sustainable development. As an ICT company, the trust of our customers is extremely important to our business success. That is why the privacy and security of their data is so important to us. SDG

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

For detailed information, please refer to the section “Risk and opportunity management,” page 111 et seq.

In 2008 we set up a Board of Management department for Data Privacy, Legal Affairs and Compliance as well as the Group Privacy unit. The responsible Board member has been advised by the independent Data Privacy Advisory Council, which comprises renowned experts from politics, science, business, and independent organizations, since 2009. In addition, we were the first DAX company to have our data privacy-related compliance management system reviewed and certified according to the IDW PS 980 standard in September 2014. It describes the measures, processes, and audits we use to ensure compliance with laws, regulations, and voluntary commitments to data privacy in our Group.

Data privacy and data security are subject to our Group policies for data privacy (Binding Corporate Rules Privacy) and security. The former regulates how personal data is handled, and a supplementary document entitled Binding Interpretations sets forth concrete recommendations and best-practice examples for implementing the EU General Data Protection Regulation which takes effect in May 2018. The second Group policy includes significant security-related principles valid within the Group, which are based on international standard ISO 27001. These policies allow us to guarantee an adequately high and consistent level of security and data privacy throughout our entire Group.

We have been publishing an annual transparency report for Germany since 2014, which covers the types and amount of information we disclose to security agencies and allows us to fulfill our legal obligations as a telecommunications company. Our national companies have also been publishing similar transparency reports since 2016.

In order to ensure even better data privacy and data security within our Group, our corporate units are audited and certified regularly by internal and external professionals. This includes regular Group-wide internal security checks as well as audits of individual Group units as part of our Security Maturity Reporting. This helps us evaluate the maturity of the security status quo in our Group, based on a self-assessment.

Our consumers and business customers can find information on the topic of security on our new web portal launched in 2017 (https://security.telekom.com).

17 PARTNERSHIPS FOR THE GOALS

We use two surveys – the Group Data Privacy Audit (GDPA) and Online Awareness Survey (OAS) – to measure our employees' awareness of data privacy and security by means of annual random checks. We use the GDPA to survey 50,000 Deutsche Telekom employees on topics related to data privacy and data security. We use these results to calculate the Data Protection Award indicator, which quantifies the level of data protection in the units on a scale of 0 to 100 percent. It is based on what the employees said they thought, did, and knew about data protection. In 2017, the Data Protection Award indicator was 75 percent (excluding T-Mobile US, prior year: 70 percent). The Online Awareness Survey, which we have been conducting since 2005, surveys roughly 40,000 employees and provides key data on their awareness of security. Scientific advisers help us use its results to determine the Security Awareness Index (S.A.I.). In 2017, the index was 78.4 (excluding T-Mobile US, prior year: 78.2) of a maximum of 100 points, higher than in any other company. The S.A.I. for Deutsche Telekom in Germany is currently 79.8. We also have our processes and management systems as well as products and services certified by external, independent organizations such as TÜV, DEKRA, and auditing firms. TÜV North has once again confirmed in 2017 that Telekom Deutschland's IT systems are secure.

Telecommunications companies are required to train their employees on issues related to data protection law when they begin their employment. Deutsche Telekom goes above and beyond these legal requirements: Every two years, we train all of our employees in Germany and commit them to data privacy and telecommunications secrecy. We have also implemented corresponding requirements in our international companies. In addition, we provide training in units where there is a higher risk that data may be misused – i.e., in the customer and HR units – in the form of online training designed for self-study, data privacy presentations, and classroom training on specialized topics such as data privacy in call centers. This helps to ensure that all employees have in-depth understanding of the relevant data privacy policies.

17 PARTNERSHIPS FOR THE GOALS

We launched the Telekom Security entity effective January 1, 2017 to focus on internal security issues and develop security solutions for consumers as well as business customers. This allows us to provide our customers with the perfect security solutions along the entire value chain, from product development and secure, high-performing networks through to high-security data centers, applications, and individual consulting. On top of this, we opened our new Cyber Defense and Security Operation Center in October 2017. It is one of the largest and most modern defense centers in Europe. Around 200 experts work there around the clock to monitor our and our customers' systems.

We react to new threats and continuously develop innovative processes to defend the systems against attacks. Since 2016, for instance, we have been offering a drone shield for business customers with critical infrastructure like data centers, stadiums, or official agencies as a solution for protecting against the growing danger posed by private drones. We worked with the German air traffic control service to raise awareness of this problem at the 2017 Drone Detection Day in the Hesse city of Langen. We also invited partners and customers to the Telekom Security Conference in Munich for the second time in June 2017. The conference centered on understanding new trends and solutions relevant to security.

We work with research institutes, industry partners, initiatives, standardization bodies, public institutions, and other online service providers worldwide with the goal of fighting cyber crime and increasing security on the Net. For instance, we collaborate with the German Federal Office for Information Security throughout Germany and with the European Union Agency for Network and Information Security at a European level. SDG

Data privacy and security have always played an important role in the development of our products and services. We review the security of our systems at every step of development using the Privacy and Security Assessment process both for new systems and for existing systems when the technology or method of data processing is modified. We use a standardized procedure to document the data privacy and data security status of our products throughout their entire life cycle.

Youth protection aspects are also taken into consideration in our product and service design. When we develop services that could be relevant in terms of youth protection in Germany, we consult our Youth Protection Officer for suggestions of restrictions or changes. In 2014, we appointed a Child Safety Officer (CSO) in each of our national companies in Europe. The CSO acts as a central contact for members of the community, and plays a key internal role in coordinating issues relevant to youth protection. Since protecting minors is a challenge across many different industries, we cooperate with different youth protection organizations and participate in alliances such as the "CEO alliance to better protect minors online," which tries to make the Internet a more secure place for children and young people. SDG

ASPECT 4: RESPECTING HUMAN RIGHTS

Compliance with human rights is highly important to our Group. This applies both internally within our Company and to our business partners and suppliers as well. To also ensure compliance with human rights outside of our Group, we expressly require our over 30,000 suppliers in more than 80 countries to assume this responsibility as well.

LABOR STANDARDS IN THE SUPPLY CHAIN AND IN THE GROUP

There are still places in the world where human rights are not a given. We may be exposed to country- and supplier-specific risks through our global procurement activities; these include, for instance, the use of child labor or poor local labor and safety conditions. Violations can cause severe damage to those affected, and can also result in reputational loss and negative financial consequences for companies.

As a responsible company, we have made an express commitment to the UN Guiding Principles on Business and Human Rights adopted by the United Nations Human Rights Council in 2011 (Ruggie Principles). The obligation to respect human rights is anchored in our basic policies – in our Guiding Principles and in the Deutsche Telekom Social Charter, which we updated during the reporting year and developed into the Code of Human Rights & Social Principles. The Board of Management adopted the amended version in November 2017. This update underscores our commitment to protecting human rights and to the goals of the German National Action Plan on Business and Human Rights adopted by the Federal Government in 2016. Additionally, the Code of Human Rights & Social Principles is our commitment to complying with the fundamental principles and standards set forth by the International Labour Organization (ILO) and the Organisation for Economic Co-operation and Development (OECD) as well as with the Universal Declaration of Human Rights and the UN Global Compact. We also require our suppliers to comply with all of our guidelines related to human rights. Within the Group, our primary focus is on safeguarding the right to conclude collective agreements and on guaranteeing diversity and equal opportunity. For further information, please refer to the passages entitled "Collaboration with employees' representatives/trade unions" and "Diversity and equal opportunity" in this section. SDG

The UN Guiding Principles on Business and Human Rights require businesses to systematically identify the impact their operations have on human rights, and to prevent, mitigate, or compensate these where necessary. In order to meet these requirements, we have developed an extensive program to implement the UN Guiding Principles throughout our Group and introduced an ongoing process comprising several interconnected measures and tools. The program includes promoting awareness, a mechanism for lodging complaints, a risk and impact analysis, and reporting.

We mainly use two instruments to review our Code of Human Rights & Social Principles: First, we prepare a Social Performance Report each year. In 2016, all 103 companies surveyed declared in the report that they are in compliance with the requirements of the Code of Human Rights & Social Principles and the report did not record any violations in 2016. The number of surveyed companies increased in 2017 to 122. In addition, in 2017 we also evolved the Social Performance Report into the Human Rights and Social Report, adding questions on the individual points of the Code of Human Rights & Social Principles. We will be publishing the 2017 report on our website in March 2018. We also maintain a central contact point for human rights issues, available at the e-mail address humanrights@telekom.de or through an anonymous whistleblower system. We have summarized all relevant contact information on our whistleblower portal Tell me!. We look into all tip-offs received and introduce countermeasures as soon as the information is identified as plausible. In 2017, seven tip-offs relating to human rights issues were received either directly via the portal or via the (anonymous) tip-off system. Not all of these tip-offs were deemed plausible. Whenever necessary, we carry out review processes at our national companies to assess employer-employee relationships. To do so, we collect five human rights-related key performance indicators, such as employee satisfaction, then assess these using a stop light system. We also formally review compliance with the Employee Relations Policy each year. The findings are discussed with the regional managers of the respective national companies; if necessary, we agree upon measures such as a Human Rights Impact Assessment, which is designed to assess the actual and potential consequences of corporate activities on human rights and the ability of the organization to prevent, mitigate, or compensate these consequences. We completed such an assessment at T-Systems do Brasil in 2017 and carried out Employee Relations Policy reviews at T-Systems Netherlands and IT Services Hungary in the same year. In addition, we created a special training module on human rights, available for all employees to complete as of January 2018.

For further information, please refer to the section "Risk and opportunity management," page 111 et seq.

For detailed information on employee satisfaction, please refer to the section "Employees," page 96 et seq.

More and more, the public expects companies to take responsibility over their entire supply chains and utilize the opportunities they have to influence specific issues. We have been working to improve sustainability throughout our supply chain for many years. We derive our sustainability strategy in procurement from our CR strategy; it is anchored in the purchasing processes used throughout our Group. The heads of the CR and Procurement units are responsible for implementing sustainable procurement practices. They report to the CHRO and the CFO, and an escalation process calls for decisions to be made at Board of Management level in severe cases. The Sustainable Procurement Working Group supports international procurement units in meeting sustainability requirements. Our sustainability principles for procurement are set forth in the Global Procurement Policy; associated Procurement Practices provide specific purchasing instructions for Germany and are considered recommendations for our national companies. We train our employees throughout the Group using an e-learning tool. In addition, a buyer handbook has been available since 2016 to provide an overview of which CR criteria must be considered at which point of the procurement process.

10 REDUCED INEQUALITIES

Basic ethical, social, and ecological principles are set forth in our Supplier Code of Conduct, updated in 2017, which is part of our General Terms and Conditions for Purchasing and which must be recognized by all of our suppliers. We give the topic of sustainability a 10 percent weighting in requests for tenders.

We cannot guarantee that all of our suppliers will conform to the principles of our Supplier Code of Conduct. However, we review this compliance regularly to minimize risks and further develop suppliers, working closely with them on these issues. We do so using a four-phase approach: The Supplier Code of Conduct is an integral part of all supplier agreements, and as such is binding for all of our suppliers (phase 1). As the business relationship proceeds, we ask strategically relevant or high-risk suppliers to enter extensive information about their practices in the E-TASC (Electronics Tool for Accountable Supply Chains powered by EcoVadis) information system. We take things a step further in our relationships to certain suppliers that exhibit a higher CR risk and conduct on-site social audits (phase 2). Our focus here is not only on our direct suppliers but also on downstream suppliers as far as possible. We also boost the effectiveness of our audits by collaborating with twelve other companies in the Joint Audit Cooperation (JAC). We completed a total of 89 social audits in 2017 – 26 of these with our direct and 63 with our indirect suppliers. As in previous years, we concentrated our auditing activities on suppliers in Asia, in particular in China and neighboring countries such as India, Malaysia, South Korea, and Thailand, as well as in Brazil, Mexico, and Eastern Europe. Audited suppliers included manufacturers in the areas of IT hardware, software and services as well as networks and devices. SDG

We use the information provided by the companies themselves and audit findings to classify and rate suppliers, primarily those that offer several material groups, according to CR criteria (phase 3). In our multi-award winning Supplier Development Program (phase 4) we work together to develop solutions on issues like environmental protection, work hours regulations, or health protection. The success of the program not only has social and ecological benefits, it can also be measured in business terms: For instance, one supplier reduced lost working days by 35 percent. However, better working conditions do not just have a positive impact on employee motivation and increase productivity, they also improve product quality, in turn reducing the number of complaints received about our products. Ecological improvements include, for instance, one supplier's 36 percent reduction in water consumption. Our suppliers also integrate their sub-contractors in our development program, expanding its impact along our value chain. We added three new suppliers to the program in 2017 to bring the total up to 14. In order to help make the global supply chain for ICT products more sustainable, we are developing our supplier program to become an industry standard; other ICT companies will be able to join the program and also involve their own suppliers. SDG

We use the Sustainable Procurement ESG KPI to measure and manage our sustainability performance in procurement. This KPI measures the ratio between the procurement volume we receive from suppliers whose compliance with social and environmental criteria has been verified through self-assessments, E-TASC, or social audits, and our total procurement volume. The share of the procurement volume that has been risk-assessed was 81 percent in 2017. Our goal is to cover at least 80 percent by 2020.

ASPECT 5: FIGHTING CORRUPTION

Corruption and unfair business practices violate national and international law. We reject every type of corruption, which is why we focus on corruption avoidance measures.

ETHICAL BUSINESS PRACTICES AND COMPLIANCE

We feel it is highly important that all staff and executive bodies in our Group act with integrity and comply with our values, rules of conduct, and applicable laws at all times. The goal of our compliance activities is to prevent violations and fraudulent business behavior and to integrate compliance into our business processes early on and on a long-term basis. Our customers need to be able to trust our actions meet the highest standards for compliance and integrity around the world. This is essential if we are to be seen as a reliable partner. SDG

We have expressed our commitment to complying with ethical principles and current legal standards. We have anchored this commitment in our Guiding Principles and Code of Conduct, revised in 2017, with the goal of focusing on issues of compliance and integrity and finding a positive way to raise employee awareness of, and motivation to tackle, these issues. The Code of Conduct is valid throughout the Group and will be introduced in all of our national companies.

Group Compliance Management, our central compliance organization, also plays a key role in establishing corporate governance structures and a corporate culture that focus on integrity. It promotes a compliance culture and establishes a set of values centering around the issue of compliance at our Company, and encourages managers and employees to internalize these values. Hence, our understanding of what compliance means far exceeds pure adherence of corporate action to legal requirements, i.e., laws and internal regulations, and focuses on the integrity of everyone in our Group.

We have introduced a comprehensive compliance management system: a way to reduce risks and make sure conduct throughout the Group complies with the existing regulations. All of our activities comply with legal and statutory requirements and with our own policies and internal data privacy regulations. Responsibility for the compliance management system lies with the Board of Management department for Data Privacy, Legal Affairs and Compliance. In addition, one person at management or managing board level in each Group company is in charge of compliance. Our Chief Compliance Officer is responsible for the Group-wide design, advancement and implementation of the compliance management system. Compliance officers implement the compliance management system and our compliance goals locally at the level of our operational segments and national companies.

We take many different actions and measures to prevent and fight corruption. Our compliance management system is based on the Compliance Risk Assessment (CRA), which we use to identify and assess compliance risks and introduce suitable preventative measures. We have established an annual process for this purpose throughout the Group that we use to identify responsibilities and define clear assessment criteria that are documented in a traceable manner. The companies that will take part in the CRA are selected on the basis of the level of maturity of their compliance management system (maturity-based model). In the reporting year, the CRA included 73 companies and covered around 98 percent of the workforce. The individual Group companies are responsible for implementing the CRA and receive support and advice from the central compliance organization. After the management/managing boards in the national companies have been informed of the CRA findings, these findings are used to outline the compliance program for the following year: Measures and responsibilities are defined and management approves the program. These activities are monitored closely to ensure that measures are completed. We have our compliance management system certified regularly, with a focus on anti-corruption measures. In 2016 and 2017, a total of 22 companies – 10 German and 12 international – were reviewed.

We regularly provide risk-oriented and target group-specific training on compliance and avoiding corruption. We have set up the “Ask me!” advice portal focused on the issue of compliance. The portal contains reliable information for employees on laws, internal policies, and behavioral standards relevant to their daily activities.

Despite the best preventive measures, we are not always able to prevent breaches of law or violations of regulations at the Company. The Tell me! whistleblower portal is used by employees and external parties for reporting breaches or suspected breaches of the law or of internal policies and regulations. In 2017, we received 146 compliance-related tip-offs through the Tell me! portal (108 tip-offs in the prior year). Of these, during the course of the year, 43 were confirmed to be cases of misconduct and dealt with accordingly. We systematically pursue all tip-offs, including those that reach us via other channels, within the scope of the legal framework available to us, and implement appropriate sanctions. We have introduced a Group-wide reporting process to control and monitor these activities. This primarily includes reporting on Group-wide compliance cases and the status of the compliance program.

Our suppliers sign our Supplier Code of Conduct, committing to refrain from any kind of corruption and any actions that could be interpreted as corrupt. We expect, and work to ensure, that our suppliers observe these obligations, principles, and values, and take all necessary measures to prevent and penalize active and passive corruption. We have been offering regular e-learning and classroom training on compliance to our suppliers since 2014, as well as providing them with a compliance guideline. We select our business partners based on compliance criteria and conduct risk-oriented compliance business assessments. SDG

17 PARTNERSHIPS FOR THE GOALS

INNOVATION AND PRODUCT DEVELOPMENT

WE FOCUS ON INNOVATION – FOR OUR CUSTOMERS

The digital transformation is progressing apace, bringing far-reaching change to virtually all areas of life on a social, economic, and political level. From intelligent robots and smart factories to self-driving cars, it is changing the world as we know it. Artificial intelligence is taking root in our daily lives, while real life and the virtual world are converging into the Internet of Things. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

As a leading telecommunications and information technology provider, we want to shape this digital world and find the answers to tomorrow’s questions, today. Our innovations give us leverage to set ourselves apart from the competition, both to safeguard the long-term success of our Company and to position ourselves as a premium provider for our consumers and business customers in the long term.

PRODUCT INNOVATION – THE CORE OF OUR INNOVATIVE ACTIVITIES

The Product Innovation unit is our lynchpin when it comes to developing innovative products and services. Formerly a part of Group Innovation+, this Group unit was set up on January 1, 2017, and is assigned to our newly established Board of Management department Technology and Innovation. Product Innovation coordinates and prioritizes innovation activities for consumers and business customers and looks after the continual development of the Group-wide product innovation strategy. It also generates disruptive ideas and works closely with Technology to ensure technology-driven innovations. Close working relationships between Product Innovation and further units across the entire Group encompass traditional product development projects for our operating segments. The aim of such projects is to expand our product portfolio to include more innovative products and solutions and to improve existing products. These projects have a development horizon of one to two years. However, the central focus of our new Group unit is on innovation topics. As a driver of innovations with a development horizon of three to five years, we are shaping the digital future for our customers.

In the reporting year, Product Innovation pushed ahead with the process of transforming our innovation projects on the basis of three principles:

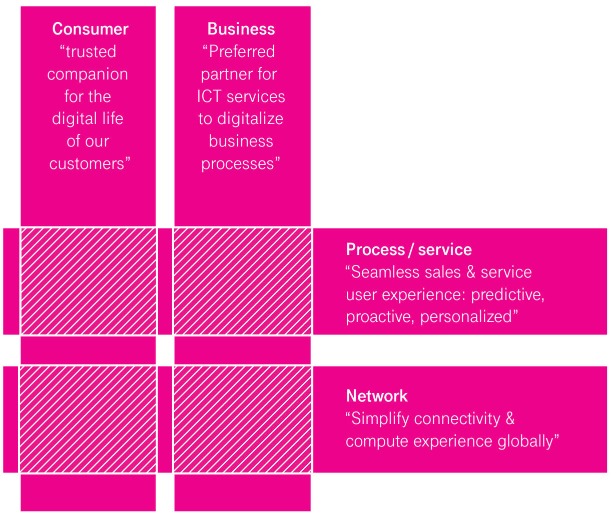
- Innovation focus: Pursue fewer – but all the more promising – areas of innovation at intra-Group level;
- Innovation management: Extend innovation project funding and introduce a more flexible funding approach;
- Collaboration and partnering: Ensure all innovation activities are developed and prioritized jointly by Product Innovation and the business segments and draw systematically on external experts and partners.

INNOVATION FOCUS

FOUR AREAS OF INNOVATION

Where does innovation come from? Everywhere. That's why it is important to ensure all of our innovation activities take place at an intra-Group level and are aligned strategically. Our four interrelated innovation areas – consumer products, business customer products, network/infrastructure, and processes/service – provide a consistent framework that can be applied across the Group.

Innovation areas

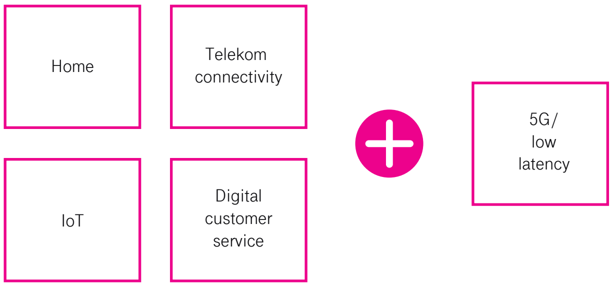


4+1 – OUR FORMULA FOR INNOVATION

In addition, for our innovations to be successful we must focus on just a handful of areas – but we have to choose the right ones. True to this approach, in the reporting year we reduced the number of major innovation areas from 64 to five. We parted ways with some projects (like the Tolino eReader), and put an end to work on others (such as payment).

The resulting formula for innovation is now 4+1: the Group's five prioritized areas of innovation.

4+1 – Our formula for innovation

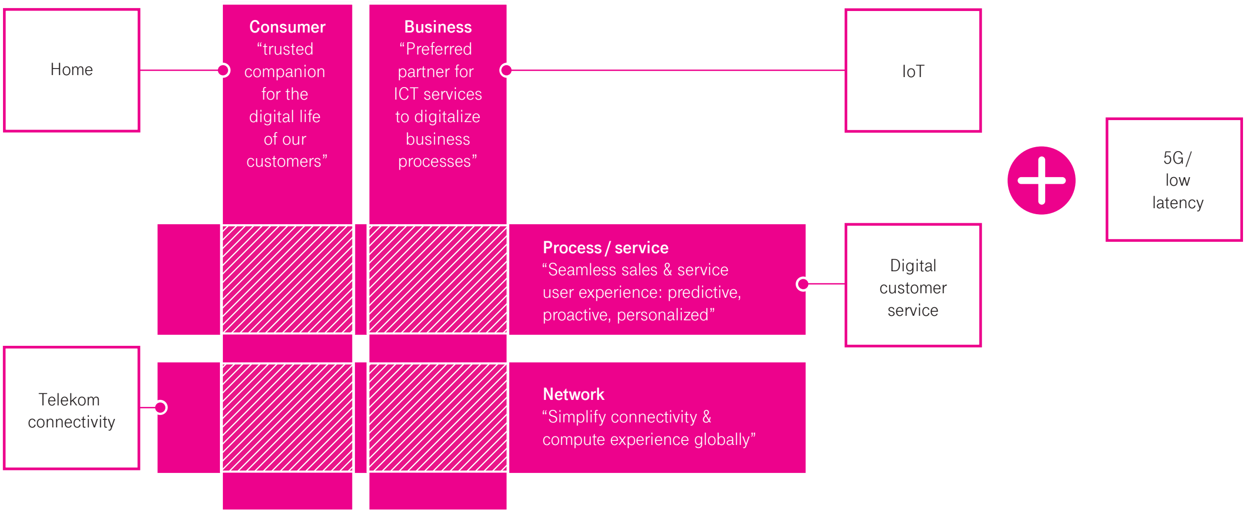


The 4+1 topics are handled on an intra-departmental basis and in close cooperation with the segments:

- Home: Customers see for themselves what the seamless convergence of next-generation products and services can offer in the connected home, for an outstanding customer experience. Fully integrated, user-friendly IPTV/Entertain, SmartHome, and Smart Voice Hub services and devices interplay automatically and seamlessly and are simple and intuitive to use.
- Telekom connectivity: We create a unique connectivity experience by managing different access technologies, from Wi-Fi to 5G, seamlessly to give our customers access to digital services and content everywhere – simply, securely, and in top quality.
- Internet of Things (Narrowband IoT): Narrowband IoT technology is a new type of narrowband communication between "things" in which small volumes of data are transmitted over extended periods of time. Narrowband opens up the door to countless new M2M and IoT applications for our business customers, while being more cost efficient, powerful, and resource-friendly than existing M2M solutions. SDG
- Digital customer care (eCare & eSales): By integrating artificial intelligence into customer service, we free up capacity to focus on further improving customer care and interaction.
- 5G/low latency: This area of innovation stretches further into the future and forms the basis for the real-time communication that is key to innovative applications in the virtual and immersive Internet of the future – like self-driving cars, robotics, Industry 4.0, and ever-more realistic virtual reality.

The first four fields are directly related to our core business and the four innovation areas. They generate directly measurable added value in the form of additional revenues and improved customer satisfaction. In contrast, with 5G/low latency we are driving forward a disruptive innovation field for our Group that has the potential to radically and permanently transform existing markets and business models. The development timeframe in this context is substantially longer than for the first four innovation areas. All five are reviewed each year to ensure that we continue to concentrate on the right topics.

Innovation areas and 4+1 innovation priorities



In the reporting year, we already brought several promising product and service innovations to market under the 4+1 model:

In home innovations, we integrated the QIVICON Home Base functionalities directly into the router so that customers now only need one piece of equipment. The Speedport Smart, launched mid-May, features SmartHome functionalities. The Magenta SmartHome app for Apple and Android was updated in December 2017 to further improve the customer experience in terms of controlling and automating the connected home. The app can now be connected to more than 200 machines and devices for energy-efficient operation, including state-of-the-art equipment such as the smart smoke detector Nest Protect and the latest Osram lights. We also offer the ERGO emergency service to assist in situations where residents cannot be contacted. What is more, Volkswagen owners can now control their SmartHome solution directly via their on-board infotainment system.

In the Telekom Connectivity area of innovation, we developed the CONNECT app for the German market. CONNECT enables users to transition smoothly and smartly between networks and logs into HotSpots and Wi-Fi networks automatically while ensuring full control over costs and speed. This is just one of the ways in which we ensure customers benefit from the best connectivity and the best customer experience. SDG

We continued our pioneering role in the Internet of Things (IoT) innovation area in the reporting year. T-Mobile Netherlands celebrated a world premiere by being the first company to roll out Narrowband IoT technology nationwide. In Germany, too, we launched our first Narrowband IoT service packages and built out the availability of narrowband IoT networks in all of our footprint markets. Several pilot projects with corporate customers in the areas of smart metering, smart parking, and asset tracking are already up and running.

Our new digital customer care assistant at T-Mobile Austria, Tinka, helps customers online and via Facebook to use our products and services intuitively and can answer questions on products and services. Tinka started life as a text-based chatbot in 2016. We then incorporated artificial intelligence elements in 2017 to enable her to interpret and correctly respond to more complicated questions. Since mid-2017, a digital, artificial intelligence-equipped assistant has also been available around the clock to answer German customers' questions on technical problems. The assistant relieves the burden on service colleagues of responding to routine inquiries and frees up valuable time to deal with customer concerns in person.

As part of our long-term focus on innovation in the area of 5G/ low latency, we are laying the groundwork for the digital world of tomorrow. Our showcase of 5G-enabled robotics demonstrated, for example, at Mobile World Congress 2017 how robots can interact efficiently and synchronously using 5G network technology and low latency.

INNOVATION MANAGEMENT

Innovation cycles are getting shorter and shorter. As a result, we must be agile and flexible in how we manage and budget our innovation projects. We orient ourselves to best-practice approaches used by innovative startups and successful companies, and to the latest findings from research and academia.

13 CLIMATE ACTION

PORTFOLIO AND INNOVATION BOARD

Established 2013, the Portfolio & Innovation Board (PIB) plays a central role in managing our innovations. It ensures that we prioritize correctly by identifying and selecting key areas of innovation for our Group and deciding on the method of implementation. Our efforts are guided primarily by the four innovation areas and we create full transparency across the Group regarding our investments in innovation.

CORPORATE INNOVATION FUND

10 REDUCED INEQUALITIES

Our Corporate Innovation Fund (CIF) is managed centrally by the PIB. Similar to a venture capital approach, the CIF offers all business and product ideas generated within the Group a flexible and results-oriented form of funding for a specific project phase. The provision of additional innovation budget allows us, for example, to fund new innovation projects at short notice and with little red tape. Such financing is granted independently of annual planning periods, and therefore intensifies our focus on market and customer requirements. Innovation can take place anywhere across Deutsche Telekom, as long as the proposed business and product ideas fit within our Group's central innovation focuses.

For example, in the reporting year, the Corporate Innovation Fund (CIF) funded the startup and financing phase of the Paketchef solution. Paketchef targets the last mile of parcel delivery services by giving the customer the freedom to choose when and where they receive their parcels. Our Group-internal entrepreneurs' platform UQBATE (www.uqbate.com) also supported this project. Paketchef is thus a good example of successful corporate entrepreneurship and was singled out as the second-best corporate startup at the Corporate Startup Summit & Award in November 2017. SDG

13 CLIMATE ACTION

INVESTMENT COMMITTEE FOR THE 4+1 TOPICS

We established the Investment Committee to speed up investment decisions on our 4+1 areas of innovation. Its objective is to act like an (internal) venture capitalist. The Investment Committee allocates funding according to success, orienting itself to the start-up industry and the venture-capitalist approach of tying funding to the achievement of key milestones. This gives us the flexibility we need when developing innovation topics and focuses efforts on success. Funding is only made available for the next project phase when specific outcomes that are relevant to our customers are achieved.

The deciding factor for us is always that our ideas and innovations are developed closely in line with the demands of our customers from the very start. Projects that become less promising over time are stopped immediately.

COLLABORATION

Working closely with other departments throughout the entire Group is the key to successful innovation. We involve the segments with market responsibility in the development process right from the get-go. This joint effort ensures that we do not miss the mark during this phase.

Another important contributor to successful internal collaboration is the diversity that exists across our Company. Empirical studies confirm our experiences that diversity is positively correlated to innovativeness. SDG

CUSTOMER RESEARCH AND DESIGN THINKING

We want our Group to enjoy long-lasting market success, which is why we take a customer-centric approach to developing innovations. We investigate and analyze customers' wishes even before they are articulated, to design innovative solutions and products together with customers themselves. In doing so, we draw on a toolbox full of diverse, flexible – both intelligent and user-centric – methods. We have also defined a standard design-thinking approach across the Group and, with the Design Academy, set up one of the largest professional training programs in the history of our Company.

INNOVATION FORUM

Being able to work with customers rapidly, independently, and on an ongoing basis is essential, so we recruit customers via the innovation forum, a Group-internal customer panel comprising 1,600 households. These customers help us to develop products and services by contributing their ideas, experiences, and wishes.

CUSTOMER EXPERIENCE

What does it take to create an outstanding customer experience? And how can we do this? Product Innovation has defined the answers to these questions using what it calls the experience framework. The framework, or vision, links together the customer and business perspectives logically to describe specific action areas. This gives us a set of measures and methods that allow us to design a coherent customer experience. Our efforts in this area have received several accolades. For example, at IFA 2017 our virtual reality solution, Basketball, won a UXDesign Award presented by the International Design Center Berlin (IDZ). The solution uses virtual reality to turn a live-streamed basketball game into a real 360° experience.

THREE-PRONGED INNOVATION STRATEGY

To tap into even greater innovation capacity, we not only rely on our own developments but also successfully integrate new ideas from outside Deutsche Telekom. We take a three-pronged approach to innovation to set ourselves apart from the competition and generate growth:

- In-house developments,
- partnerships, and
- startup funding.

FEEL THE FUTURE – OUR PRODUCT AND SERVICE INNOVATIONS

Below are a few examples of developments in the reporting year:

- Smart parking. Searching for parking spaces wastes time, causes traffic jams, and pollutes the air. Summer 2017 brought relief to Hamburg in the form of the new digital parking service Park and Joy. The first parking spaces in the city were equipped with narrowband sensors transmitting over the mobile network. Over the next three years, numerous public parking spaces, parking garages, and private parking lots across the country are to be connected to the network. SDG

- Since February 2017, Slovak Telekom has offered its customers a SmartHome service based on the white-label portfolio from QIVICON. It combines the open, secure QIVICON platform, the new QIVICON Home Base, the White Label app, and other compatible devices from a range of manufacturers. Our SmartHome platform offers further benefits in the form of certification and security. QIVICON has been certified in accordance with the ISO 9001 quality management standard as well as being awarded the top mark by the AV-Test Independent IT-Security Institute.

- immmr is a one-stop service for voice and video calling and messaging. The app virtualizes the user's mobile telephone number allowing them to call any number from any device – even from multiple numbers. The first managed OTT service worldwide, immmr combines the best of Internet-based communication with the strengths of mobile technology. After introducing the app under the immmr brand in Slovakia at the end of 2016, we have been focusing in 2017 on relaunching it under the Telekom brand.

- The future belongs to the eSIM card. We support the GSMA's eSIM standard in Germany, which premieres in the Apple Watch Series 3, making us the only network operator in Germany to offer the Apple Watch with this new eSIM function.

- The use of voice assistants to operate services is becoming increasingly important. We designed our own Smart Speaker featuring our continually learning Magenta voice assistant. It can be used to control equipment connected to the device, such as EntertainTV, using voice commands. The assistant was developed together with researchers at the Fraunhofer Institute for Digital Media Technology (IDMT). In terms of data security too the Smart Speaker meets the most demanding requirements: commands are stored for only 30 days. The servers it uses are located exclusively in Germany, making them subject to Germany's strict data protection law. The Smart Speaker will be available in Germany in the first half of 2018.

With our central research unit, Telekom Innovation Laboratories (T-Labs), we operate our own research and development facilities at locations in Berlin, Darmstadt and Bonn in Germany, Beer Sheva in Israel, and Mountain View in the United States. Some 300 experts and scientists in diverse fields work closely with our Technology and Innovation Board department and our operating segments. They foster open innovation by working with partners from industry, international universities, research institutions, and startups. SDG Based primarily in Berlin, the T-Labs have had close ties to Technische Universität Berlin since 2004. We also entered into further academic partnerships in the reporting year, including with TU Wien in Vienna and the Einstein Center Digital Future in Berlin. In 2017, T-Labs focused on a range of topics including the following:

- A Group-wide initiative was launched in 2017 focusing on a new research area at T-Labs – blockchain – to look into the technology and the possibilities it offers in terms of efficient, secure, environmentally friendly confidential data transfer between partners across a decentralized network. Together with a range of partners, we are working on numerous prototypes which, for example, utilize blockchain technology in the Internet of Things (IoT), including in cooperation with Telekom Deutschland and T-Systems.

- New media experience is all about improving the user experience, in particular at the user interface to new media formats. We look through the eyes of the customer to create solutions for at home and on the move, as well as for smart cities. The focus of our research is on cloud-based applications and integrating new formats such as virtual reality/augmented reality and 360°, which we already unveiled in several showcases (360° Basketball Bundesliga, Telekom Cup, Magenta VR Portal).

- We are working both on new services and to improve existing services for our customers using a range of methods that include machine learning and **artificial intelligence**. The FASAS project is developing mechanisms to detect cyber attacks on our networks at an early stage and trigger automated protection measures. FASAS, a partnership between Telekom Security, Ben-Gurion University in Israel, and T-Labs, represents the successful transfer of research findings and was awarded the Best Big Data Project at Deutsche Telekom 2017 prize. We are migrating the solutions into live operations on a step-by-step basis, with the next update due in the first quarter of 2018. SDG

- **Smart cities** as a strategic focal area has grown out of the many years of lab test results and research findings at T-Labs. Together with partners, we are testing innovative solutions for energy, mobility, and communication in our European flagship project mySmartLife in Hamburg. SDG

INNOVATIONS FROM PARTNERSHIPS

We draw on the expertise and abilities of our partners in order to implement the digital transformation successfully. SDG We rely on the tremendous innovative energy coming out of Silicon Valley, Israel, Germany, and other innovation hotspots across the globe.

Some examples of successful partnerships can be found below:

- After successfully launching StreamOn in Germany, Poland, and Croatia, we expanded our new zero-rating video platform to include Greece and Romania. Our customers in these countries can now stream big-name video services from partners such as **YouTube, Netflix,** and **Amazon Video** on their mobile devices without using up their inclusive data volume. We also launched a new StreamOn option in Croatia, Hungary, Albania, and Greece offering unlimited access to social media and chat services, including Facebook, Messenger, WhatsApp, and Instagram. We will roll out this service to additional countries in 2018 and bring extra partners on board.

- At the end of 2017, Telekom Deutschland and T-Mobile Austria joined forces with our partner **Mojio** to bring a connected car service to market which transforms consumers' vehicles into smart cars, giving them an overview of car usage, handling, and condition, as well as Wi-Fi for passengers. Similar Mojio-based services in the form of SyncUp Drive and Chytré Auto are already on offer at T-Mobile US and T-Mobile in the Czech Republic. In addition, Digital Drive – another Mojio-based technical solution – from T-Systems is a manufacturer-neutral retrofit option for dealers, original equipment manufacturers (OEMs), insurance companies, and fleet operators. Digital Drive enables them to offer their customers own-branded digital connected car services.

- We formed a partnership with **Checkpoint** to deliver security solutions for business customers and consumers. Business customers benefit from secure e-mail transmission with the APT Protect Pro cloud solution, while Telekom Deutschland and Cosmote in Greece launched the Protect Mobile service for consumers in collaboration with Checkpoint. Protect Mobile is a convergent security product available as a simple add-on that protects mobile customers against viruses. An additional app offers protection when connected to Wi-Fi.

- We joined forces with **CyberX** and **Radiflow** to offer comprehensive protection for connected industrial systems. Industrial Threat Protect Pro (CyberX) identifies vulnerabilities and provides transparency, while Industrial Network Protect Pro (Radiflow) protects against the uncontrolled flow of data and unauthorized access to the network. SDG

STARTUP FUNDING

Our **hub:raum** incubator connects startups with the right contacts at our Group. In addition to seed financing, hub:raum offers the startups targeted programs that tie in with the strategic technologies at our Group. With its focus on our core areas, such as artificial intelligence and the smart home, hub:raum primarily deals with startups that fall within our 4+1 innovation areas. Since it was established in 2012, hub:raum has helped us to build up an investment portfolio of over 20 companies and 250 startups in Europe and Israel. In 2017 alone, almost 20 projects between startups and our Group business units were launched (www.hubraum.com). We would like to mention just some of these startups below: SDG

- **Twyla** has created a flexible piece of chatbot software designed to help large companies improve their digital customer experience and take on the diverse challenges of customer service. The solution is simple to integrate and frees up customer advisors' time to concentrate on more complicated customer inquiries (www.twylahelps.com).

- An app designed by **eParkomat** shows users vacant parking spaces in the vicinity and guides them there via smartphone quickly and easily. It uses an algorithm to forecast the availability of vacant parking spaces in real time by analyzing the number of mobile devices that are logged into a specific mobile network (www.eparkomat.com). SDG

- **Reparando** is a speedy mobile repair service that comes to the aid of faulty smartphones. Currently available to customers in 20 cities across Germany, the Stuttgart-based startup has carried out more than 10,000 repairs since it was established mid-2015 (www.reparando.com).

In 2017, hub:raum also launched or continued to pursue three programs dealing with the Group's strategic technologies: low latency/edge computing, future communications (with our partner), and the narrowband IoT program launched in 2016. Program participants gain access to Group experts and support with developing their businesses.

DEUTSCHE TELEKOM CAPITAL PARTNERS

We have restructured our commitment in the areas of venture capital, private equity, and technology innovation with our Deutsche Telekom Capital Partners group (DTCP), which was established at the beginning of 2015, and are extending it considerably. DTCP is Deutsche Telekom's investment management group and is positioned at the center of our redesigned investment concept. DTCP offers growth capital for startups with a proven business model, investments in mature companies, and consulting in the technology, media, and telecommunications sectors. Its objective is to create value for the Group, investors, portfolio companies, and other stakeholders and it has access to some EUR 500 million in capital to pursue this goal. DTCP's investments have a strong financial motivation. The group aims to acquire shares in companies, to see these companies grow, and to sell the shareholdings again at a profit. Choosing the most successful startups and collaborating closely with them leads to strategically relevant cooperation options and business relationships with our Group.

DTCP also provides guidance to our strategic investment fund Telekom Innovation Pool (TIP) on investments that are primarily strategically motivated. TIP focuses its investment activities not only on external startups that are strategically relevant, but also supports and implements in-house ventures as spin-offs. For the latter, new business ideas from our Group are spun off as young companies, making greater entrepreneurial freedom and shorter decision paths possible. Additionally, DTCP advises DTVF (Deutsche Telekom Venture Funds GmbH) on its portfolio. The aim is to support the development of the around 55 existing investments (including through follow-up investments) and divest them at a profit.

DTCP was already conducting successful deals in its first two years in business. This involved the profitable sale of the startups Nexmo (to Vonage), Replay (to Intel), and Fireglass (to Symantec). In 2017, DTCP invested venture capital in several companies, including mobile marketing platform AppsFlyer, big data analytics company Fornova, machine learning-based personalization technology Dynamic Yield, and software-as-a-service enterprise-architecture specialist LeanIX. It also advised the Telekom Innovation Pool on matters such as investing in the IoT orchestration platform Axonize and our cloud computing spin-off mobiledgeX. In terms of mature businesses, DTCP invested in mobile infrastructure provider SwissTowers AG.

PATENTS/IPR PORTFOLIO

Patents are gaining more and more significance in the telecommunications industry. Market players and their areas of activity are changing, with a knock-on effect on our intellectual property rights (IPR) agenda. On the one hand, our Group's scope for action must be maintained. On the other hand and alongside our own research and development activities, we want to pave the way to open innovation through collaboration projects and partnerships. National and international IPRs are vital for these types of activity. We are strongly dedicated to generating our own property rights. In the reporting year, we filed 295 patent applications, taking the total number of IPRs held by the Group to around 8,300. We pursue our intense efforts to develop and structure our IPR portfolio. This secures the value of the rights we hold and ensures they are in line with our Group's strategic objectives. We have put in place a professional patent law management process to keep our IPR assets safe.

EXPENDITURE AND INVESTMENT IN RESEARCH AND DEVELOPMENT

Research and development (R&D) expenditure includes pre-production research and development, such as the search for alternative products, processes, systems, and services. By contrast, we do not class as research and development expenditure the costs of developing system and user software which is designed to improve productivity and make our business processes more effective. R&D expenditure in the Deutsche Telekom Group amounted to EUR 57.7 million in 2017. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure, the amount in this case being EUR 27 million (2016: EUR 58 million). However, this figure cannot be viewed in isolation from our three-pronged innovation strategy comprising in-house developments, partnerships, and startup funding.

Our Group's investments in internally generated intangible assets to be capitalized were also up year-on-year at EUR 235.7 million compared with EUR 129.5 million for the previous year. These investments predominantly relate to internally developed software, mainly in our Group Headquarters & Group Services segment and our Systems Solutions operating segment. About 3,000 employees worked in the Group's R&D areas in 2017 (2016: approx. 2,900).

Expenditure and investment in research and development
millions of €

	2017	2016	2015	2014	2013
Research and development expenditure	57.7	84.1	108.1	95.6	97.0
Investments in internally generated intangible assets to be capitalized	235.7	129.5	101.3	93.2	112.0

EMPLOYEES

- Opportunities and challenges of digitalization
- Our HR work based on the HR priorities
- HR awards in 2017
- Headcount development in 2017

OPPORTUNITIES AND CHALLENGES OF DIGITALIZATION

5 GENDER EQUALITY

Digitalization will completely revolutionize our lives and the way we work. Even now, we are already beginning to see new forms of collaboration, unprecedented business models, and greater automation of activities. That's why it is vital that we equip our managers and employees with digital skills, because people are the keys to our success, both today and tomorrow. It's also why we need to be an attractive employer to talented individuals. We must create working environments and use technologies that enable us to network among ourselves. Leadership will change, too, to become more participative and virtual. Decision-making will become ever faster. Digitalization opens the door to a host of amazing opportunities for innovation and we intend to make the best possible use of them. SDG

8 DECENT WORK AND ECONOMIC GROWTH

The topics mentioned here guide our strategic priorities in HR. In 2017, we continued to work on the following key areas:

OUR HR PRIORITIES

1. Talent strategy and planning
2. Performance management and leadership
3. Working in the digital age
4. Skills management and innovative training opportunities

Below we describe details of example projects and initiatives designed with these priorities in mind.

OUR HR WORK BASED ON THE HR PRIORITIES

1. TALENT STRATEGY AND PLANNING

When it comes to transforming the Group, our workforce plays a crucial role. It is hugely important to us to have the right people in the right jobs and to further develop their individual skills.

Recruitment. We want to make our work even more global, digital, and efficient in the future, which is why we aim to attract the biggest talents to our Company worldwide. Conventional recruitment channels, such as employee recommendations, job advertisements, campaigns, trade fair presences, and active recruitment on social networks, are enhanced by the opportunities provided by digitalization. New channels, such as our Global Online Challenge Platform or Roberta the Robot – our virtual assistant at job fairs – connect us with candidates who have the future skills we need. Gamification is another attractive approach to this target group, as is our open workspace project, CMD+O. We have extended our Women's STEM Award to an international audience and now take applications from female students of STEM subjects not only in Germany, but from across all of Europe. SDG

Employer brand. We are already an attractive employer, but we want to get even better. In 2017, our global HR team created a new worldwide employer brand for the Group, known as the Employer Value Proposition (EVP): "We shape the digital world to bring people closer together." The new EVP is accompanied by a provocative campaign with the slogan: "If you can't think big – don't apply." This new employer brand gives us a consistent look and feel across all labor markets worldwide, yet is flexible enough for our different national companies to contribute their individual strengths.

Succession and talent management. We know that good employees are not only recruited from outside the Company. Many people with key skills and huge potential already work within our Group. In 2017, we imbued our succession planning activities with the necessary structure by taking a global approach. The new digital process allows us to plan and develop candidates on an ongoing basis, and we always have an overview of potential successors to management positions. Additionally, our Global Talent Pool is a platform and database that gives us complete transparency over our global talents and their respective profiles. Talents can use the Global Talent Pool group on YAM, our social network, to plan the next steps of their career, identify strategic project assignments, and find interesting job vacancies. We also exclusively offer a portfolio of digital development opportunities, including CV consulting, career meetings, e-training modules, and mentoring, to prepare our global talents for new positions. This system makes it easier to fill vacancies, improves the visibility of talented employees, and promotes rotation. We also organized two simultaneous Talent Summit conferences in Bonn and Athens to foster international networking, which were attended by over 300 talents.

2. PERFORMANCE MANAGEMENT AND LEADERSHIP

"Lead to win" leadership model. The working world is becoming increasingly dynamic, agile, and innovative. In order to keep pace with these changes, we updated our "Lead to win" leadership model in the reporting year. Essentially, "Lead to win" focuses on a continuous exchange about performance and development issues in line with the principles "Collaborate," "Innovate," and "Empower to perform," along with our Guiding Principles. The main changes in 2017 included uncoupling individual bonus payments, personal development using ongoing feedback, and a stronger focus on Group-wide collaboration.

levelUP! In the age of digitalization, managers must possess skills and methods that differ greatly from those needed by the analog world. That's why we launched a new professional development program for executives, levelUP! – an innovative digital further-training service for successful leadership in the digital age. levelUP! has a flexible modular structure that uses mainly interactive learning formats.

Practicing diversity. For over a decade now, we have sustainably and comprehensively practiced and promoted diversity throughout the Group. SDG In 2015, we launched a campaign on unconscious bias, which is now running at international level. The goal is to raise employee awareness of this issue and bring fresh stimulus for greater diversity within the Company. We once again took part in the German Diversity Day featuring the motto "Diversity makes the difference – cultural skills for business success." Gender equality remains a particular concern of ours. Back in 2010, Deutsche Telekom AG set itself the target of filling 30 percent of management positions across the Group with females. We aim to meet this target by 2020. Across the globe, the proportion of women in middle and upper management stood at 25.4 percent at the end of 2017. Following the introduction of the Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector (Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst), we extended the target to include the Board, the two levels directly beneath the Board, and our internal supervisory boards in Germany. Since 2015, via our Supervisory Board Readiness Program, we have trained almost 60 women to take on national and international supervisory board mandates. The percentage of female members on our supervisory boards in Germany rose from 17.7 percent in 2010 to 37.3 percent in December 2017. In 2017 we also hosted the annual Chefsache Conference; a network of managers from industry, academia, the public sector, and the media dedicated to equal opportunities and patronized by Federal Chancellor Angela Merkel. SDG

Achieving a good work-life balance. Alongside offering traditional support in the form of childcare facilities and family care options, we are also moving increasingly to an HR policy oriented to different life phases that offers flexible working conditions for greater self-determination, and, in doing so, exploits the opportunities provided by digitalization. After concluding the general collective agreement with ver.di in 2017, we rolled out mobile working across the Group as a new way of working. This allows our employees to work from home or on the move, provided the nature of the task lends itself to this. In addition, flexible working hours, the opportunity to go part-time with a guaranteed option to return to full-time work, and the lifetime work accounts all give employees greater freedom to structure their day flexibly and achieve a better work-life balance. SDG

8 DECENT WORK AND ECONOMIC GROWTH

Employee satisfaction. In the most recent Group-wide employee survey of 2017 (excluding T-Mobile US), our commitment index score – our measure of employee satisfaction – already at a high level, remained at 4.1 (on a scale of 1.0 to 5.0). We also conduct regular pulse surveys to obtain feedback from our employees. 71 percent of employees took part in the pulse survey in November 2017, of which 72 percent stated they were satisfied with our Company; for comparison, this figure stood at 73 percent in the pulse survey of November 2016. Even though the feedback is already very positive, we have several initiatives in place to further improve the corporate culture and employee satisfaction. We expect to see employee satisfaction remain consistently high in the next employee survey due in 2019.

10 REDUCED INEQUALITIES

Employee satisfaction (commitment index) [a]

	2017	2015
GROUP (excluding T-Mobile US) [b]	4.1	4.1
Of which: Germany	4.1	4.1
Of which: international	4.1	4.0

[a] Commitment index according to the most recent employee surveys in 2017 and 2015.
[b] T-Mobile US conducts its own employee survey.

Employee health. Our health management strategy is designed to maintain our employees' health and performance. We view occupational health and safety legislation as minimum requirements. In addition, we practice a corporate culture that encourages employees to take personal responsibility for their health. Managers make an important contribution in this respect. Our commitment to this topic has won us numerous accolades. SDG

For further information on occupational health and safety, please refer to the section "Corporate responsibility and non-financial statement," page 77 et seq.

3 GOOD HEALTH AND WELL-BEING

3. WORKING IN THE DIGITAL AGE

What does the transformation of the working world mean for our employees? The innumerable opportunities inspire our HR work, culminating in a range of measures on "people," "places," and "technologies."

5 GENDER EQUALITY

People. The transformation of corporate organization and culture is accelerating, driven by the pace of digitalization. Transformation is not an end in itself, but an expression of the relentless demand for adapted, more flexible work forms and operating structures. The automation of transactional and repetitive activities creates new options for "human" value creation, while social media and digital platforms unlock new ways of working across hierarchical divides. The person and employee continues to be our focus. But who are our employees and how do they work in the digital age? To get to the bottom of these important questions, we asked our workforce about their experiences and wishes regarding the use of digital tools, and created "persona" from our findings. These allow us to develop tailor-made IT solutions and digital learning and further training offers. As in the previous year, in 2017 we once again set standards in the field of design thinking. We have now brought more than 10,000 employees into contact with this creative development method, thus establishing a broad basis on which this approach to innovation and transformation can be applied to daily work. Our Massive Open Online Course (MOOC) format has been up and running for several years now and is used to address current business challenges in global teams. The next Magenta MOOC initiative, with the slogan "Tap into design thinking," will bring this method to an even larger user group. As of the 2017 year-end, 4,700 employees had already registered for this online course. SDG

4 QUALITY EDUCATION

Places. The workplace of the future will also undergo transformation. Our Future Work program offers modern, open office environments and shared work zones to promote flexible working, a trust-based leadership culture, and mobile working. As of the end of the reporting year, just under 18,000 employees in Germany were already working in line with our Future Work principles. The Group Headquarters underwent complete restructuring, along with sites in Düsseldorf, Essen, and Berlin. Our goal is to continue to pursue the transformation of our corporate culture from one based on being at the office to one based on results.

4 QUALITY EDUCATION

Technologies. Because we want to make the most of the opportunities brought about by digital transformation, we are testing out new technologies in fields such as professional training and development. Using virtual reality, for example, we can teach and hone presentation skills in front of a virtual audience. The internal automation of our HR processes is also progressing apace thanks to the use of chatbot prototypes. Our staff app, launched in December 2017, established a basis for bringing further HR processes, like the "punch clock," to the smartphone. Mobile solutions not only make everyday work easier, they also promote modern and flexible working. We will be upgrading the mobile phones of up to 50,000 employees with latest-generation smartphones to give more people access to the latest services. We are aware that we must promote virtual collaboration if we are to maximize performance. A key part of this is our YAM, which is attracting new users continually. YAM had more than 123,000 users as of the end of 2017 and continues to establish itself firmly as a dialog-based communications platform and the central nervous system of our Company. We have also upgraded the direct communications channel with the Board of Management level via YAM, with many of our Board members and managers using blogs, vlogs, chats and discussion forums to communicate. In addition, most employees worldwide now have access to the following options for collaboration between departments and across national borders: video and web conferencing services, live broadcasts and chat/messaging services, and knowledge-sharing via secure data rooms.

4. SKILLS MANAGEMENT AND INNOVATIVE TRAINING OPPORTUNITIES

Skills management. One of our most important resources is the skills of our employees. In order to secure competitiveness and employment, together with the employee representatives we agreed to implement a strategic skills management pilot project at four business units. Alongside retraining opportunities and interdepartmental exchanges, the focus is on identifying skills gaps at an early stage and deriving long-term training programs to redress the balance. To date, some 5,000 employees have gone through this process, thus allowing us to identify potential for improvement and implement training measures together with the participating Group units and our employee representatives. SDG

The 80/20 model. The 80/20 model is yet another innovative program to improve employee motivation and collaboration across departments. It gives employees the freedom – on a voluntary basis and in agreement with the participating manager – to dedicate 20 percent of their working hours to internal Group projects. The model allows skills gaps to be closed, while giving employees the opportunity to apply their skills in other areas, irrespective of their department. Introducing this level of flexibility not only promotes the general success of the Company but also creates a new and innovative way of working in which employees' skills are valued and managers receive targeted support.

Part-time training leave. The "German part-time training leave model" is another opportunity for employees to advance their skills and thus safeguard their employability. We presented this model together with Federal Minister of Labor Andrea Nahles in June 2017. The proposal is similar to the partial retirement model with the added bonus that the employee is given a job guarantee or protection against compulsory redundancy for a specific period of time. The part-time training leave model is an all-round win-win situation. Employees keep their jobs and social security, the costs for the state are substantially reduced compared to the costs of financing unemployment, and companies train up their employees for the future.

Major HR awards in 2017

- **Asia Best Employer Award:** Managing Health at Work, T-Systems Singapore
- **Silicon Valley United States Pillar (HR) World Awards Gold:** Time2Change – More work-life balance in a digital world
- **Corporate Health Award:** Health and Safety, Germany
- **The best employer in IT and telecommunications for 2016:** T-Systems Slovakia
- **Outstanding contribution in the field of safety and health at work:** Makedonski Telekom
- **European HR Excellence Award:** “Innovation of the year”: Roberta recruiting robot
- **HR Awards 2017:** Best Change Management Strategy & Initiative category, OTE
- **Online Talent Communication Study 2017:** Top spot for online applications, among other prizes
- **Best provider of training:** in the area of training & cooperative study programs
- **FOX & Communicator Awards Gold:** for the #wünschteuchwas (make a wish) training campaign
- **Deutscher Unternehmenspreis Gesundheit 2017 (German corporate healthcare award)**
- **Female Recruiting Award 2017**
- **Malaysia Best Employer Brand Award 2017:** T-Systems Malaysia
- **GLOMO Award 2017 for Outstanding Contribution to the Mobile Industry** in supporting Syrian refugees
- **Media and Migration Award in NRW 2017:** Information portal for refugees; handbookgermany.de

HEADCOUNT DEVELOPMENT

The Group’s headcount fell by 0.5 percent compared with the end of the prior year. Development across the segments was varied. The number of employees in our Germany operating segment declined by 2.3 percent as a result of efficiency enhancement measures, fewer hires in the operating units, and the take-up of socially responsible instruments. The total number of employees in our United States operating segment increased by 2.4 percent at December 31, 2017 compared to December 31, 2016, due to an increase in customer support and network employees, partially offset by a decrease in customer acquisition employees. In our Europe operating segment, the workforce grew by 1.3 percent year-on-year, partly due to the extra employees needed at our national company in Poland to staff the new branches opened there. The headcount in our Systems Solutions operating segment increased by 1.2 percent, largely as a result of the integration of Telekom Security employees. In our Group Development operating segment, the number of employees declined by 23.5 percent, primarily as a result of the deconsolidation of Strato as of March 31, 2017. The headcount in the Group Headquarters & Group Services segment was down 4.7 percent compared with the end of 2016, mainly due to the ongoing staff restructuring at Vivento and the Group-wide bundling of the Telekom Security unit under our Systems Solutions operating segment. By contrast, the number of employees in our new Technology and Innovation Board department increased.

WORKFORCE STATISTICS

Headcount development

		Dec. 31, 2017	Dec. 31, 2016[a]	Dec. 31, 2015[a]	Dec. 31, 2014	Dec. 31, 2013
FTEs IN THE GROUP		**217,349**	**218,341**	**225,243**	**227,811**	**228,596**
Of which: Deutsche Telekom AG		21,428	22,571	26,205	28,569	29,577
Of which: civil servants (in Germany, active service relationship)		15,482	15,999	18,483	19,881	20,523
Germany operating segment[a]		63,928	65,452	67,927	68,754	66,725
United States operating segment		45,888	44,820	44,229	39,683	37,071
Europe operating segment[a]		47,421	46,808	48,920	53,499	53,265
Systems Solutions operating segment[a]		37,924	37,472	37,850	46,244	49,540
Group Development[a]		1,967	2,572	2,768	–	–
Group Headquarters & Group Services[a]		20,222	21,216	23,548	19,631	21,995
BREAKDOWN BY GEOGRAPHIC AREA						
Germany		101,901	104,662	110,354	114,749	116,643
International		115,448	113,679	114,888	113,061	111,953
Of which: other EU member states		59,952	59,456	60,710	63,032	63,939
Of which: rest of Europe		2,620	2,581	2,945	3,127	3,238
Of which: North America		46,332	45,364	44,803	40,346	37,856
Of which: rest of world		6,543	6,278	6,431	6,556	6,920
NATURAL ATTRITION	%	**4.7**	**4.0**	**4.4**	**4.2**	**4.2**
Of which: Germany	%	1.7	1.4	1.3	1.4	1.8
Of which: international	%	9.2	8.1	9.3	8.6	7.6
PRODUCTIVITY TREND[b]						
Net revenue per employee	thousands of €	346	331	306	275	262

[a] Since January 1, 2017, we have reported on the Group Development operating segment and within the Group Headquarters & Group Services segment on the Board of Management department Technology and Innovation. Comparative figures have been adjusted retrospectively.

[b] Based on average number of employees.

For more information, please refer to the section "Group organization" **page 31 et seq.**, and to the disclosures in Note 31 "Segment reporting" in the notes to the consolidated financial statements, **page 220 et seq.**

Personnel costs
billions of €

		2017	2016	2015	2014	2013
Personnel costs in the Group		15.5	16.4	15.8	14.7	15.1
Of which: Germany		8.5	9.8	9.4	9.1	9.4
Of which: international		7.0	6.6	6.4	5.6	5.7
Special factors[a]		0.6	1.6	1.2	0.9	1.4
Personnel costs in the Group (adjusted for special factors)		14.9	14.8	14.6	13.8	13.7
Net revenue		74.9	73.1	69.2	62.7	60.1
ADJUSTED PERSONNEL COST RATIO	%	**19.9**	**20.3**	**21.2**	**22.0**	**22.7**
PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP		**2.7**	**3.5**	**2.9**	**2.8**	**3.1**

[a] Expenses for staff-related measures.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

For information on events after the reporting period, please refer to Note 42 "Events after the reporting period" in the notes to the consolidated financial statements, page 247, and to the notes to the annual financial statements of Deutsche Telekom AG as of December 31, 2017.

FORECAST[1]

STATEMENT BY THE BOARD OF MANAGEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP

We successfully continued our growth course again in 2017. We already set ourselves apart by having the best and most modern networks and we want to continue building on this technology leadership. Over the coming years, we will also focus more on integrated offers, in line with the expectations of our customers. This goes hand in hand with our "Leading European Telco" strategy – with the aim of becoming Europe's leading telecommunications provider. This is closely related to our financial targets for the period up to 2018: As communicated at our Capital Markets Day in February 2015, we are aiming for the following compound annual growth rates (CAGR) for the period from 2014 to 2018:

- Revenue: 1 to 2 percent
- Adjusted EBITDA: 2 to 4 percent
- Free cash flow: approx. 10 percent

For 2018, we expect to post the following year-on-year growth trends, assuming a comparable consolidated group and constant exchange rates:

- Revenue is likely to increase again slightly in 2018.
- Adjusted EBITDA is expected to reach some EUR 23.2 billion in 2018, up from EUR 22.2 billion in the reporting period.
- Free cash flow is expected to grow to around EUR 6.2 billion in 2018, up from EUR 5.5 billion in the reporting period.

The new accounting standards IFRS 9 and IFRS 15 took effect as of January 1, 2018. This will have a net impact going forward on the revenue and EBITDA of our Germany, United States, and Europe operating segments, and hence on the Group. The planning for the coming years, and thus the statements made in this section, already take these new financial reporting standards into account. As the figures for the 2017 financial year have been prepared in accordance with IAS 18, while the forecasts for 2018 and beyond already take the new accounting standards into consideration, a direct comparison of the two years is only possible to a limited extent.

For more details on the new standards, please refer to the section "Summary of accounting policies" in the notes to the consolidated financial statements, page 153 et seq.

ECONOMIC OUTLOOK

In its economic forecast from January 2018, the International Monetary Fund (IMF) expects annual global economic growth of 3.9 percent in both 2018 and 2019. This faster growth is attributable to the economic upswing in emerging and developing economies as well as stable growth in industrialized nations. We expect the stable economic trend in our core markets to continue. The economies in Germany, the United States and the countries of our Europe operating segment are largely recording positive growth rates, driven by buoyant trends in both private consumer and investment spending. The situation on the labor markets is also likely to improve as a result.

[1] The forecasts contain forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want," and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of revenue, EBIT, EBITDA, adjusted EBITDA, ROCE, cash capex, and free cash flow. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives are described in the section "Risk and opportunity management," page 111 et seq. of the combined management report, and the "Disclaimer," page 265 at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the future structure of the Group, without regard to significant acquisitions, disposals, business combinations, or joint ventures that may arise at a later date. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

Forecast on the development of GDP and the unemployment rates in our core markets for 2018 and 2019
%

	GDP for 2018 compared with 2017	GDP for 2019 compared with 2018	Unemployment rate in 2018	Unemployment rate in 2019
Germany	2.3	1.9	5.4	5.3
United States	2.6	2.2	4.0	3.8
Greece	2.2	2.2	19.6	18.6
Romania	4.1	3.7	5.1	4.8
Hungary	3.5	3.2	4.0	4.0
Poland	3.8	3.4	6.1	6.2
Czech Republic	3.4	3.0	3.7	3.4
Croatia	2.8	2.8	11.0	10.0
Netherlands	2.2	2.0	4.4	4.6
Slovakia	3.6	3.8	7.1	6.8
Austria	2.2	1.8	5.2	5.0
United Kingdom	1.3	1.4	4.4	4.5

Source: Bloomberg Consensus; January 2018.

MARKET EXPECTATIONS

GERMANY

The market for telecommunications services in Germany, which declined by 0.3 percent in 2017 compared with the prior year, is expected to stabilize in 2018 (source: EITO, European Information Technology Observatory). There are a number of reasons for this: First of all, the regulation-induced decrease in revenue is likely to slow down. Second, the negative trends in traditional fixed-network telephony are expected to be offset by growing demand for mobile data volumes and faster connectivity in the consumer and business customer area. For the wider ICT market, which covers IT services as well as telecommunications, EITO forecasts growth of 1.7 percent for 2018. This forecast is primarily based on growth in the IT market, which is currently 3.0 percent and mainly driven by strong demand in two areas: services for business customers (e.g., outsourcing, project business, consulting) and software-based services (virtualization and cloud business, e.g., in the form of Software as a Service, Platform as a Service, or Infrastructure as a Service).

Innovative integrated products and attractive supplementary services – such as TV and music options, and smart home – are becoming increasingly important for our competitive position with consumers, while cloud services, security applications, and solutions for Industry 4.0 are gaining in significance with business customers. We are also setting ourselves apart from other providers with our download and upload bandwidths, the mobile data volumes we include in our rate plans, and innovations in our rate plans.

The mobile communications market in Germany is dominated by three providers, each with its own network infrastructure, who deploy 4G/LTE technology to ensure that the majority of the population has access to high-speed mobile Internet. By contrast, the fixed-network broadband market hosts a large number of players with differing infrastructures – from national through to regional providers. We are assuming that competition from cable network operators will remain intense and that the number of providers who have their own DSL and fiber-optic networks will increase.

UNITED STATES

The U.S. mobile market continues to be characterized by intense competition among the major mobile carriers. Competitive factors within the U.S. mobile market include dynamic changes in pricing, voice market saturation, service and product offerings, customer experience, network quality, development and deployment of technologies, availability of spectrum licenses, and regulatory changes. The mobile postpaid market in the United States is embracing device financing options, such as T-Mobile US' equipment installment plans and device leasing through JUMP! On Demand, allowing customers to subscribe for wireless services separately without the purchase of or payment for a bundled device. Additionally, data services and the availability of unlimited data plans, continue to be a growth driver despite the high level of competition, supporting further network investment by the major mobile carriers in the U.S. mobile market.

EUROPE

The positive trend seen in the traditional communications markets in our Europe operating segment in 2017 will continue over the next two years. Analysts have adjusted their forecasts accordingly: For example, Analysys Mason now expects the markets to remain stable overall in 2018 and 2019, with annual growth in fixed-network business of 2 percent in both the broadband and pay TV markets, while the significance of voice services will likely continue to diminish, shrinking by some 7 percent per year. In the mobile markets, data services are expected to grow by approximately 5 to 6 percent per year – driven by massive growth in data traffic, especially from the use of mobile video services. According to analyses by Ovum, by 2019, mobile video services will account for more than 60 percent of data traffic on mobile networks in Eastern Europe and for almost 80 percent in Western Europe. By contrast, the relevance of traditional voice services also continues to wane in mobile communications: analysts forecast a decline of around 5 percent per annum in this area. The trend towards convergent offers comprising fixed-network and mobile services (FMC) also continues unabated in our Europe operating segment. We expect more than 30 percent of all broadband lines to be part of an FMC offer by 2019.

According to Oxford Economics, real GDP will continue to rise in all our countries in 2018 and 2019 by between 2 and 4 percent per annum. This positive economic situation will have a particular impact on the IT markets in our Europe operating segment. EITO forecasts growth of 3 percent for the countries of Central and Eastern Europe for 2018.

SYSTEMS SOLUTIONS

The ICT market is expected to see further growth in the next two years in line with the ongoing improvement of the global economy, while cost pressure and strong competition are expected to persist. At the same time, we expect the digital transformation to stoke demand for solutions for cloud services, big data, smart network services such as Industry 4.0, the Internet of Things, and M2M as well as for the mobilization of business processes and ICT security (cyber security).

We estimate that the ICT markets will develop along divergent paths in the two main market segments:

- Telecommunications: The highly competitive fixed-network telecommunications market for large business customers remains challenging. Innovative change, intense competition, constant price erosion, and the interventions of national regulators are all likely to diminish total market revenues, even though both mobile data services business and the Internet of Things will continue to grow in the coming years.

- IT services: The clear growth in the market for IT services in the reporting year is likely to continue in 2018 and 2019. At the same time, this market is undergoing a radical transformation, e.g., due to ongoing standardization and automation, demand for smart services, and the changes being wrought by cloud services in outsourcing business. Further challenges have arisen in the shape of digitalization, the growing importance of ICT security (cyber security), big data, and increasing mobility. Traditional IT business is likely to decline due to price competition, while cloud services, mobility, and cyber security may reach double-digit growth. In view of this, we continue to plan to step up investments in growth markets – especially in digitalization, cloud services, cyber security, and smart network solutions for the healthcare sector, the public sector (smart city), and the automotive industry.

GROUP DEVELOPMENT

Our companies T-Mobile Netherlands and Deutsche Funkturm (DFMG) dominate the development of our Group Development operating segment.

- The high price and competitive pressure in the Dutch mobile market will continue to intensify over the coming years. One of the main trends contributing toward this is the growing bundling of fixed-network and mobile products into convergence offers (FMC). What is more, both the strong discount segment, comprising mobile providers' secondary brands, and MVNOs will continue to make for lively competition.

- With some 28,000 locations, DFMG is the biggest provider of passive wireless infrastructure for mobile communications and broadcasting in Germany. We expect demand for cell sites to rise steadily over the next few years, due to the fact that network operators plan on the one hand to close gaps in coverage, and on the other to increase the density of mobile networks to meet the growing demand for mobile data services.

EXPECTATIONS FOR THE GROUP

Expectations up to 2019. For the next two years, we expect profitable growth to continue. Revenue and adjusted EBITDA are expected to rise at Group level in 2018: a good basis to achieve our financial ambitions by 2018 as communicated at our Capital Markets Day in February 2015.

We expect our **financial performance indicators** to develop as follows in 2018 and 2019:

- **Revenue** should increase slightly year-on-year in 2018 and continue to rise in 2019. This forecast is based on the rigorous implementation of the Un-carrier strategy in our United States operating segment, which will bring with it sustained customer growth over the next two years. For 2019, we expect all operating segments to make a positive contribution to the revenue growth of our Group.

- **Adjusted EBITDA** is expected to come in at around EUR 23.2 billion in 2018 and to rise in 2019 due to the expected upward revenue trend over the same two-year period.

- **EBITDA** is expected to decline in 2018 compared with the prior year. EBIT is also expected to decrease in 2018 on account of multiple positive special factors recorded in 2017, such as the partial reversal of impairment losses on spectrum licenses previously acquired by T-Mobile US and to the sale of Strato and Scout24 AG. We expect to see slight growth in EBIT in 2019 and growth in EBITDA. This is in line with the expected positive trend for adjusted EBITDA.

- **Return on capital employed (ROCE)** is expected to decrease in 2018, since ROCE in 2017 was positively impacted by the aforementioned special factors. Despite this anticipated decline, we are well on track to achieve the expected weighted average cost of capital (WACC) and hence fulfill our promise made at the 2015 Capital Markets Day. In 2019, return on capital employed should remain stable year-on-year.

- Our investments – in terms of **cash capex** (before spectrum investments) – are expected to amount to around EUR 12.5 billion in 2018. Over the next two years, too, we want to continue investing heavily in building out our network infrastructure in Germany, the United States, and Europe in order to safeguard our technology leadership in the long term. Capital expenditure is expected to fall slightly year-on-year in 2019.

- **Free cash flow** (before dividend payments and spectrum investment) is expected to reach around EUR 6.2 billion in 2018 and rise sharply again in 2019. It is to thus make a crucial contribution toward keeping our relative debt – measured as the ratio of net debt to adjusted EBITDA – within the target corridor of 2 to 2.5x in 2018 and 2019.

- At the end of 2017, the rating agencies Standard & Poor's, Fitch, and Moody's gave us ratings of BBB+, BBB+, and Baa1 respectively, thus placing us in the group of solid investment grade companies. The outlook from all three rating agencies was "stable." Maintaining a solid investment grade rating within the A– to BBB range will enable us to retain unrestricted access to the international financial markets and is thus a key component of our finance strategy.

Our debt issuance program puts us in a position to place issues on the international capital markets at short notice, while our commercial paper program enables us to issue short-term papers on the money market. Our finance strategy continues to include a liquidity reserve that, at any given time, covers at least our capital market maturities over the next 24 months.

Repayments of bonds and loans in the amount of EUR 2.9 billion and EUR 4.8 billion will fall due in 2018 and 2019, respectively. In order to refinance our maturities and maintain the liquidity reserve, we plan to issue new bonds in various currencies. The bond issue in November 2017 already covers part of the refinancing needs for 2018. In January 2018, T-Mobile US also placed bonds with a total volume of USD 2.5 billion on the market. The exact execution of further transactions depends on developments in the international finance markets. We will also cover part of our liquidity requirements by issuing commercial paper.

We intend to continue leveraging economies of scale and synergies through suitable partnerships or appropriate acquisitions in our footprint markets. There are no plans, however, for major acquisitions or expansion in emerging markets. We will continue to subject our existing partnerships and equity investments to regular strategic reassessments with a view to maximizing the value of our Company.

Our **expectations** for the period until 2019 for the Group and the operating segments as regards our financial and non-financial performance indicators are shown in the following tables. They assume a comparable consolidated group and constant exchange rates. The forecast statements made already take into account the new accounting standards IFRS 9 and IFRS 15, which took effect as of January 1, 2018. If the economic situation should deteriorate or any unforeseen state or regulatory interventions arise, the expectations expressed here may change accordingly. All trends denote year-on-year changes. To indicate the intensity and trends of our forecasts, we apply the following assessment matrix: strong decrease, decrease, slight decrease, stable trend, slight increase, increase, strong increase.

Financial performance indicators

		Results in 2017	Pro forma for 2017[a, b]	Expectations for 2018[c, d, e]	Expectations for 2019[c, d, e]
NET REVENUE					
Group	billions of €	74.9	74.9	slight increase	increase
Germany	billions of €	21.9	21.9	stable trend	slight increase
United States (in local currency)	billions of $	40.3	40.3	increase	increase
Europe	billions of €	11.6	11.6	stable trend	slight increase
Systems Solutions	billions of €	6.9	6.9	decrease	increase
Group Development	billions of €	2.3	2.2	slight decrease	increase
PROFIT (LOSS) FROM OPERATIONS (EBIT)	billions of €	9.4	9.4	decrease	slight increase
EBITDA	billions of €	24.0	23.9	decrease	increase
EBITDA (ADJUSTED FOR SPECIAL FACTORS)					
Group	billions of €	22.2	22.2	23.2	increase
Germany	billions of €	8.5	8.4	8.6	increase
United States (in local currency)	billions of $	10.5	10.5	11.3	increase
Europe	billions of €	3.7	3.7	3.8	slight increase
Systems Solutions	billions of €	0.5	0.5	0.4	slight increase
Group Development	billions of €	0.9	0.9	0.9	increase
ROCE	%	5.8		decrease	stable trend
CASH CAPEX[f]					
Group	billions of €	12.1	12.1	12.5	slight decrease
Germany	billions of €	4.2	4.2	stable trend	stable trend
United States (in local currency)	billions of $	5.2	5.2	stable trend	stable trend
Europe	billions of €	1.8	1.8	stable trend	slight decrease
Systems Solutions	billions of €	0.4	0.4	strong increase	decrease
Group Development	billions of €	0.3	0.3	increase	increase
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)	billions of €	5.5		6.2	strong increase
RATING					
Standard & Poor's, Fitch		BBB+		from A- to BBB	from A- to BBB
Moody's		Baa1		from A3 to Baa2	from A3 to Baa2
OTHER					
Dividend per share[g, h]	€	0.65		Dividend follows free cash flow growth Minimum € 0.50	Dependent on the finance strategy for the years following 2018[i]
EPS (adjusted for special factors)	€	1.28		decrease	slight increase
Equity ratio	%	30.0		25 to 35	25 to 35
Relative debt		2.3x		2 to 2.5x	2 to 2.5x

[a] Significant changes in the organizational structure and in the composition of the consolidated Group included up to the date of preparation of the consolidated financial statements and the combined management report (e.g., the integration of Vivento Customer Services GmbH into our Germany operating segment; Vivento was previously assigned to our Group Headquarters & Group Services segment).

[b] Based on the International Financial Reporting Standards (IFRSs) applicable in 2017, i.e., without taking account of the changes in IFRS 9 and IFRS 15, in particular.

[c] On a comparable basis.

[d] Tele2 Netherlands and UPC Austria are not included in the expectations.

[e] The expectations are based on the currently applicable International Financial Reporting Standards (IFRSs), i.e., taking into account IFRS 9 and IFRS 15 (see also footnote i), but not taking into account the changes resulting primarily from IFRS 16, which has not yet been applied.

[f] Before spectrum investment.

[g] The indicated expectation regarding the dividend per share refers to the respective financial year indicated.

[h] Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

[i] We will provide information about the further development of our finance strategy for the years following 2018 at our Capital Markets Day, which is planned for the end of May 2018.

For information on standards, interpretations, and amendments issued, but not yet to be applied, please refer to the section "Summary of accounting policies" in the notes to the consolidated financial statements, **page 153 et seq.**

Non-financial performance indicators

		Results in 2017	Pro forma for 2017 [a]	Expectations for 2018	Expectations for 2019
GROUP					
Customer satisfaction (TRI*M index)		68.6		slight increase	slight increase
Employment satisfaction (commitment index) [b]		4.1		stable trend	stable trend
FIXED-NETWORK AND MOBILE CUSTOMERS					
GERMANY					
Mobile customers	millions	43.1	43.1	increase	increase
Fixed-network lines	millions	19.2	19.2	decrease	decrease
Of which: retail IP-based	millions	12.0	12.0	strong increase	strong increase
Broadband lines	millions	13.2	13.2	increase	increase
Television (IPTV, satellite)	millions	3.1	3.1	strong increase	strong increase
UNITED STATES					
Branded postpaid	millions	38.0	38.0	increase	increase
Branded prepay	millions	20.7	20.7	increase	increase
EUROPE					
Mobile customers	millions	48.8	48.8	increase	slight increase
Fixed-network lines	millions	8.4	8.4	slight decrease	slight decrease
Of which: IP-based	millions	5.7	5.7	strong increase	strong increase
Retail broadband lines	millions	5.6	5.6	increase	increase
Television (IPTV, satellite, cable)	millions	4.2	4.2	increase	increase
SYSTEMS SOLUTIONS					
Order entry	billions of €	5.2	5.2	increase	increase
ESG KPIs					
Energy Intensity ESG KPI [c]	kWh/terabyte	146		strong decrease	strong decrease
Carbon Intensity ESG KPI [c]	kg CO_2/terabyte	61		strong decrease	strong decrease
Sustainable Procurement ESG KPI	%	81		stable trend	stable trend

[a] Significant changes in the organizational structure and in the composition of the consolidated Group included up to the date of preparation of the consolidated financial statements and the combined management report.
[b] Commitment index as per the 2017 employee survey.
[c] Figures for the Deutsche Telekom Group in Germany for 2016.

For further information on the development of the non-financial performance indicators of our operating segments, please refer to "Expectations for the operating segments" in this section.

In both 2018 and 2019, we intend to achieve a moderate improvement in **customer loyalty/satisfaction** – which is measured using the **TRI*M index** performance indicator.

Having already achieved a high level of 4.1 – on a scale of 1.0 to 5.0 – on the **commitment index** in the 2017 employee survey, and in view of the results of the pulse surveys conducted in 2017, we expect the positive response of our employees regarding our Company to remain stable in the next employee survey, which is scheduled for 2019.

For detailed information on our ESG KPIs and our expectations, please refer to the section "Corporate responsibility and non-financial statement," **page 77 et seq.**

Our planning is based on the exchange rates in the following table.

Exchange rates

Croatian kuna	HRK	7.46
Polish zloty	PLN	4.26
Czech koruna	CZK	26.33
Hungarian forint	HUF	309.19
U.S. dollar	USD	1.13

The following table contains a summary of our model calculations and analyses of the key external factors that may have an effect:

Factors that may affect results

Premises	Current trend	Impact on results
ECONOMY		
Macroeconomic trends in Europe (incl. Germany)	steady	○
Macroeconomic trends in the United States	increasing	○
Inflation in Europe (incl. Germany)	increasing	○
Inflation in the United States	increasing	○
Development of the U.S. dollar exchange rate	steady	○
Development of exchange rates of European currencies	steady	○
REGULATORY/STATE INTERVENTION		
Regulation of mobile communications in Europe (incl. Germany)	steady	○
Regulation of the fixed network in Europe (incl. Germany)	steady	○
Taxes (in Europe/the United States)	increasing	✓
MARKET DEVELOPMENT		
Intensity of competition in the telecommunications sector in Europe (incl. Germany) and the United States	steady	○
Intensity of competition in the telecommunications sector in the United States	steady	○
Price pressure in telecommunications markets	steady	○
ICT market	increasing	○
Data traffic	increasing	○

✓ positive ○ unchanged ✗ negative

Expectations for Deutsche Telekom AG. The development of business at Deutsche Telekom AG as the parent company of the Group is reflected particularly in its service relationships with our subsidiaries, the results from our subsidiaries' domestic reporting units, and other income from subsidiaries, associated, and related companies. In other words, our subsidiaries' results from operations and the opportunities and challenges they face are key factors shaping the future development of Deutsche Telekom AG's figures. Accordingly, in addition to our expectations for the Group, the expectations described on the following pages concerning the operating segments' revenue and earnings – such as strong competition, regulatory intervention, market and economic expectations, etc. – have an impact on our expectations concerning the development of Deutsche Telekom AG's future income after taxes.

Based on the aforementioned expectations for our operating segments and the resulting effects, and taking existing retained earnings into account, Deutsche Telekom AG also expects to distribute a dividend of at least EUR 0.50 per dividend-bearing share for the 2018 financial year, subject to approval by the relevant bodies and the fulfillment of other legal requirements. Relative growth in free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial year.

EXPECTATIONS FOR THE OPERATING SEGMENTS

GERMANY

In our Germany operating segment, we continue to work on our comprehensive transformation program: We want to continue driving forward the IP migration, reduce the complexity of products and processes, use new technologies, and increase the use of automation. In this context, it is important to us that the transformation process is customer-friendly while also being technologically efficient. Our aim is to secure our market position as the leading integrated telecommunications provider in Germany by providing innovative and competitive products and services. In mid-2017, we pooled our customer and technical service so as to offer the best customer experience with the best service.

In the fixed network, we want to offer the best customer experience with fiber-optic products. We are paving the way for this with our integrated network strategy. We are building an IP-based network with high transmission bandwidths so that, in the future, we can offer our customers competitive high-speed lines, e.g., by migrating our VDSL network to vectoring technology. In addition, we are investing heavily to offer greater coverage and even higher speeds in rural areas as well. We are using innovative products for this purpose – like our hybrid router, which combines the bandwidths of fixed-network and mobile communications, thus enabling much higher transmission speeds. SDG Furthermore, we are working towards further partnerships to provide even more customers with high bit-rate Internet access.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

In 2014, we were the first provider in Germany to market a comprehensive and integrated fixed-network/mobile (FMC) product: MagentaEins. We have gradually added new products to this range, such as an FMC offering specifically for our business customers. When designing our products, we pay particular attention to high quality and a simple rate plan structure. In addition, our multiple-brand strategy in mobile communications allows us to address the entire customer spectrum – from smart shoppers through to premium customers. The new Magenta Business program addresses business customers.

We want to secure an ever-larger share of the growing TV market by stepping up marketing activities in the housing sector with a focus on entertainment and content offers. To this end, we are investing in our IPTV platform and winning new customers with attractive content and services.

We want to remain the market leader in Germany in terms of revenue in both mobile communications and the fixed network and extend our market lead in service revenues. As our customers' demand for bandwidth is constantly growing, we intend to continue investing extensively in broadband networks, innovative products, and customer service. Our success in this area has proven us right: Our broadband revenues are constantly growing and customer satisfaction levels, too, are on a positive trajectory. We now want to cement these two trends, with "progress through digitalization" being one of the drivers of this positive development in customer satisfaction. One example of this is the further development of mobile services (e.g., Magenta apps) for customers.

Overall, revenue in our Germany operating segment should stabilize in 2018 – despite intense competition and the strong impact of regulation on our core business. In addition, we expect broadband and TV revenues as well as the number of IP offerings to rise, as well as further growth in business with business customers. The positive trend in IT and cloud business is set to continue. We want to continue expanding our fiber-optic services, both by means of business models with wholesale products (such as the contingent model) and through further partnerships, e.g., in the housing sector. In addition, we are working with our partners to expand offers such as SmartHome or content and security services for our customers.

We expect growth initiatives in Germany to generate revenue growth and offset the volume-driven decline in revenue from traditional fixed-network business. We want to continue consolidating our position as market leader in mobile and fixed-network communications. Thanks to the outstanding quality of our network and the progress being made in fiber-optic roll-out, we anticipate greater demand for mobile and broadband products as well as growth in the number of broadband, TV, IP, high-speed, and hybrid lines. We would like to continue offering best customer experience with integrated services (e.g., MagentaEins), digital products, and service experiences. Our IT and technical service revenues should help feed this trend. In addition, we want to make advances with the smart home business and offer further M2M and security services. We expect growth in cloud services to continue. Wholesale sales volumes should continue to develop very positively thanks to strong demand for our contingent model. The revenue trend is only expected to be stable year-on-year due to the transition to the IFRS 15 accounting standard in 2018.

We expect adjusted EBITDA to increase year-on-year for the next two years in our Germany operating segment. In 2018, we expect adjusted EBITDA of around EUR 8.6 billion and a steady improvement in our margin. Growing revenues as well as savings in indirect costs – primarily from a reduction in redundancies and from increased productivity – will be the main factors in this trend. We forecast an adjusted EBITDA margin of some 39 percent in both 2018 and 2019.

Our course is set for innovation and growth: While we will continue to promote investments in new technologies with even greater intensity in the future, we are reducing investments in legacy systems. The focus of our capital expenditures in the coming years will thus fall on our network infrastructure and our mobile network (e.g., FTTC, super vectoring, FTTH, 4x4 MIMO, 5G). At the same time, we want to further build out our fiber-optic network and close gaps in the network in rural areas. One focus here is business parks and we are driving forward the FTTH build-out accordingly. We want to continue this roll-out efficiently and participate in development programs. We expect our investments in new technologies (cash capex) to remain stable at a high level for the next two years.

UNITED STATES

In 2018, T-Mobile US will continue to execute on its Un-carrier promise to deliver the best value experience in the U.S. wireless industry. Key elements of the Un-carrier promise include delivering distinctive value for consumers in all customer segments by eliminating customer pain points and providing excellent 4G/LTE services through a strong mid-band spectrum position supplemented by low-band spectrum in key metropolitan areas and a nationwide fourth-generation LTE network. Additionally, the Un-carrier initiatives focus on attracting and retaining a loyal customer base by offering devices when and how customers want them, and plans that are simple, affordable and without unnecessary restrictions to deliver the best value in wireless.

T-Mobile US expects continued increases in branded postpaid and branded prepay customers in 2018 and a further increase in 2019. However, competitive pressures and unforeseen changes in the wireless communications industry in the United States may significantly affect the expected ability to attract and retain branded postpaid and prepay customers.

T-Mobile US expects an increase in total revenues in U.S. dollars in 2018 and a further increase in 2019 as a result of continued customer growth momentum.

For 2018 and 2019, T-Mobile US expects a sustained increase – in U.S. dollars – in adjusted EBITDA. As a result of the significant growth in customers over the past year, revenue growth is expected to outpace increases in expense as T-Mobile US is able to take advantage of improved scale effects.

However, continued investment in the network and increased spending for marketing of the T-Mobile US brand will likely influence adjusted EBITDA. Competitive pressures may also significantly affect expected revenues and adjusted EBITDA in U.S. dollars. Exchange rate fluctuations may significantly affect revenues and adjusted EBITDA in euros in 2018 and 2019.

Excluding expenditures relating to spectrum, T-Mobile US expects cash capex in U.S. dollars to be generally in line with 2017 as it continues to expand its 4G/LTE network.

EUROPE

For the coming two years we have set ourselves the target of establishing seamless connectivity at home and on the go. We are thus focusing on convergent fixed-network and mobile products (FMC), on ICT solutions for business customers, and on digitalization.

On the road to becoming the leading European telecommunications provider, we need our already integrated national companies to further strengthen their market position. We want to systematically transform our mobile-centric companies into integrated enterprises. In the coming year, we will turn our national company in Austria into a strong convergent telecommunications provider through the agreed acquisition of the cable operator UPC Austria (subject to approval by the relevant competition authorities). Since the transaction was not yet closed as at the date of preparing the consolidated financial statements and the combined management report, the value contributions from the agreed acquisition in Austria are not included in our outlook.

In terms of the strategic growth area of FMC, our convergent product portfolios MagentaOne and MagentaOne Business provide strong offerings with which we can successfully help to shape developments in the European markets. On the one hand, we want to win new customers with our innovative portfolio, on the other hand, we want to offer our existing customers the full MagentaOne product range. We believe that, in this way, we can also increase household coverage in the markets of our Europe operating segment. The advance of digitalization helps with the seamless provision of a wide range of products and services. We support our business customers and consumers in Europe on their journey into the digital world. For example, we want to establish an app for consumers that will act as a central, online communications channel which will give our customers simple and seamless access to their products and services with us. We have already successfully marketed this app in a number of our national companies; in the short to medium term, we plan to introduce it in all of our national companies so as to offer our customers the best experience.

Another focus in the consumer area is the seamless enjoyment of TV and entertainment services, with a particular focus on high-quality and exclusive content. In the future, we will negotiate to acquire rights to broadcast soccer matches, such as the Champions League, or the rights to TV movies/series, as well as to relevant local content. We are also working in partnership with OTT players such as Netflix. We will continue to participate in the production of our own content and channels, as in Greece, for example, with the OTE History channel. In order to make TV content an even better experience for our customers, we have developed interactive services for the new TV platform in Croatia, among other things. We also want to offer customers of our mobile-only companies access to the broad spectrum of TV services. Overall, we expect to further increase our revenues from TV business over the next two years.

For business customers, we want to become the preferred partner for the digital transformation and a pioneer of innovation in industry over the coming years. We set the course for this in 2017. B2B/ICT revenues are also expected to see further growth. Above all, the core business in the area of small and medium-sized enterprises (SMEs) performed well, primarily thanks to our attractive product range of convergent solutions (fixed network, mobile communications, and cloud from a single source). We concluded contracts for ICT and cloud services with numerous corporate customers in the reporting year, thereby strengthening our market position. In order to derive additional benefit from this, we have not only pushed digitalization with SMEs, but are also focusing on supporting cities and municipalities in Europe on their path to becoming efficient smart cities, for instance, through fast, intelligent solutions in the areas of lighting, parking, and air quality. We have further decided, together with the countries of the Europe operating segment, to establish a competence center in Hungary to focus on the topic of smart cities.

Our state-of-the-art network infrastructure supports digitalization. With the aim of becoming the leading European telecommunications provider, we will continue to focus on technology leadership over the next two years: For example, we plan to take part in further spectrum auctions. Our investments in mobile communications are focused on two areas: expanding LTE reach and implementing LTE Advanced technology in order to increase network capacity. This will make transmission rates of over 300 Mbit/s possible. In 2017, we already covered 94 percent of the population on average in the countries of our Europe operating segment with LTE and are thus well on track: Ultimately, we aim to achieve network coverage of between 89 and 99 percent in our footprint countries in 2018. The next-generation mobile communications standard, 5G, is just around the corner with the first tests underway and pilot projects being readied for launch. We have already successfully launched Narrowband IoT as 5G technology in six national companies. One aim of our integrated network strategy is to make further advances in the fiber-optic roll-out. Our strategy in Greece has been to focus on fiber-optic roll-out up to the street cabinets using vectoring technology. In the other integrated companies, we have been investing in the FTTH roll-out for a number of years now, and plan to continue doing so in combination with vectoring. In addition, we will launch the FTTH roll-out in the Czech Republic in 2018.

In our Europe operating segment, we expect to win more customers over the next two years, mainly thanks to the good performance of our convergence brand MagentaOne. Consequently, we expect the number of TV and broadband lines to increase in 2018 and 2019. The number of mobile customers is also set to grow. We expect fixed-network voice telephony to be replaced more and more by mobile communications, hence we forecast a slight decline in fixed-network lines for 2018 and 2019.

Changes in legislation, for example regarding taxes and duties, and national austerity programs may have a negative impact on our revenue and earnings in the next two years. Changes in exchange rates could also affect our earnings on a euro basis.

Based on these assumptions and parameters, we expect revenue in our Europe operating segment to remain stable in 2018 on a comparable basis, i.e., based on the pro-forma figures for 2017; this is assuming constant exchange rates and based on assumptions about regulation, new market players, spectrum auctions, and unchanged organizational structure. 2019 should then see a return to moderate revenue growth.

Vigorous competition in the markets of our operating segment could potentially put pressure on our margins. To be ready for such an eventuality, we want to increase our productivity and exploit the benefits of digitalization, for instance by automating processes, with the aim of realizing cost-cutting potential. We expect adjusted EBITDA to increase year-on-year in 2018 to around EUR 3.8 billion, and to continue to increase slightly in 2019.

In order to expand our technology leadership, we continue to invest in our integrated networks and plan to maintain our high level of investment over the next year. As such, cash capex will remain stable against the prior year.

SYSTEMS SOLUTIONS

In line with our Group strategy, we want to offer our business customers secure ICT solutions and to be strong in the Internet of Things. To this end, we have divided our organization into four operational units: the IT Division and the TC Division, which are responsible for traditional IT and telecommunications services, the Digital Division with a clear focus on the new growth areas, such as digital transformation and the Internet of Things, and Telekom Security, with which we work towards becoming the European market leader for cyber security.

We are among the top providers in the European IT market. Our very high levels of customer satisfaction are a key element in maintaining this position in the long term and in taking us a step closer to our goal of also playing a leading role in digitalization.

Our market is undergoing a radical transformation: from traditional IT business with big deals to flexible cloud computing and digitalization. Following a decline in order entry in 2017, in addition to traditional IT services, systems integration, and outsourcing, we are now placing additional emphasis on platform business and scalability. Partnerships are a core element of our growth strategy. By building out our networks, we can offer international, integrated connectivity and shape the digital transformation of key industries with new business models – as new cloud services and our comprehensive cloud portfolio underscore. Together with our partners we have created a cloud ecosystem, which brings together state-of-the-art technical products from global market leaders and specialist providers on our energy-efficient platforms. We have also expanded our portfolio of dynamic services: Customers can book infrastructure, SAP applications and much more as needed and pay only for what they use. The corresponding services are made available from our high-security twin-core data centers, like the one in Magdeburg/Biere – one of the few data centers in the world from which competing cloud providers offer their services. Our innovative products for the Internet of Things, such as smart parking, also contribute to achieving our sustainability targets. SDG These measures address the changes in the market and we expect them to turn around our IT business.

We want to grow our telecommunications business, for example, by increasing our international reach with the support of the Next Generation Enterprise Network Alliance. On our way to becoming the leading European telecommunications provider, we are concentrating on customers in Germany and in selected Western European countries. The TC Division is gradually building up sales and expanding our offering with innovative services such as managed LAN, Unified Communications, and IP VPN. We also want to win over customers internationally with consistent offerings, new products, and competitive prices – and all-IP migration and cloud services offer the best opportunities to achieve this.

As the previous technology and development partner for toll collection business in Germany, we already have a strong competitive position. There are further opportunities for growth from existing European toll collection projects in Belgium and Austria and the planned launch of a Europe-wide toll collection system (Toll4Europe).

Overall, we forecast growth in order entry for the Systems Solutions operating segment in 2018 and a decline in revenue on account of the sharp decrease in order entry in 2017. Adjusted EBITDA is expected to amount to around EUR 0.4 billion. For 2019, we expect further year-on-year growth in order entry, revenue growth, and a slight increase in adjusted EBITDA. We expect cash capex to increase strongly in 2018 due to non-recurring effects from investment in infrastructure, in particular for Toll4Europe. These non-recurring effects will have a reverse effect in 2019 and thus result in a decrease.

GROUP DEVELOPMENT

For 2018, we expect revenue to decrease slightly in our Group Development operating segment due to the accounting change at T-Mobile Netherlands. By contrast, revenue should increase in 2019. Adjusted EBITDA is set to remain stable in 2018 at around EUR 0.9 billion; for 2019 we expect it to increase.

We will continue to deal with the intense competition in the Netherlands through our strategy, which should take effect in 2018, following the stabilization of EBITDA in 2017. The main elements of this strategy are a repositioning of the core brand T-Mobile, expansion of the products and services on offer through T-Mobile Thuis (fixed network) and efficient management of costs. Furthermore, the acquisition of Tele2 Netherlands agreed in December 2017 marked an important component of our long-term strategy. This business combination, which is still subject to approval by the merger control authorities, will create a sustainable provider of convergent offers combining fixed-network and mobile communications on the Dutch market, which will be better positioned to challenge the FMC duopoly of KPN and Vodafone-Ziggo. Since the transaction was not yet complete at the date of preparing the consolidated financial statements and the combined management report, the value contributions from the agreed acquisition in the Netherlands are not included in our outlook.

Network investments, which remain at a high level, will help to safeguard the strategy of T-Mobile Netherlands over the coming years. We expect investments at DFMG to grow in 2018 and 2019, mainly due to the further build out of cell sites in Germany.

GROUP HEADQUARTERS & GROUP SERVICES

We will resolutely continue our efficiency management measures at Group Headquarters & Group Services over the next two years by further optimizing our structures, in particular at Group Services, and continuing to focus on implementing our cost-cutting measures. This will lead to cost savings which will both help to improve our earnings and enable us to offer our services to the operating segments at lower cost.

Our Technology and Innovation Board department will again step up investments in technology development in Germany and in expanding centralized production platforms as part of the Pan-IP program in 2018 and 2019. This will impact on the cost structure in a number of ways: On the one hand, we expect IT operating costs to decrease; on the other, the establishment of the centralized production platforms will incur rising costs in the Technology and Innovation Board department. Overall, we expect the cost level to improve over the next two years as a result of additional cost-cutting programs.

RISK AND OPPORTUNITY MANAGEMENT

- We have an effective early-warning system for risks in place
- We identify our opportunities and specify them during the planning process

BOARD OF MANAGEMENT'S ASSESSMENT OF THE AGGREGATE RISK AND OPPORTUNITY POSITION

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material risk categories or individual risks. The aggregate risk position did not change fundamentally in 2017 compared with the previous year. Our major challenges particularly include the regulatory factors, intense competition, and strong price erosion in the telecommunications business. As it stands today, Deutsche Telekom's Board of Management sees no risk to the Group's continued existence as a going concern. As of the reporting date and the time of preparing the statement of financial position, there were no risks that jeopardize Deutsche Telekom AG's and key Group companies' continued existence as a going concern.

We are convinced that we will also be able to master challenges and exploit opportunities in the future without having to take on any unacceptably high risks. We strive to achieve a good overall balance between opportunities and risks, with the aim of increasing added value for our Company and our shareholders by analyzing and seizing new market opportunities.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

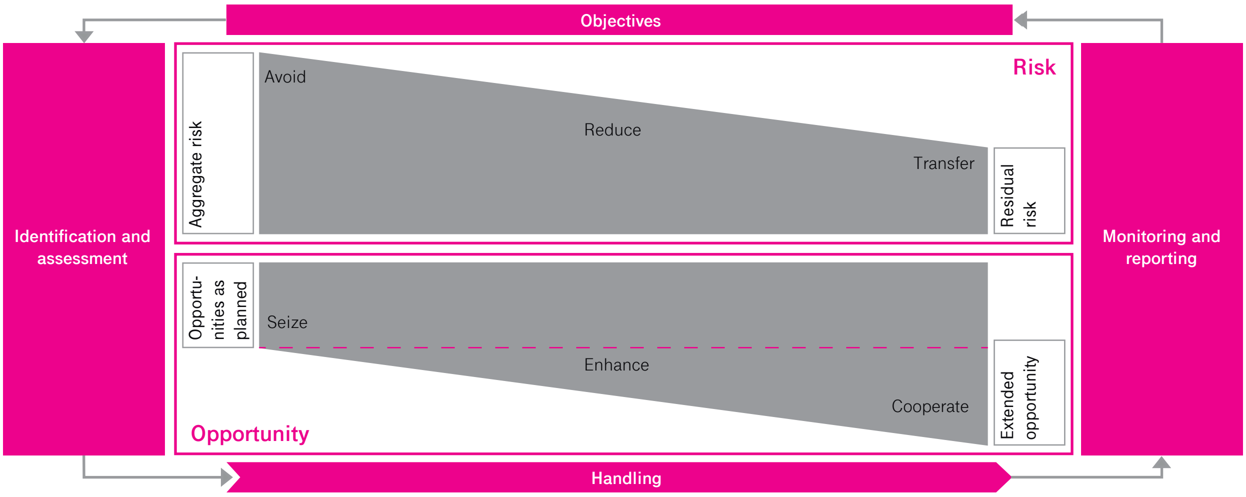
As one of the world's leading providers in the telecommunications and information technology industry, we are subject to all kinds of uncertainties and change. In order to operate successfully in this ongoing volatile environment, we need to anticipate any developments at an early stage and systematically identify, assess and manage the resulting risks. It is equally important that we recognize and exploit opportunities. We therefore consider a functioning risk and opportunity management system to be a central element of value-oriented corporate governance.

A risk and opportunity management system of this kind is not only necessary from a business point of view; it is also required by laws and regulations, in particular § 91 (2) of the German Stock Corporation Act (Aktiengesetz – AktG). The Audit Committee monitors the effectiveness of the internal control system and the risk management system as required by § 107 (3) sentence 2 AktG.

Our Group-wide risk and opportunity management system covers all strategic, operational, financial, and reputational risks as well as the corresponding opportunities for our fully consolidated entities. The aim is to identify these risks and opportunities early on, monitor them, and manage them in accordance with the desired risk profile.

We base our system on an established standard process (see the following graphic). Once risks and opportunities have been identified, we move on to analyze and assess them in more detail; the effects of risks and opportunities are not offset against each other. We then decide on the specific course of action to be taken, for example, in order to reduce risks or seize opportunities. The respective risk owner implements, monitors, and evaluates the associated measures. All steps are repeatedly traversed and modified to reflect the latest developments and decisions.

The risk and opportunity management system



Our risk and opportunity management system is based on the globally applicable risk management standard of the International Standards Organization (ISO). ISO standard 31 000 "Risk management – Principles and guidelines" is regarded as a guideline for internationally recognized risk management systems.

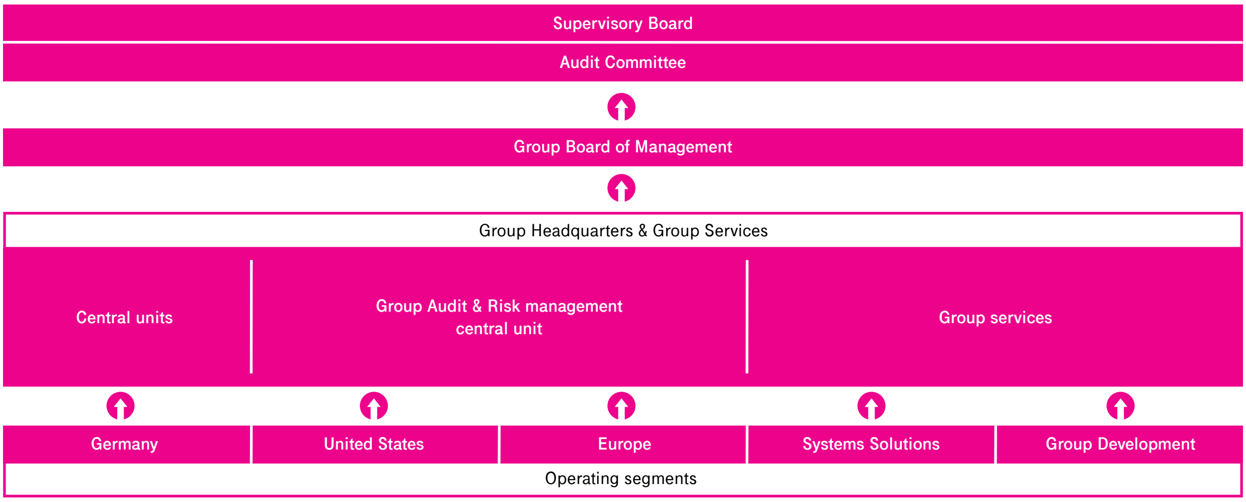
Our Internal Audit unit reviews the functionality and effectiveness of our risk management system at regular intervals. The external auditor mandated by law to audit the Company's annual financial statements and consolidated financial statements in accordance with § 317 (4) of the German Commercial Code (Handelsgesetzbuch – HGB) examines whether the risk early-warning system is able to identify at an early stage risks and developments that could jeopardize the Company's future. Our system complies with the statutory requirements for risk early warning systems and conforms to the German Corporate Governance Code.

In addition, our Group Controlling unit specifies a series of Group guidelines and processes for the planning, budgeting, financial management, and reporting of investments and projects. These guidelines and processes guarantee both the necessary transparency during the investment process and the consistency of investment planning and decisions in our Group and operating segments. They also provide the Board of Management and the Board of Management Assets Committee with support in reaching their decisions. This process also includes the systematic identification of strategic risks and opportunities.

ORGANIZATION OF THE RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The Group Risk Management unit defines the methods for the risk and opportunity management system that is applied Group-wide and for the associated reporting system. Our Germany, United States, Europe, Systems Solutions, and Group Development operating segments are connected to the central risk and opportunity management system via their own risk and opportunity management systems. The relevant risk owners in the operating segments and central Group units are responsible for managing and reducing risks. Management takes potential opportunities into account in the annual planning process and continuously develops them further during business operations.

Risk and opportunity management



RISK IDENTIFICATION AND REPORTING

Each operating segment produces a quarterly risk report in accordance with the standards laid down by the central Risk Management unit and based on specific materiality thresholds. These reports assess risks, taking into account their extent in terms of impact on results of operations or financial position, as well as their probability of occurrence, and they identify action to be taken and suggest or initiate measures. The assessment additionally includes qualitative factors that could be important for our strategic positioning and reputation, and that also determine the aggregate risk. We base our assessment of risks on a period of two years. This is also the length of our forecast period.

The Group risk report, which presents the main risks, is prepared for the Board of Management on the basis of this information. The Board of Management informs the Supervisory Board. The Audit Committee of the Supervisory Board also examines this report at its meetings. If any unforeseen risks arise outside regular reporting of key risks, they are reported ad hoc.

In addition to the quarterly risk report, we use additional tools for monitoring and analyzing risks, in which we collect a large number of early-warning and economic indicators, e.g., on macroeconomic, political, and legal developments in our markets.

IDENTIFICATION AND ASSESSMENT OF OPPORTUNITIES IN THE ANNUAL PLANNING PROCESS

The systematic management of risks is one side of the coin; securing the Company's long-term success by means of integrated opportunities management is the other. That is why identifying opportunities and subjecting them to a strategic and financial assessment is an essential part of our annual planning process. It allows us to factor those opportunities into our forecasts for financial and non-financial performance indicators.

The short-term monitoring of results and the medium-term planning process help our operating segments and Group Headquarters identify and seize the opportunities in our business throughout the year. While short-term monitoring of results mainly targets opportunities for the current financial year, the medium-term planning process focuses on opportunities that are strategically important for our Group. In this context we distinguish between two types of opportunity:

- External opportunities, i.e., those with causes over which we have no influence, for example, the revocation of additional taxes in Europe.

- Internal opportunities, i.e., those that arise within the Company, for example by focusing our organizational structure on innovation and growth areas and products, or through business partnerships and collaborations from which we expect to reap synergies.

We are constantly enhancing the efficiency of our planning process so as to gain greater scope for action. This puts the organization in a position to identify and seize new opportunities and generate new business. The preliminary plans of our operating segments form the basis for a concentrated planning phase during which members of the Board of Management, business leaders, senior executives, and experts from all business areas intensively discuss the strategic and financial focus of our Group and our operating segments, and from all of which they ultimately produce an overall picture. The identification of opportunities from innovation and their strategic and financial assessment play a major role throughout this process. This "brainstorming" may result in opportunities being rejected, passed back to the respective working groups for revision, or adopted and transferred to the organization.

RISK ASSESSMENT AND RISK CONTAINMENT

ASSESSMENT METHOD

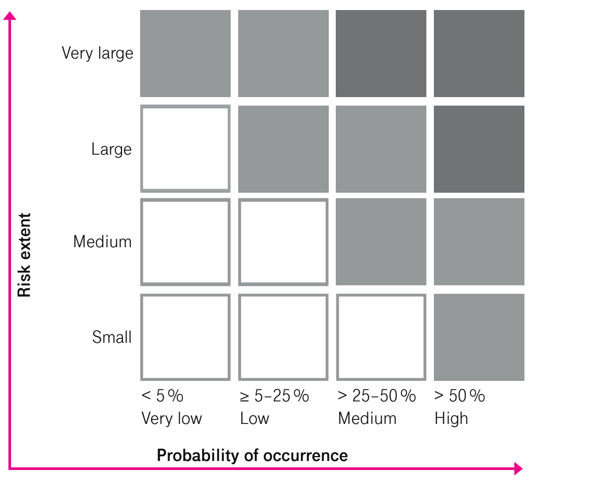
Risks are assessed on the basis of “probability of occurrence” and “risk extent.” The following assessment yardsticks apply:

Probability of occurrence	Description
< 5 %	very low
≥ 5 to 25 %	low
> 25 to 50 %	medium
> 50 %	high

Risk extent	Description
Small	Limited negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk < € 100 million
Medium	Certain negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 100 million
Large	Significant effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 250 million, and/or affects more than one Group entity
Very large	Damaging negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 500 million, and/or affects more than one Group entity

By assessing risks according to the aspects of probability of occurrence and risk extent, we classify them as low, medium and high risks, as shown in the graphic below.

Risk significance



■ High risk ■ Medium risk □ Low risk

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

We report all risks classified as “high” and “medium.” Exceptions are possible, for example, risks from prior years that we can continue to list for the sake of reporting continuity although they are classified as “low” in the current reporting period.

It should be noted that risks with an extent currently assessed as being small may in the future have a stronger impact than risks currently assessed as having a larger extent. This may be due to uncertainties that cannot be assessed at present and over which we have no influence. Uncertainties of this kind also give rise to risks that are currently unknown to us or that we presently consider to be insignificant and that may affect our business activities in the future.

RISK CONTAINMENT MEASURES

Risk management and insurance. To the extent possible and economically viable, we take out adequate Group-wide insurance cover for insurable risks. DeTeAssekuranz – a subsidiary of Deutsche Telekom AG – acts as an insurance broker for Group Insurance Management (part of Group Headquarters & Group Services). It develops and implements solutions for the Group’s operational risks using insurance and insurance-related tools and places them on the national and international insurance markets.

Taking out insurance cover is an essential option for our external risk transfer. The coverage of risks in our Group insurance programs requires the transfer of risk for the purpose of protecting the Group’s financial position. That means that the possible extent of the risk must have reached a volume “relevant for the Group” or the risks have to be bundled and managed at Group level to protect the Group’s interests (opportune reasons/cost optimization/risk reduction).

Business Continuity Management (BCM). BCM is a process within operational security and risk management that helps protect business processes from the consequences of damaging incidents and disruptions. It ensures the continuation of business processes through ongoing analysis, assessment, and management of relevant risks for people, technology, infrastructure, supply and service relationships, and information. The aim is to identify potential threats at an early stage and to keep the impact and duration of a disruption of critical business processes to an acceptable minimum by ensuring appropriate resilience in the organization plus the ability to effectively cope with threats. SDG

To this end, BCM identifies critical business processes and business processes requiring protection, including any supporting processes, process steps, and assets (people, technology, infrastructure, information, and supply and service relationships). Appropriate precautionary measures are also defined. In particular, Security Management works in coordination with the relevant units and process owners to analyze the possible consequences of external and internal threats with relevance for security, such as natural disasters, vandalism, or sabotage. Once the extent of potential losses and probability of occurrence have been assessed, preventive measures can be put in place and contingency plans developed.

The risk owners initiate and execute further measures to contain the risks. A wide range of measures are available, depending on the risk type. A few examples of these measures are:

- We tackle market risks with comprehensive sales controlling and intensive customer management.
- We manage interest and currency risks by means of systematic risk management and hedge them using derivative and non-derivative financial instruments.
- We also take a whole array of measures to deal with operational risks: For example, we constantly implement operational and infrastructural measures in order to improve our networks; continually enhance our quality management system, the associated controls, and quality assurance; and offer our employees systematic training and development programs.
- We deal with risks from the political and regulatory environment through an intensive, constructive dialog with policymakers and the authorities.
- We minimize risks in connection with legal proceedings by ensuring suitable support for those proceedings and by designing contracts appropriately in the first place.
- The Group Tax unit identifies potential tax-related risks at an early stage and systematically records, assesses and monitors them. It takes any measures necessary to minimize tax-related risks and coordinates them with the Group companies affected. The unit also draws up and communicates policies for avoiding tax risks.

RISKS AND OPPORTUNITIES

In the following section, we present all risks and opportunities of significance to the Group that, as things currently stand, could affect the results of operations, financial position, and/or reputation of Deutsche Telekom and, via the subsidiaries' results, the results of operations, financial position and/or reputation of Deutsche Telekom AG. We describe the majority of the risks before the measures for risk containment are taken. If any remaining risks have been identified despite such measures for risk containment, they are labeled as such. If risks and opportunities can be clearly allocated to an operating segment, this is presented accordingly in the following.

In order to make it easier to understand and see their effects, we have allocated the individually assessed risks to the following categories:

Corporate risks

	Probability of occurrence	Risk extent	Risk significance	Change against prior year
INDUSTRY, COMPETITION, AND STRATEGY				
Economic risks, Germany	low	small	low	➲
Economic risks, United States	low	medium	low	➲
Economic risks, Europe	low	medium	low	➲
Risks relating to the market and environment, Germany	medium	small	low	➲
Risks relating to the market and environment, United States	low	large	medium	➲
Risks relating to the market and environment, Europe	medium	medium	medium	➲
Risks relating to innovations (substitution)	medium	medium	medium	➲
Risks relating to strategic transformation and integration	medium	medium	medium	➲
REGULATION	see pages 118 and 119			
OPERATIONAL RISKS				
Personnel, Germany and Systems Solutions	medium	small	low	➲
Risks relating to IT/NT network operations, Germany	low	large	medium	➲
Risks relating to IT/NT network operations, United States	very low	very large	medium	➲
Risks relating to IT/NT network operations, Europe	very low	large	low	➲
Risks relating to existing IT architecture, United States	medium	medium	medium	➲
Future viability of the IT architecture, United States	medium	large	medium	➲
Procurement	low	small	low	➲
Data privacy and data security	high	medium	medium	➲
BRAND, COMMUNICATION, AND REPUTATION				
Brand and reputation (reporting in the media)	low	small	low	➲
Sustainability risks	very low	small	low	➲
Health and environment	low	medium	low	➲
LITIGATION AND ANTI-TRUST PROCEEDINGS	see page 123 et seq.			➲
FINANCIAL RISKS				
Liquidity, credit, currency, interest rate risks	low	small	low	➲
Tax risks	see page 126			
Other financial risks	see pages 126 and 127			

⤴ improved ➲ unchanged ⤵ deteriorated

RISKS AND OPPORTUNITIES FROM INDUSTRY, COMPETITION, AND STRATEGY

Risks and opportunities relating to the macroeconomic environment. It is clear from the positive economic and political developments of the last few months that economic uncertainties have decreased both worldwide and in our footprint countries. The leading institutes and organizations have revised their economic forecasts upward and are expecting most economies to post very positive rates of growth. At the same time, the continuing economic uncertainty since the Brexit vote in June 2016 shows that the UK economy, and especially the pound, have been weakened. This political situation harbors uncertainties as regards development of the UK market – a market in which we are involved through our financial stake in BT.

The main risks to future economic growth in the countries are posed by political uncertainties in Europe and the United States, more intense protectionism in global trade, investments, and regarding factors influencing exchange rate fluctuations, the danger of an unexpected decline in growth in China, geopolitical crises, and, in the medium term, an unexpectedly sharp increase in interest rates worldwide that could weigh on the otherwise positive economic trend. These risks are counterbalanced by opportunities in particular from stronger-than-expected investment activity coupled with continued moderate inflation and wage growth, as well as positive growth effects from the U.S. tax reform, which can have an impact both on the U.S. economy and on the export-oriented economies. Risks to economic development could manifest themselves in different ways in some of our markets. Consumers and business customers could rein in their consumption if the economy slows substantially again and uncertainty continues to rise. Government austerity measures could also have negative effects on demand for telecommunications services, for example due to reduced public-sector demand or lower disposable incomes in the private sector.

Risks relating to the market and environment. The main market risks we face include the steadily falling price level for voice and data services in the fixed network and in mobile communications. In addition to price reductions imposed by regulatory authorities, this is primarily attributable to intensive competition in the telecommunications industry, cannibalization effects due to new products and services, and technological progress.

Competitive pressure is expected to continue, especially in the fixed network in Germany and Europe. In the broadband market, we are observing disproportionate growth in the market shares of regional network operators, particularly in Germany. They build out their own infrastructure and thus increase their market coverage. In certain regions, our competitors are extending their own fiber-optic network to the home so that they are independent of our network in the local loop, too. There is also strong competition to gain new customers by cutting prices and offering introductory discounts.

We also expect prices for mobile voice telephony and mobile data services to decrease further, which could adversely affect our mobile services revenue. Among the main reasons for the decrease in prices are providers that are pursuing aggressive pricing policies (MVNOs) and expanding in Germany and other European markets. Pure eSIM smartphone offerings could put even more pressure on prices for mobile voice telephony and mobile data services. In addition, the risk remains that smaller competitors will take unforeseen, aggressive pricing measures.

Another competitive risk lies in the fact that, both in the fixed network and in mobile communications, we are increasingly faced with competitors who are not part of the telecommunications sector as such, but are increasingly moving into the traditional telecommunications markets. This mainly relates to major players in the Internet and consumer electronics industries. We continue to be exposed to the risk of a further loss of market share and falling margins and of increasingly losing direct customer contact.

T-Mobile US operates in a very competitive wireless industry where customer attrition may increase as the wireless industry shifts away from service contracts and market saturation leads to increased competition for customers. The growing appetite for data services will increase demand on its network capacity. Furthermore, industries are converging as video, mobile, and broadband companies compete to deliver content. Joint ventures, mergers, acquisitions and strategic alliances are resulting in larger competitors who could enter into exclusive handset, device, or content arrangements or refuse to provide T-Mobile US with roaming services on reasonable terms. This may adversely affect T-Mobile US' competitive position and ability to grow. The scarcity and cost of additional wireless spectrum, and regulations relating to spectrum use, may also affect its business strategy, including plans to improve its network.

Our Systems Solutions operating segment also faces challenges. Continued strong competition and persistent price erosion are adversely affecting traditional ICT business. In addition, the technological shift toward cloud solutions and digitalization in the IT sector is prompting new, strongly capitalized, competitors to enter the market. The introduction of IP technology in telecommunications business is enabling price reductions, which poses a risk of revenue losses and declining margins at T-Systems.

The Group Development operating segment reported on risks and opportunities for the first time in the reporting year. T-Mobile Netherlands, Deutsche Funkturm (DFMG), and Deutsche Telekom Capital Partners (DTCP) and our equity investments in BT and Ströer SE & Co. KGaA are assigned to this segment. Our approach of integrated, value-driven management aims to give our subsidiaries and equity investments the level of entrepreneurial freedom they need and thus to promote their strategic further development. The Group functions of Mergers & Acquisitions and Strategic Portfolio Management have also been assigned to Group Development. The economic future of the units assigned to the Group Development segment harbors both operational opportunities and risks.

New consumer credit regulations in the Netherlands. The Supreme Court of the Netherlands (Hoge Raad der Nederlanden) found in the final instance that mobile contracts that are bundled with a free or discounted device such that the price of the device is not apparent for the customer, are to be treated as consumer credit or installment purchases. Accordingly, such contracts are subject to Dutch consumer credit law. Contracts that do not comply with these specific consumer credit regulations can thus be rescinded. As a result, two individual cases against T-Mobile Netherlands and its competitor KPN were decided in the plaintiffs' favor; adequate provisions for this risk have been recognized at T-Mobile Netherlands. To ensure it complies with the legal situation in future, T-Mobile Netherlands applied for a license for 2017 to issue consumer credit. This license it received is valid with effect from January 1, 2017.

Opportunities relating to the market and environment. The telecommunications and IT market is extremely dynamic and highly competitive. The economic conditions affect our actions and impact on our Company indicators. We generally expect the situation to develop as described in the section "Market expectations".

See the section "Forecast," page 101 et seq.

In the following section, we present the risks and opportunities that we believe will allow us to achieve market growth and that could be significant for us in terms of our future financial position and results.

Risks relating to innovations (substitution). Innovation cycles are getting shorter and shorter. This confronts the telecommunications sector with the challenge of bringing out new products and services at shorter and shorter intervals. New technologies are superseding existing technologies, products, or services in part, in some cases even completely. This could lead to lower prices and revenues in both voice and data traffic. These substitution risks could impact our revenue and earnings, in particular in the Europe and United States operating segments. We deal with the impact of substitution risks by offering package rates, for example: We offer new and existing customers integrated solutions from our product portfolio.

Opportunities relating to innovations. In addition to the risks described, ever shorter innovation cycles enable us to drive the digital transformation of our society and to provide consumers and business customers with our own innovations – thus answering the questions of tomorrow today. That is why our innovation and product development activities are decisive when it comes to identifying opportunities and making the most of them in an increasingly competitive environment. In order to guarantee this, and do justice to the growing convergence of networks and IT, we combined the technology, innovation and IT functions in our new Board of Management department Technology and Innovation.

For more information on our innovation activities, please refer to the section "Innovation and product development," page 89 et seq.

Risks relating to strategic transformation and integration. We are in a continuous process of strategic adjustments and cost cutting initiatives. If we are unable to implement these projects as planned, we will be exposed to certain risks. In other words, the benefit of the measures could be less than originally estimated, take effect later than expected, or not at all. Each of these factors, individually or in combination, could have a negative impact on our business situation, financial position and results of operations.

RISKS AND OPPORTUNITIES RELATING TO REGULATION

In the following section, we describe the main regulatory risks and opportunities that, as things currently stand, could affect our results of operations and financial position, and our reputation.

Regulatory risks arise from telecommunications-specific statutory regulations at the European and national level, and from the consequent powers of national authorities to regulate or intervene in the market and limit our freedom as regards product design and pricing. Deregulation can give rise to regulatory opportunities. Regulatory intervention, which we can only anticipate to a limited extent, may exacerbate existing price and competitive pressure. There are concerns that regulation in Germany and other European countries may also impact revenue and earnings trends in the medium-to-long term.

Areas in which national regulators may intervene

European and national laws and regulations grant national regulators extensive powers of intervention. A case in point at the European level is the EU Regulation concerning the single market for electronic communications, which was enacted on October 27, 2015. It comprises regulations on international roaming, net neutrality, and disclosure obligations and restricts our product-design options, mainly as regards retail products. The Body of European Regulators for Electronic Communications (BEREC) has published guidelines for implementing this regulation. Risks arise from how the national regulators interpret both the regulation and these guidelines. In Germany, for example, the Federal Network Agency has wide-ranging powers under law to require products to be adjusted in order to enforce the regulation and to impose fines in cases of non-compliance.

Our Group companies in Germany and abroad continue to be subject to comprehensive regulation of wholesale products, obligating us to make our network and services available to our competitors. The national regulators regularly check and determine the corresponding terms, conditions and prices of these wholesale offerings. The key wholesale products subject to regulation are unbundled local loop line, bitstream products, leased lines, termination rates and the associated services. In addition, European and national consumer protection regulations apply. In Germany, for instance, the Transparency Regulation came into force on June 1, 2017, the main objective of which is to enhance transparency and cost control with telecommunications services. In this context, the Federal Network Agency introduced a system that enables consumers to measure the bandwidths available on their fixed-network and mobile lines.

In addition to the requirements of telecommunications law, our media products are also subject to special European and national regulations under media law. The latter include, in the broader sense, copyright law, regulations concerning the responsibility for published content, and requirements in relation to the content and user interfaces of media distribution platforms. Barring any changes to its shareholder structure (the Federal Republic and KfW being its major shareholders), to the legal situation or to the prevailing opinions of media regulators, it is unlikely that Telekom Deutschland will be granted a license to broadcast radio and television programs.

Changes in regulatory policy and legislation

EU legal framework for telecommunications. On September 14, 2016, the European Commission published legislative proposals for a revision of the EU legal framework for telecommunications. These proposals are currently the subject of discussions between the Parliament and the Council. The legal framework comprises the central EU rules for the telecommunications sector, in particular price and access regulation, the spectrum policy, sector-specific consumer protection rules, the provisions on universal service, and the institutional framework. We expect the new rules to be enacted in mid-2018. The corresponding provisions will then have to be transposed into national law, a process that will take at least a year. At the moment, it is difficult to predict the outcome of this extensive legislative process in many areas. The drafts currently being discussed provide for less regulation of "networks with very high capacity" in cases where competitors invest jointly, as is the case with open co-investment models. Fiber-to-the-building/home (FTTB/H) networks, in particular, could benefit from this. The terms and conditions of this lighter form of regulation are not yet clear, as is the question of whether other commercial access agreements would benefit from it as well. On the other hand, the new legal framework could result in additional obligations in accessing all networks, regardless of whether a company has significant market power (symmetrical regulation). In the area of spectrum policy, the new EU legal framework may create more harmonization, for example, a minimum license term, more legal certainty in the awarding of spectrum. However, these improvements have so far been rejected by the EU Member States. As for consumer protection, there are opportunities for a complete harmonization of obligations at the European level – thus negating the need for additional national regulations – but also a risk of more stringent obligations in individual areas. In particular, regulations for international calls within the EU are being discussed: This could result in a ban on surcharges for such calls above and beyond the price of national calls.

The revision of the EU legal framework for telecommunications forms part of a bouquet of new EU legislation on the single market for electronic communications that provides for amendments to the regulations governing media services – mainly due to the growing importance of Internet offerings – which are competing with the radio and TV services previously focused on (for example, under copyright law and laws for the protection of minors from harmful media). At the national level, too, specific amendments (e.g., to the German Interstate Treaty on Broadcasting) are being discussed in response to the phenomena of digitalization and convergence.

Awarding of spectrum

Risks could arise from the fact that inappropriate auction rules and frequency usage requirements, excessive reserve prices, or disproportionately high annual spectrum fees could jeopardize our planned acquisition of spectrum. By contrast, we see an opportunity in particular in the fact that such spectrum award procedures enable mobile network operators to obtain the optimum amount of spectrum for their future business. We would thus be equipped for further growth and innovation. The upcoming award procedures mainly relate to the auctioning of additional spectrum in the 0.7 GHz, 1.5 GHz and 3.5 GHz/3.7 GHz ranges. In addition, spectrum licenses, especially in the 2.1 GHz range, will expire between 2019 and 2021 in some countries and need to be renewed. Allocations of spectrum are currently in preparation in Albania, Austria, the Czech Republic, Germany, Hungary, Macedonia, Poland, and Romania, with most of them likely to take place between mid-2018 and mid-2019.

For information on spectrum auctions that were completed in 2017 or are still ongoing, please refer to the section "The economic environment," page 42 et seq.

OPERATIONAL RISKS AND OPPORTUNITIES

Personnel. In 2017, we once again used socially responsible measures to restructure the workforce in the Group, mainly by means of severance payments, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivento Customer Services/Telekom Placement Services, especially in the public sector. We will continue this restructuring in the coming year. If it is not possible to implement the corresponding measures as planned or at all (for example, due to limited interest in severance payments) this may have negative effects on our financial targets. To avoid the risk of high potentials leaving the Group as a result of the staff reduction instruments, we make sure that the arrangement is voluntary on both sides in each individual case.

The right of civil servants to return to Deutsche Telekom also carries risks: When Group entities that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group entity to be sold, provided the civil servant agrees or submits an application to be employed at the respective unit in future. However, there is a risk that they may return to us from a sold entity, for instance after the end of their temporary leave from civil servant status, without the Company being able to offer them jobs. Currently around 1,658 civil servants are entitled to return from outside the Group to Deutsche Telekom in this way (as of December 31, 2017).

Risks relating to IT/NT network operations. We have an increasingly complex information/network technology (IT/NT) infrastructure, which we constantly expand and upgrade to ensure the best customer experience and consolidate our technology leadership. Outages in the current and also future technical infrastructure cannot be completely ruled out and could in individual cases result in revenue losses or increased costs. After all, our IT/NT resources and structures are the key organizational and technical platform for our operations. The ongoing convergence of IT and NT harbors risks. In order to counter these, we have combined our network, innovation, and IT activities under the new Board department Technology and Innovation.

Risks could arise in this area relating to all IT/NT systems and products that require Internet access. For instance, faults between newly developed and existing IT/NT systems could cause interruptions to business processes, products and services, such as smartphones and Entertain. In order to avoid the risk of failures, e.g., due to natural disasters or fires, we use technical early-warning systems and duplicate IT/NT systems. The Computer Emergency Response Team (CERT) at T-Systems is in charge of protecting our corporate customers' servers. In cloud computing, all data and applications are stored at a data center. Our data centers have security certification and meet strict data protection provisions and the EU regulations. All data relating to companies and private persons is protected from external access. Constant maintenance and automatic updates keep the security precautions up to date at all times. On the basis of a standardized Group-wide Business Continuity Management process, we also take organizational and technical measures to prevent damage from occurring or, if we cannot, to mitigate the subsequent effects. We also have insurance cover for insurable risks. SDG

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Opportunities relating to IT/NT network operations. The IP transformation (all IP) offers many opportunities. A logical network is being created that speaks a single language and, in technical terms, functions largely independently of the services transmitted. This will enable efficiency gains, e.g., by reducing the complexity of maintenance and operation, switching off service-specific legacy platforms, and saving energy. In addition, all IP will generate growth potential in the short-to-medium term by improving existing services (e.g., better voice quality, more customer self-service, greater configuration flexibility) and, in the medium-to-long term, by providing an indispensable basis for convergence products and the Internet of Things (IoT) and by shortening the time to market for new products. SDG

But the all-IP network can do more. It is the network infrastructure cloud underpinning not only the virtualization of functions and services, but also joint production across borders (Pan-Net). This will also create opportunities for enhancing efficiency and for growth. The idea of developing services only once and then marketing them in different countries simultaneously promises more than just synergies – it is a chance to get those services to market faster and more cost-effectively.

5G is the next-generation telecommunication network. Not only are we involved in a large number of different organizations and forums, we are also working intensively in collaboration with research institutions and industry to develop this future standard, which will address a whole array of challenges facing telecommunication networks. These include purely technical requirements, such as achieving a substantial increase in capacity, bandwidth, availability, and lower latency. SDG

In addition, there are fundamental issues, such as machine-to-machine communication on a large scale in the Internet of Things (IoT) and the growing need for reliability, security, and guaranteed resource allocation in industrial applications. 5G thus offers not only the immediate opportunity of cost-effectively managing rapidly increasing demands in existing business models going forward, but also opportunities for further business models by marketing network capabilities (e.g., network access, security, identity, storage location, temporary storage, real-time processing) to relevant partners. We are already working on implementing the first use cases for mobile edge computing, in which data is processed in a decentralized manner (at the edges of the network). Together with other technologies like the Narrowband Internet of Things (NB-IoT) and artificial intelligence (AI), 5G and edge computing provide the underpinnings for the further digital transformation of society. SDG

The utilization of large data volumes (big data) can improve and speed up decision-making processes by enhancing transparency. It does so by shifting the basis for decisions from hypotheses to facts and, for example, enabling correlations to be recognized.

Our Systems Solutions operating segment covers innovative business areas in the digital transformation of business processes, such as the Internet of Things and cyber security. These business areas could develop faster than expected. As a pioneer of the digital transformation, we have an opportunity not only to participate in, but also actively shape, the market trend through a variety of projects in the fields of healthcare and mobility solutions. In the ramp-up phase of these new business models based on M2M communication and big data, our partner-oriented approach is a highly promising way of contributing our core competencies – in data communication, big data, cloud computing, and cyber security – to various projects. What is more, we already have initial references in areas of the Internet of Things market, e.g., predictive maintenance. SDG

As the previous technology and development partner for toll collection business in Germany, we already have a strong competitive position. What is more, we have earned valuable references – in other European toll collection projects in Belgium and Austria and through the planned launch of a Europe-wide toll collection system (Toll4Europe) – that will help to give us an edge over our competitors.

Risks relating to the existing IT architecture in the United States. T-Mobile US relies upon its systems and networks, and the systems and networks of other providers and suppliers, to provide and support services and, in some cases, to protect their customers' information. Failure of T-Mobile US' or others' systems, networks and infrastructure may prevent them from providing reliable service, or may allow for the unauthorized use of or interference with their networks and other systems. T-Mobile US' reputation and financial condition could be materially adversely affected by such system failures, business disruptions, due to natural disasters or other technical reasons and unauthorized use of or interference with its network and other systems. Remediation costs could include liability for information loss as well as recovering or repairing infrastructure and systems.

Future viability of the IT architecture in the United States. In order to grow and remain competitive with new and evolving technologies in its industry, T-Mobile US will need to adapt to future changes in technology, continually invest in its network, enhance its existing offerings, and introduce new offerings to address current and potential customers' changing demands. If T-Mobile US is unable to take advantage of technological developments on a timely basis, then it may experience a decline in demand for its services or face challenges in implementing or evolving its business strategy. T-Mobile US is in the process of implementing a new billing system, which will support a portion of its subscribers, while maintaining its legacy billing system. The implementation may cause major system or business disruptions or the company may fail to implement the new billing system in a timely or effective manner.

Opportunities relating to the IT architecture in the United States. T-Mobile US is making significant investments in its IT infrastructure.

If this results in a significant improvement in processes, then the savings made could be higher than previously assumed.

Procurement. As a service provider and an operator and provider of telecommunications and IT products, we cooperate with a variety of suppliers of technical components, such as software, hardware, transmission systems, switching systems, outside plant, and terminal equipment.

Supply risks cannot be entirely ruled out. Delivery bottlenecks, price increases, changes in the prevailing economic conditions, or suppliers' product strategies may have a negative impact on our business processes and our results. Risks may result from the dependence on individual suppliers or from individual vendors defaulting. We employ organizational, contractual, and procurement strategy measures to counteract such risks.

Data privacy and data security. The General Data Protection Regulation – which introduces more stringent data privacy requirements across the EU – will come into force on May 25, 2018. For our Company, the new regulation will not entail any fundamental changes, given that new procedures such as the Privacy Impact Assessment – for evaluating and documenting the risks posed by data processing – are already well established in our organization. Still, we used the introduction of the General Data Protection Regulation as an opportunity to thoroughly re-assess data privacy in a three-phase project. In the first phase (2016), we specified the legal framework, setting it down in binding interpretations for our Group. The second phase was completed in 2017: We launched implementation projects in all our European Group companies and evaluated our IT systems and processes in relation to the General Data Protection Regulation. In the third phase (2018), we will carry out readiness checks. In this way, we will ensure that data privacy is implemented in a consistent manner across the Group using common requirements and processes. That will enhance efficiency, promote data privacy in Group-wide projects and improve international collaboration.

The General Data Protection Regulation is a milestone on the way to a true single European market in which the same rules apply to all players. The newly adopted rules assure Europe a high level of data protection and, at the same time, will pave the way for new digital business models. The fundamental demand for a level playing field for all market players in the EU has thus been met. In addition, the new data protection legislation closes a major regulatory gap when it comes to service providers outside of the EU. The General Data Protection Regulation will also apply to non-European market players (e.g., Google, Facebook, and Apple) targeting customers in the EU, and will thus enhance the overall competitive situation. In order to preserve the level playing field achieved by the General Data Protection Regulation, it is particularly important that the EU member states do not make excessive use of the freedom granted them to implement additional dedicated regulations at the national level; instead, they should do so only where absolutely necessary. In the revised version of the Federal Data Protection Act, which will come into force on May 25, 2018, German legislators have responded to some of the criticisms leveled at their initial drafts and reduced the number of special regulations for the non-public sector. SDG

Regrettably, lawmakers also missed some opportunities: For instance, until such time as the E-Privacy Directive has been revised, data stored by telecommunications providers will remain subject to stricter, dedicated regulations. Telecommunications providers in Europe thus still have a competitive disadvantage in some areas – one that the new regulations that have thus far been made public will only partially alleviate. As telecommunications providers' data processing options are substantially restricted compared with what is possible under the General Data Protection Regulation, it is unlikely that big-data applications in the field of telecommunications will be able to realize their full potential. According to the current draft of the planned E-Privacy Regulation, it will be possible to process metadata only with the customer's approval. The General Data Protection Regulation does not contain compatible options for processing such data using pseudonyms. That will rule out various service models that may be useful to consumers, but cannot be implemented with anonymized data, such as services for finding parking spaces and avoiding accidents, tailored TV programming, or telemonitoring services in the healthcare field.

With regard to IT security, we are faced with numerous new challenges. In recent years, the focus has shifted from prevention to analysis. This is where our early warning system comes in: It detects new sources and types of cyber-attack, analyzes the behavior of the attackers while maintaining strict data privacy, and identifies new trends in the field of security. Along with the honeypot systems, which simulate weaknesses in IT systems, our early warning system includes alerts and analytical tools for spam mails, viruses, and Trojans. We exchange the information we obtain from all these systems with public and private bodies to detect new attack patterns and develop new protection systems. SDG

Cyber crime and industrial espionage are on the rise. We are addressing these risks with comprehensive security concepts. In order to create greater transparency and thus be in a stronger position to tackle these threats, we are relying more and more on partnerships, e.g., with public and private organizations. By means of the Security by Design principle we have made security an integral part of our development process for new products and information systems. In addition, we carry out intensive and mandatory digital security tests. SDG

For an overview of the Magenta Security portfolio along with the latest information on products and upcoming events – such as Deutsche Telekom's annual Magenta Security Convention – please refer to https://security.telekom.com

We provide regular updates on the latest developments in data protection and data security on our website at www.telekom.com/en/corporate-responsibility/data-protection-data-security

For information on how we will continue to shape this strategic area of operation, please refer to the section "Group strategy," page 34 et seq.

We are continually striving to accelerate our growth through IT security solutions. To this end, we have combined all our security units within T-Systems. We want to leverage this end-to-end security portfolio to secure market shares and score points with security concepts on the back of megatrends like the Internet of Things and Industry 4.0. We are also continuing to expand our partner ecosystem in the area of cyber security.

RISKS AND OPPORTUNITIES ARISING FROM BRAND, COMMUNICATION, AND REPUTATION

Negative media reports. An unforeseeable negative media report on our products and services or our corporate activities and responsibilities can have a huge impact on the reputation of our Company and our brand image. Social networks have made it possible that such information and opinions can spread much faster and more widely. Ultimately, negative reports can impact on our revenue and our brand value. In order to avoid this, we engage in a constant, intensive and constructive dialog, in particular with our customers, the media, and the financial world. For us, the top priority is to take as balanced a view as possible of the interests of all stakeholders and thereby uphold our reputation as a reliable partner.

13 CLIMATE ACTION

17 PARTNERSHIPS FOR THE GOALS

Sustainability challenges and opportunities. For us, comprehensive risk and opportunities management also means considering the opportunities and risks arising from ecological or social aspects or from the management of our Company. To this end, we actively and systematically involve all relevant stakeholders in the process of identifying current and potential risks and opportunities. We also participate in a number of working groups and committees. In parallel with our ongoing monitoring of ecological, social and governance issues, we systematically determine our stakeholders' positions on these issues. The key tools we use here are: our year-round open online materiality survey for all stakeholders; our bi-monthly NGO report, which systematically analyzes press publications of the NGOs relevant for us; our involvement in working groups and committees, countless national and international business associations, and social organizations, e.g., GeSI, BID, Bitkom, Econsense, and BAGSO; stakeholder dialog formats organized by us, such as this year's ICT and Climate Stakeholder Day under the motto "The Impact of ICT on climate change – curse or blessing"; and our various publications, such as the press review and newsletters. SDG

We have identified the following as our main sustainability management issues:

- Reputation. How we deal with sustainability issues also entails both opportunities and risks for our reputation. A high level of service quality is one of the most important factors for improving customer perception. Customer satisfaction has been embedded in our Group management as a non-financial performance indicator to underline the importance of this issue. Transparency and reporting help to promote the trust of other external stakeholders in our Group. Our annual and CR reports also serve this purpose. However, issues such as business practices, data privacy, and work standards in the supply chain and conduct in relation to human rights also entail reputational risks: If our brands, products, or services are connected with such issues in negative media reports, this can cause substantial damage to our reputation. As part of our sustainability management activities, we continuously review such potential risks and take measures to minimize them. We also ascertain how our products and services make a positive contribution to sustainability in order to enhance our reputation.

- Climate protection. We pursue an integrated climate strategy, which means focusing not only on the risks that climate change poses for us and our stakeholders, but also on the opportunities it presents. By 2030, ICT products and services will have the potential to save up to ten times as much in CO_2 emissions in other industries as the ICT sector itself generates (according to the GeSI SMARTer2030 study). This creates an opportunity to save 20 percent of global CO_2 emissions in 2030 and to keep worldwide emissions at 2015 levels with simultaneous economic growth. The additional revenue potential here amounts to USD 6.5 trillion, USD 2.0 trillion of which is for the ICT industry alone. Further, ICT solutions can save a total of USD 4.9 trillion in costs. To give a specific example: The broadband roll-out in Germany has the potential to save an aggregate amount of 19 million metric tons of CO_2 between 2012 and 2020. What is more, the economic momentum triggered by rolling out broadband can create an aggregate number of 162,000 new jobs and increase GDP by EUR 47 billion between 2015 and 2020. We are supporting this trend by evaluating our product portfolio to identify sustainability benefits. In addition, we want to continuously improve the ratio of the emissions that our products and services save to those generated by our own value chain. In 2016, for example, we saved 33 percent more emissions in Germany than we produced. Further information can be found in our 2017 CR report, published in April 2018. SDG

  Climate change risks are already visible in the form of increasingly extreme weather conditions. This is having a direct effect on our stakeholders, e.g., our customers, suppliers, and employees. We can take preventive action in this area by reducing our own CO_2 emissions, which is one of the reasons we set ourselves the goal of achieving a 20 percent reduction in our Group-wide emissions – leaving aside our United States operating segment – by 2020 (baseline: 2008). Climate protection also carries financial risks, whether from the introduction of a levy on CO_2 emissions or an increase in energy costs. The measures we are taking to counter these risks include measuring our own energy efficiency and finding ways to improve it. Further, in 2016 four of our subsidiaries (Magyar Telekom in Hungary, OTE in Greece, T-Mobile Netherlands, and Hrvatski Telekom in Croatia) covered 100 percent of their electricity requirements with renewable energy, while a further two (T-Mobile Austria and T-Systems Netherlands) almost met this target, thus reducing climate risks.

- Suppliers. We see more sustainability in our supply chain as an opportunity – for our reputation and our business success. Apart from the general risks associated with our global procurement activities, we can be exposed to country- and supplier-specific risks. These include, for example, the use of child labor, the conscious acceptance of environmental damage or inadequate local working and safety conditions. We reduce these risks by systematically reviewing our suppliers. Our partnerships with suppliers that comply with international sustainability standards ensure a high level of product quality and reliable procurement. We have a special development program in place to help strategic suppliers introduce business practices that are both socially and ecologically acceptable while remaining economically efficient. This program showed measurable successes again in the reporting period and has three major advantages: It has a positive impact on our suppliers' working conditions, enhances their profitability, and makes the economic relevance of sustainability clear for both sides, i.e., for our suppliers and for the Group alike. For instance, better working conditions at our suppliers reduces the number of work-related accidents as well as the personnel turnover rate. That, in turn, ensures high product quality and increases productivity, while at the same time lowering costs for recruitment and training. Thus, not only are we strengthening our suppliers' profitability and CR performance, we are also significantly reducing identified risks. SDG

Health and environment. Mobile communications, or the electromagnetic fields used in mobile communications, regularly give rise to concerns among the general population about potential health risks. This issue continues to be the subject of public, political, and scientific debate. Acceptance problems among the general public concern both mobile communications networks and the use of mobile terminals such as smartphones, tablets, and laptops. The discussion also has repercussions for the build-out of mobile communications infrastructure and the use of mobile devices. In the fixed network, it affects sales of traditional IP and DECT (digital cordless) phones and devices that use Wi-Fi technology. There is a risk of regulatory interventions, such as reduced thresholds for electromagnetic fields or the implementation of precautionary measures in mobile communications, e.g., amendments to building law or labeling requirements for handsets.

Over the past few years, recognized expert organizations such as the World Health Organization (WHO) and the International Commission on Non-Ionizing Radiation Protection (ICNIRP) have repeatedly reviewed the current thresholds for mobile communications and confirmed that – if these values are complied with – the use of mobile technology is safe based on current scientific knowledge. The expert organizations, currently the ICNIRP, regularly review the recommended thresholds on the basis of the latest scientific findings.

We are convinced that mobile communications technology is safe if specific threshold values are complied with. We are supported in this conviction by the assessment of the recognized bodies. Our responsible approach to this issue finds expression in our Group-wide EMF Policy, with which we commit ourselves to more transparency, information, participation, and financial support of independent mobile communications research, far beyond that which is stipulated by legal requirements. We aim to overcome uncertainty among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. We thus continue to see it as our duty to maintain our close and successful dialog with local authorities, over and above the statutory requirements. This also applies since our longstanding collaboration with municipalities to build out the mobile network was enshrined in law in 2013; previously, this collaboration was based on voluntary self-commitments by the network operators.

LITIGATION

Major ongoing legal proceedings. Deutsche Telekom is party to proceedings both in and out of court with government agencies, competitors, and other parties. The proceedings listed below are of particular importance from our perspective. If, in extremely rare cases, required disclosures on the significance of individual litigation and anti-trust proceedings are not made, we concluded that these disclosures may seriously undermine the outcome of the relevant proceedings.

Major ongoing legal proceedings
Toll Collect arbitration proceedings
Prospectus liability proceedings
Claims by partnering publishers of telephone directories
Claims relating to charges for the shared use of cable ducts
Claim for damages in Malaysia despite an earlier, contrary, legally binding arbitration ruling
Patents and licenses

8 DECENT WORK AND ECONOMIC GROWTH

Please refer to the section "Corporate responsibility and non-financial statement," **page 77 et seq.**

- **Toll Collect arbitration proceedings.** In the arbitration proceedings between the principal shareholders of Toll Collect (Daimler Financial Services AG and Deutsche Telekom AG) and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. The Federal Republic is claiming some EUR 3.33 billion in lost toll revenues plus interest due to the delayed commencement of operations as well as contractual penalties in the amount of around EUR 1.65 billion plus interest. The Federal Republic's main claims – including contractual penalty claims – thus total about EUR 4.98 billion plus interest. In spring 2017, the principal shareholders asserted counterclaims based on breaches of duty by the Federal Republic of Germany in relation to the delay in the start of toll collection. After hearings in 2014, we reassessed the proceedings, updated Deutsche Telekom's share of the amount at risk, and recognized adequate provisions for the risk in the statement of financial position. Further hearings were held in the following years, none of which prompted us to change the provisions recognized in 2014.

- **Prospectus liability proceedings (third public offering or DT3).** There are around 2,600 ongoing lawsuits from some 16,000 alleged buyers of T-Shares sold on the basis of the prospectus published on May 26, 2000. The plaintiffs assert that individual figures given in this prospectus were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million plus interest. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court had issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled that there were no errors in Deutsche Telekom AG's prospectus. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. On November 30, 2016, the Frankfurt/Main Higher Regional Court ruled that the mistake in the prospectus identified by the Federal Court of Justice could result in liability on the part of Deutsche Telekom AG, although the details of that liability would have to be established in the initial proceedings. Both Deutsche Telekom AG and some of the individual plaintiffs in the model proceedings have brought an appeal before the Federal Court of Justice against this decision. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages. An adequate contingent liability has been recognized and is shown in the notes to the consolidated financial statements. Adequate provisions for this risk were recognized in the annual financial statements of Deutsche Telekom AG, which are prepared in accordance with German GAAP.

- Claims by partnering publishers of telephone directories. Several publishers that had set up joint ventures with the then DeTeMedien GmbH – formerly a wholly owned subsidiary of Deutsche Telekom AG and now named Deutsche Tele Medien GmbH – to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The plaintiffs are claiming damages or a refund from Deutsche Tele Medien GmbH and, to a certain extent, from Deutsche Telekom AG as joint and several debtor alongside Deutsche Tele Medien GmbH. The plaintiffs base their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. The amounts claimed by the 81 original plaintiffs totaled around EUR 470 million plus interest at the end of 2014. After an agreement was reached with the majority of the publishers in October 2015 to settle the disputes and a number of claims were since dismissed conclusively, 13 actions are still pending for a remaining amount in dispute of around EUR 99 million plus interest. In ten of these proceedings, the plaintiffs lodged appeals with the Federal Court of Justice after their claims were dismissed by the court of appeal. The remaining three claims have been suspended. Five publishers whose civil actions are still pending have been pursuing their claims in parallel since June 2016 through administrative court actions against the Federal Network Agency. Two of these actions were dismissed by the court of first instance.

- Claims relating to charges for the shared use of cable ducts. In 2012, Kabel Deutschland Vertrieb und Service GmbH – now Vodafone Kabel Deutschland GmbH (VKDG) – filed a claim against Telekom Deutschland GmbH to reduce the annual charge for the rights to use cable duct capacities in the future and gain a partial refund of the payments made in this connection since 2004. According to its latest estimates, VKDG's claims amounted to around EUR 540 million along with around EUR 11 million for the alleged benefit from additional interest, plus interest in each case. Claims prior to 2009 are no longer being asserted by VKDG. After the Frankfurt/Main Regional Court had dismissed the complaint in 2013, the Frankfurt/Main Higher Regional Court also rejected the appeal in December 2014. In the ruling dated January 24, 2017, the Federal Court of Justice reversed the appeal ruling and referred the case back to the Frankfurt/Main Higher Regional Court for further consideration. In similar proceedings, Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH and Kabel BW GmbH demanded in January 2013 that Telekom Deutschland GmbH cease charging the plaintiffs more than a specific and precisely stated amount for the shared use of cable ducts. The plaintiffs are now demanding a refund of around EUR 570 million plus interest. The claim was dismissed in the first instance by the Cologne Regional Court on October 11, 2016. The plaintiffs have appealed against this decision. At present the financial impact of both these proceedings cannot be assessed with sufficient certainty.

- Claim for damages in Malaysia despite an earlier, contrary, legally binding arbitration ruling. Celcom Malaysia Berhad (Celcom) and Technology Resources Industries Berhad are pursuing actions with the state courts in Kuala Lumpur, Malaysia, against eleven defendants in total, including DeTeAsia Holding GmbH, a subsidiary of Deutsche Telekom AG. The plaintiffs are demanding damages and compensation of USD 232 million plus interest. DeTeAsia Holding GmbH had enforced this amount against Celcom in 2005 on the basis of a final ruling in its favor. The main proceedings in the court of first instance began in January 2018. At present, we cannot assess their financial impact with sufficient certainty.

- Patents and licenses. Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that we may have to pay license fees and/or compensation; we are also exposed to a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

Further, Deutsche Telekom intends to defend itself and/or pursue its claims resolutely in each of these proceedings.

Proceedings concluded

- **Reduction of the Company's contribution to the Civil Service Pension Fund.** Deutsche Telekom complies with its obligation to pay contributions to the Civil Service Pension Fund in accordance with the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz) and previously filed an application with the responsible Federal Ministry of Finance to have its contribution obligations reduced. After this application was rejected, Deutsche Telekom filed a suit with the competent administrative court in Cologne. This suit was dismissed, as was the appeal lodged against the dismissal. As Deutsche Telekom AG has refrained from further litigation in this matter, the proceedings have been terminated and the judgment is now final.

ANTI-TRUST PROCEEDINGS

Like all companies, our Group is subject to the regulations of anti-trust law. Given this, we have in recent years significantly expanded our compliance activities in this area too. Most recently, independent auditors certified our anti-trust compliance management system as being effective in accordance with IDW AuS 980 in 2015. Nevertheless, Deutsche Telekom and its subsidiaries, joint ventures, and associates are from time to time subject to proceedings under competition law or civil follow-on actions. In the following, we describe major anti-trust proceedings and the resulting claims for damages.

Claims for damages against Slovak Telekom following the European Commission's decision to impose fines. The European Commission decided on October 15, 2014 that Slovak Telekom had abused its market power on the Slovak broadband market and as a result imposed fines on Slovak Telekom and Deutsche Telekom. The fines were paid in January 2015. Slovak Telekom and Deutsche Telekom challenged the European Commission's decision on December 29, 2014 before the Court of the European Union. Following the decision of the European Commission, competitors filed damage actions against Slovak Telekom with the civil court in Bratislava. These claims seek compensation for alleged damages due to Slovak Telekom's abuse of a dominant market position, as determined by the European Commission. At present, three claims totaling EUR 174 million plus interest are still pending. At present, we cannot assess the financial impact with sufficient certainty.

FINANCIAL RISKS

Liquidity, credit, currency, interest rate risks

With regard to its assets, liabilities and planned transactions, our Group is particularly exposed to liquidity risks, credit risks, and the risk of changes in exchange rates and interest rates. To contain these risks, we use selected derivative and non-derivative hedging instruments (hedges), depending on the risk assessment. As only risks with an impact on cash flows are hedged, derivative financial instruments are used solely for hedging and never for speculative purposes. The following risk areas – liquidity, credit, currency, and interest rate risks – are evaluated after implementation of risk containment measures.

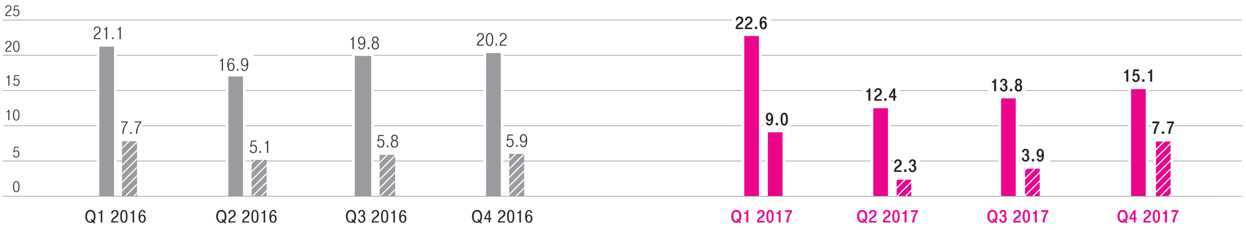
For the evaluation, please refer to the table on **page 116**.

Liquidity risk. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, our system of liquidity management includes a liquidity reserve, in the form of credit lines and cash, that is sufficient to cover bonds falling due and long-term loans for at least the next 24 months. For medium- to long-term financing, we primarily use bonds issued in a variety of currencies and jurisdictions. These instruments are generally issued via Deutsche Telekom International Finance B. V. and are forwarded within the Group as internal loans.

The graphic on the next page shows the development of the liquidity reserve in relation to maturity dates. As of the end of 2017 and in the preceding quarters, we clearly met our targets for the liquidity reserve to cover at least the maturities due in the next 24 months.

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 22 banks for a total of EUR 12.9 billion as of December 31, 2017. As of December 31, 2017, EUR 0.2 billion of these credit lines had been utilized. According to the credit agreements, the terms and conditions depend on our rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, our access to the international debt capital markets is not jeopardized.

Liquidity reserve and maturities in 2017 compared with 2016
billions of €



Liquidity reserve (absolute figures)
Maturities in the next 24 months
(Callable bonds of T-Mobile US are included with their original maturity up to the date of the call)

Credit risk. In our operating business and certain financing activities, we are exposed to a credit risk, i.e., the risk that a counterparty will not fulfill its contractual obligations. To keep this credit risk to a minimum, we conclude transactions with regard to financing activities only with counterparties that have at least a credit rating of BBB+/Baa1; this is linked to an operational credit management system. In addition, we have concluded collateral agreements for our derivative transactions. These ensure that, on a daily basis, we receive compensation payments in the amount of the receivables due from contract banks and that we make compensatory payments in the case of liabilities due. In cases of insolvency, the collateral agreements stipulate that all contracts in force are offset against each other, leaving a net receivable or liability. We continuously monitor accounts receivable in operations in a decentralized manner, i.e., at the individual units. Our business with corporate customers, especially with international carriers, is subject to special solvency monitoring.

Currency risks. The currency risks result from investments, financing measures, and operations. Risks from foreign-currency fluctuations are hedged if they affect the Group's cash flows. However, foreign-currency risks that do not influence the Group's cash flows (e.g., risks resulting from the translation of assets and liabilities of foreign operations into the Group's reporting currency) are not hedged.

Interest rate risks. Our interest rate risks mainly result from interest-bearing liabilities, primarily in the eurozone and the United States. Interest risks are managed as part of our interest rate management activities, in the course of which the maximum permissible negative deviation from the planned finance costs is determined – this is termed the risk budget. To ensure compliance with the risk budget, we manage the composition of the liabilities portfolio (ratio of fixed- to variable-interest debt instruments and average fixed-interest period) by issuing primary (non-derivative) financial instruments and, where necessary, also deploying derivative financial instruments. Regular reports are submitted to the Board of Management and Supervisory Board.

For additional explanations, please refer to Note 36 "Financial instruments and risk management" in the notes to the consolidated financial statements, **page 230 et seq.**

Tax risks

We are subject to the applicable tax laws in many different countries. Risks can arise from changes in local taxation laws or case law and different interpretations of existing provisions. These risks can impact both our tax expense and benefit as well as tax receivables and liabilities.

Other financial risks

This section contains information on other financial risks that we consider to be immaterial at present or cannot evaluate based on current knowledge.

Rating risk. As of December 31, 2017, Deutsche Telekom's credit rating with Moody's was Baa1, while Fitch and Standard & Poor's rated us BBB+. All three agencies gave us a "stable" outlook. A lower rating would result in interest rate rises for some of the bonds issued by us.

Sales of shares by the Federal Republic or KfW Bankengruppe. As of December 31, 2017, the Federal Republic and KfW Bankengruppe jointly held approximately 31.9 percent in Deutsche Telekom AG. It is possible that the Federal Republic will continue its policy of privatization and sell further equity interests in a manner designed not to disrupt the capital markets and with the involvement of KfW Bankengruppe. There is a risk that the sale of a significant volume of shares by the Federal Republic or KfW Bankengruppe, or any speculation to this effect, could have a negative impact on the price of the T-Share.

Our CR strategy enhances the value of our Company in the long term, which also has a positive effect of reducing business risks. Investors with a long-term horizon acknowledge this approach. In the capital markets, this is evident, for example, in the proportion of T-shares held by investors that base their investment decisions, at least in part, on sustainability criteria. As of September 30, 2017, around 18 percent of all T-Shares were held by SRI (socially responsible investment) investors, and almost 3 percent were held by investors who manage their funds primarily in accordance with SRI aspects.

Impairment of Deutsche Telekom AG's assets. The value of the assets of Deutsche Telekom AG and its subsidiaries is reviewed periodically. In addition to the regular annual measurements, specific impairment tests may be carried out, for example where changes in the economic, regulatory, business or political environment suggest that the value of goodwill, intangible assets, property, plant and equipment, investments accounted for using the equity method, or other financial assets might have decreased. These tests may lead to the recognition of impairment losses that do not, however, result in cash outflows. This could impact to a considerable extent on our results, which in turn may negatively affect the T-Share price.

For a detailed explanation, please refer to the section "Summary of accounting policies – Judgments and estimates" in the notes to the consolidated financial statements, pages 168 and 169.

ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework, COSO I, as amended on May 14, 2013.

The Audit Committee of the Supervisory Board of Deutsche Telekom AG monitors the effectiveness of the ICS as required by § 107 (3) sentence 2 AktG. The Board of Management is responsible for defining the scope and structure of the ICS at its discretion. Internal Audit is responsible for independently reviewing the functionality and effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit, and inspection rights.

The accounting-related ICS comprises the principles, methods, and measures used to ensure appropriate accounting. It is continuously being refined and aims to ensure the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as with the regulations under commercial law as set forth in § 315e (1) HGB. Another objective of the accounting-related ICS is the preparation of the annual financial statements of Deutsche Telekom AG and the combined management report in accordance with German GAAP.

It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Therefore, as regards the accounting-related ICS, there can only ever be relative, but no absolute, certainty that material accounting misstatements can be prevented or detected.

Group Accounting manages the processes of Group accounting and management reporting. Laws, accounting standards, and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, form the basis of the financial reporting process. In addition, supplementary process directives such as the Intercompany Policy, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, to measure pension obligations. Group Accounting ensures that these requirements are complied with consistently throughout the Group. The staff involved in the accounting process receive regular training. Deutsche Telekom AG and the Group companies are responsible for ensuring that Group-wide policies and procedures are complied with. The Group companies ensure the compliance and timeliness of their accounting-related processes and systems and, in doing so, are supported and monitored by Group Accounting.

Operational accounting processes at the national and international level are increasingly managed by our shared service centers. Harmonizing the processes enhances their efficiency and quality and in turn, improves the reliability of the internal ICS. The ICS thus safeguards both the quality of internal processes at the shared service centers and the interfaces to the Group companies by means of adequate controls and an internal certification process.

Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include:

- IT-based and manual matching
- The segregation of functions
- The dual checking principle
- Monitoring controls
- General IT checks such as access management in IT systems, and change management

We have implemented a standardized process throughout the Group for monitoring the effectiveness of the accounting-related ICS. This process systematically focuses on risks of possible misstatements in the consolidated financial statements. At the beginning of the year, specific accounts and accounting-related process steps are selected based on risk factors. They are then reviewed for effectiveness in the course of the year. If control weaknesses are found, they are analyzed and assessed, particularly in terms of their impact on the consolidated financial statements and the combined management report. Material control weaknesses, the action plans for eradicating them, and ongoing progress are reported to the Board of Management and additionally to the Audit Committee of the Supervisory Board of Deutsche Telekom AG. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

The statement can be found on the Deutsche Telekom website **www.telekom.com** under Investor Relations in the Management & Corporate Governance section.

For information on the composition of capital stock in accordance with § 289a (1) HGB and § 315a HGB of direct and indirect equity investments, please refer to Note 15 "Shareholders' equity" in the notes to the consolidated financial statements, **page 206 et seq.**, and to the notes to the annual financial statements of Deutsche Telekom AG as of December 31, 2017.

OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289f AND § 315d HGB

The Corporate Governance Statement in accordance with § 289f and § 315d HGB forms part of the combined management report.

CLOSING STATEMENT BY THE BOARD OF MANAGEMENT ON THE DEPENDENT COMPANY REPORT

Since the Federal Republic of Germany, as minority shareholder of Deutsche Telekom AG, has represented a solid majority at most shareholders' meetings in the past due to its level of attendance, Deutsche Telekom is a dependent company of the Federal Republic of Germany in accordance with § 17 (1) AktG.

Deutsche Telekom is not subject to any control or profit and loss transfer agreement with the Federal Republic of Germany. Under § 312 AktG, the Board of Management of Deutsche Telekom AG has therefore prepared a dependent company report describing relations between the controlling entity and dependent companies. The Board of Management issued the following statement at the end of the report: "The Board of Management hereby declares that, under the circumstances known to the Board of Management at the time the corporate transactions were performed, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions in the interests of, or on the instructions of, the controlling company or any affiliated companies of the Federal Republic."

LEGAL STRUCTURE OF THE DEUTSCHE TELEKOM GROUP

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its shares are traded on the Frankfurt/Main Stock Exchange as well as on other stock exchanges.

SHAREHOLDERS' EQUITY

Each share entitles the holder to one vote. These voting rights are restricted, however, in relation to treasury shares (at December 31, 2017: around 19 million in total).

Capital increase. The resolution on the dividend of EUR 0.60 per share for the 2016 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.4 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2017 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2017. This increased capital reserves by EUR 1,143 million, and under IFRS, by EUR 1,175 million. The number of shares rose by 84,556,563.

Treasury shares. The shareholders' meeting resolved on May 25, 2016 to authorize the Board of Management to purchase shares in the Company by May 24, 2021, with the amount of share capital accounted for by these shares totaling up to EUR 1,179,302,878.72, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 25, 2016 under item 6 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 25, 2016, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

For information on the treasury shares in accordance with § 160 (1) No. 2 AktG, please refer to the notes to the annual financial statements of Deutsche Telekom AG as of December 31, 2017.

On the basis of the authorization by the shareholders' meeting on May 25, 2016 described above and corresponding authorizations by the shareholders' meeting on May 12, 2011 and May 24, 2012, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively. Further, 90 thousand shares and 860 thousand shares were acquired in September and October 2015, respectively, for an aggregate amount of EUR 14,787 thousand (excluding transaction costs); these acquisitions increased the number of treasury shares by 950 thousand.

No treasury shares were acquired in the reporting period.

As part of the Share Matching Plan, a total of 2 thousand treasury shares were transferred free of charge to the custody accounts of eligible participants in 2012 and 2013 respectively. A further 90 thousand treasury shares were transferred free of charge in the 2014 financial year. An additional 140 thousand treasury shares were transferred in 2015. In the 2016 financial year, 232 thousand treasury shares were transferred. Transfers of treasury shares to the custody accounts of employees of Deutsche Telekom AG are free of charge. In cases where treasury shares are transferred to the custody accounts of employees of other Group companies, the costs have been transferred at fair value to the respective Group company since the 2016 financial year.

A total of 300 thousand treasury shares were reallocated in January, March, April, May, June, July, August, September, October, and December 2017 and transferred to the custody accounts of eligible participants of the Share Matching Plan. As of December 31, 2017, disposals of treasury shares resulting from the transfers in the reporting period accounted for less than 0.01 percent, or EUR 769 thousand, of share capital. Gains on disposal arising from transfers of treasury shares amounted to EUR 2,986 thousand. In the reporting year, 107 thousand treasury shares with a fair value of EUR 1,763 thousand were billed to other Group companies. Transfers of treasury shares increased retained earnings by EUR 511 thousand and capital reserves by EUR 310 thousand.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001, Deutsche Telekom AG issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights expired in full in the 2013 financial year. As a result, the trustee no longer had any obligation to fulfill any claims in accordance with the purpose of the deposit. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred free of charge to a custody account of Deutsche Telekom AG. The 18,517 thousand previously deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1a) HGB. This equates to 0.4 percent, or EUR 48 million, of Deutsche Telekom's capital stock. On the basis of authorization by the shareholders' meeting on May 25, 2016, the treasury shares acquired free of charge may be used for the same purposes as the treasury shares acquired for a consideration.

Authorized capital and contingent capital. The shareholders' meeting on May 16, 2013 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 15, 2018. The Board of Management was permitted to exercise the authorization in full or on one or more occasions in partial amounts. The Board of Management was authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management was authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or for acquisitions of companies, parts thereof, or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. Further, the Board of Management was authorized, subject to the approval of the Supervisory Board, to determine the further content of share rights and the conditions under which shares are issued (2013 authorized capital). The shareholders' meeting resolved on May 31, 2017 to cancel the 2013 authorized capital to the extent that it still existed, effective the date of entry of the 2017 authorized capital described below. Following the increase in issued capital against contribution of dividend entitlements, 2013 authorized capital amounted to EUR 1,381,674,257.92. The cancellation of the remaining 2013 authorized capital was entered in the commercial register on July 11, 2017.

The shareholders' meeting on May 31, 2017 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 3,600,000,000 by issuing up to 1,406,250,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 30, 2022. This authorization may be exercised in full or on one or more occasions in partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or acquisitions of companies, parts thereof, or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. However, the value of the new shares for which shareholders' subscription rights have been disapplied on the basis of this authorization – together with the value of the shares or conversion and/or option rights or obligations under bonds issued or sold since May 31, 2017 subject to the disapplication of subscription rights – must not exceed 20 percent of the total share capital; the latter is defined as the amount existing as of May 31, 2017, upon entry of the authorization, or upon the issue of the new shares, whichever amount is lowest. If the issue or sale is carried out in analogous or mutatis mutandis application of § 186 (3) sentence 4 AktG, this shall also constitute the disapplication of subscription rights. Further, the Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the further content of share rights and the conditions under which shares are issued **(2017 authorized capital)**. The shareholders' meeting on May 31, 2017 instructed the Board of Management to enter the 2017 authorized capital described above in the commercial register only when (i) the existing 2013 authorized capital (in the necessary partial amount) has been utilized to grant the shareholders the possibility described under item 2 of the agenda of the shareholders' meeting on May 31, 2017 to opt for shares (dividend in kind) instead of a cash dividend payment and the related capital increase has been entered, or (ii) the dividend has been paid out in full in cash. 2017 authorized capital was entered in the commercial register on July 11, 2017 after the condition specified under (i) had been met.

As of December 31, 2017, the share capital was contingently increased by up to EUR 1,100,000,000, comprising up to 429,687,500 no par value shares **(2014 contingent capital)**. The contingent capital increase will be implemented only to the extent that

1. the holders or creditors of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, make use of their option and/or conversion rights or

2. those obligated as a result of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments), which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, fulfill their option or conversion obligations

and other forms of fulfillment are not used. The new shares shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (3) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

MAIN AGREEMENTS INCLUDING A CHANGE OF CONTROL CLAUSE

The main agreements entered into by Deutsche Telekom AG, which include a clause in the event of a change of control, principally relate to bilateral credit lines and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A change of control is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.

In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute S.A.) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium.

On November 2, 2016, Deutsche Telekom AG signed a change agreement to the shareholder agreement with the Greek government from May 14, 2008 on Hellenic Telecommunications Organization S.A., Athens, Greece (OTE); the change agreement concerned the accession of the Hellenic Republic Asset Development Fund (HRADF) as a party to the contract. Under this agreement, the Greek government, together with HRADF, is, under certain circumstances, entitled to acquire all shares in OTE from Deutsche Telekom AG as soon as one (or more) person(s), with the exception of the Federal Republic of Germany, either directly or indirectly acquire(s) 35 percent of the voting rights of Deutsche Telekom AG.

In the master agreement establishing the procurement joint venture BuyIn in Belgium, Deutsche Telekom AG and Orange S.A. (formerly France Télécom S.A.)/Atlas Services Belgium S.A. (a subsidiary of Orange S.A.) agreed that if Deutsche Telekom or Orange comes under the controlling influence of a third party or if a third party that is not wholly owned by the Orange group of companies acquires shares in Atlas Services Belgium S.A., the respective other party (Orange and Atlas Services Belgium S.A. only jointly) may terminate the master agreement with immediate effect.

CHANGES IN THE CONSOLIDATED GROUP

60 German and 186 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2016: 61 and 188). 9 associates (December 31, 2016: 13) and 7 joint ventures (December 31, 2016: 7) are also included using the equity method.

BUSINESS COMBINATIONS

Deutsche Telekom did not affect any material business combinations in the 2017 financial year.

COMPENSATION REPORT

The "Compensation report" details the compensation system underlying Board of Management compensation as well as the specific remuneration received by the individual members of the Board of Management. It takes into consideration the requirements of the German Commercial Code taking account of the provisions of German Accounting Standard No. 17 (GAS 17), the recommendations of the German Corporate Governance Code (GCGC), and the International Financial Reporting Standards (IFRS).

Changes in the composition of the Board of Management and contract extensions. Claudia Nemat has been responsible for the new Board department Technology and Innovation since January 1, 2017. Srini Gopalan succeeded her as member of the Board of Management responsible for Europe on the same date. On May 30, 2017, the Supervisory Board resolved to extend Dr. Christian P. Illek's position as the Board member responsible for Human Resources by five years effective April 1, 2018. At its meeting on July 18, 2017, the Supervisory Board resolved to accept Niek Jan van Damme's resignation as the Board of Management member responsible for Germany with effect from midnight on December 31, 2017, and to replace him in that position with Dr. Dirk Wössner for a period of three years beginning January 1, 2018. Also as of December 31, 2017, Reinhard Clemens resigned from his position as Board member responsible for T-Systems. The Supervisory Board accepted his resignation at its meeting on September 13, 2017. At the same meeting, Adel Al-Saleh was appointed Board member responsible for T-Systems for a period of three years beginning January 1, 2018.

Compensation of the Board of Management

Basis of Board of Management compensation. On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this system. The compensation of Board of Management members comprises various components. Under the terms of their service contracts, members of the Board of Management are entitled to an annual fixed remuneration and annual variable performance-based remuneration (Variable I), a long-term variable remuneration component (Variable II), as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of compensation at regular intervals.

The fixed annual remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law. It is ensured that Board of Management compensation is oriented toward the sustained development of the Company and that there is a multi-year measurement base for the variable components.

At its discretion and after due consideration, the Supervisory Board may also reward extraordinary performance by individual or all Board of Management members in the form of a special bonus.

In accordance with market-oriented and corporate standards, the Company grants all members of the Board of Management additional benefits under the terms of their service contracts, some of which are viewed as non-cash benefits and taxed accordingly. This mainly includes being furnished with a company car and accident and liability insurance, and reimbursements in connection with maintaining a second household.

Sideline employment generally requires prior approval. Generally, no additional compensation is paid for being a member of the management or supervisory board of other Group entities.

In the event of temporary incapacity for work caused by illness, accident, or any other reason for which the respective Board of Management member is not responsible, the fixed basic remuneration continues to be paid; in the event of an uninterrupted period of absence due to illness of more than one month, claims to variable remuneration are reduced pro rata in line with the uninterrupted period of absence. The continued payment of remuneration ends at the latest after an uninterrupted period of absence of six months, or for a maximum of three months following the end of the month in which the Board of Management member's permanent incapacity for work is established.

Variable performance-based remuneration

The variable remuneration of the members of the Board of Management is divided into Variables I and II. Variable I contains both short-term and long-term components consisting of the realization of budget figures for specific performance indicators, the implementation of the strategy and adherence to the Group's Guiding Principles. Variable II is oriented solely toward the long term. This ensures that the variable remuneration is oriented toward the sustained development of the Company and that there is a predominantly long-term incentive effect. The variable compensation elements include clear upper limits, while the amount of compensation is capped overall.

Variable I. The annual variable remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management at the beginning of the financial year. The set of targets is composed of corporate targets (50 percent)

The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section "Summary of accounting policies" under "Principal subsidiaries," page 173 et seq.

related to unadjusted revenue, unadjusted EBITDA and free cash flow, as well as personal targets for the individual members of the Board of Management. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of the strategy (30 percent) and value adherence (adherence to Guiding Principles), which accounts for 20 percent. The agreement on targets and the level of target achievement for the respective financial year are determined by the plenary session of the Supervisory Board. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. Any higher levels of target achievement will not be taken into consideration. To ensure the long-term incentive effect and orientation toward the sustained development of the Company, a third of the variable remuneration set by the plenary session of the Supervisory Board must be invested in shares of Deutsche Telekom AG; these shares must be held by the respective Board member for a period of at least four years.

Variable II. The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted performance parameters (return on capital employed (ROCE), adjusted earnings per share, customer satisfaction, and employee satisfaction). Each parameter determines a quarter of the award amount. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. The assessment period is four years, with the assessment being based on average target achievement across the four years planned at the time the tranche was determined. The award amount is decoupled from other remuneration components and is set for each member of the Board of Management individually.

In the 2017 financial year, the following absolute nominal amounts were pledged to the Board of Management members in the event of 100 percent target achievement.

€

	2017 tranche	2016 tranche
Reinhard Clemens	650,000	650,000
Niek Jan van Damme	644,000	644,000
Thomas Dannenfeldt	670,000	670,000
Srini Gopalan (since January 1, 2017)	550,000	–
Timotheus Höttges	1,342,000	1,342,000
Dr. Christian P. Illek	550,000	550,000
Dr. Thomas Kremer	550,000	550,000
Claudia Nemat	675,000	675,000

Information on the Share Matching Plan. In the 2017 financial year, the Board of Management members, as described above, were contractually obliged to invest a third of Variable I in shares of Deutsche Telekom AG. Deutsche Telekom AG will grant one additional share for every share acquired as part of this Board of Management member's aforementioned personal investment (Share Matching Plan) on expiration of the four-year lock-up period, provided they are still a member of the Board of Management.

GAS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2017 financial year and the fair value of the matched shares at their grant date, but also of the number of entitlements to matching shares and their development in the current financial year.

The fair value of the matching shares at grant date shown in the following table does not represent a component of remuneration for the Board of Management members in 2017. It is an imputed value of the entitlements to matching shares determined on the basis of relevant accounting policies. Here, the fair value equates to the share price at grant date less an expected dividend markdown. The following table is based on expected target achievement for the 2017 financial year and thus on the estimated amount of the personal investment to be made by the respective Board of Management member to establish his or her entitlements to matching shares. The final number of entitlements to matching shares identified for the 2017 financial year may be higher or lower than the amounts estimated here.

The total share-based payment expense for entitlements to matching shares from 2012 to 2017 to be recognized for the financial years 2016 and 2017 pursuant to IFRS 2 is included in the two last columns of the table.

	Number of entitlements granted to matching shares since 2010 at the beginning of the financial year	Number of new entitlements to matching shares granted in 2017	Number of shares transferred in 2017 as part of the Share Matching Plan	Fair value of the entitlements to matching shares at grant date €	Cumulative total share-based payment expense in 2017 for matching shares for the years 2013 through 2017 €	Cumulative total share-based payment expense in 2016 for matching shares for the years 2012 through 2016 €
Reinhard Clemens	159,248	13,484	24,934	184,994	50,429	184,443
Niek Jan van Damme	150,748	13,359	26,279	183,286	241,645	188,132
Thomas Dannenfeldt	44,138	13,898	0	190,686	153,021	120,267
Srini Gopalan (since January 1, 2017)	0	11,409	0	156,533	26,231	–
Timotheus Höttges	239,544	27,838	25,974	381,941	379,393	353,485
Dr. Christian P. Illek	25,181	11,409	0	156,533	99,980	60,164
Dr. Thomas Kremer	72,183	11,409	13,057	156,533	163,949	143,105
Claudia Nemat	105,021	14,002	28,251	192,109	193,826	193,228

By December 31, 2017, Deutsche Telekom had acquired 565,596 shares for the purpose of awarding matching shares to Board of Management members as part of the Share Matching Plan. In 2017, matching shares were again transferred to individual members of the Board of Management. A total of 118,495 shares were transferred to Board of Management members in 2017 (2016: 88,792).

Arrangements in the event of termination of a position on the Board of Management. Service contracts for members of the Board of Management concluded since the 2009 financial year include a severance cap in case of premature termination without good cause allowing a compensation payment that, in line with the recommendations of the German Corporate Governance Code, is limited to a maximum of two years' remuneration (severance cap) and may not exceed the remuneration due for the remaining term of the service contract.

The service contracts for members of the Board of Management at Deutsche Telekom AG do not include any benefits in the event of the termination of a position on the Board of Management as a result of a change of control.

Board of Management member service contracts generally stipulate a post-contractual prohibition of competition. Pursuant to these provisions, members of the Board of Management are prohibited from rendering services to or on behalf of a competitor for the duration of one year following their departure. As compensation for this restricted period, they receive either a payment of 50 percent of the last fixed annual remuneration and 50 percent of the most recent Variable I on the basis of 100 percent target achievement, or 100 percent of the last fixed annual remuneration.

Company pension plan

Company pension plan (existing entitlement). The members of the Board of Management are entitled to a company pension. Benefits from the company pension plan are in direct relation to the beneficiary's annual salary. The Board of Management members receive company pension benefits based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The pension payments may be in the form of a life-long retirement pension upon reaching the age of 62 or in the form of an early retirement pension upon reaching the age of 60. Opting for the early retirement pension scheme is connected with actuarial deductions, however. The company pension is calculated by multiplying a basic percentage rate of 5 percent by the number of years of service as a member of the Board of Management. After ten years of service, the maximum pension level of 50 percent of the last fixed annual remuneration will be attained.

The pension payments to be made increase dynamically, at a rate of 1 percent. In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is excluded. The standard criteria for eligibility in the pension arrangements are in line with market conditions. In the event of a permanent incapacity for work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension.

Company pension plan (new entitlement). A plan with a contribution-based promise in the form of a one-time capital payment upon retirement is set up for all Board of Management members with a new entitlement to a company pension. A contribution is paid into the Board member's pension account for each year of service at an interest rate corresponding to market levels. Annual additions to the pension account have no effect on cash or cash equivalents. The cash outflow is only effective upon the Board member's retirement. As a rule, the date of retirement is the beneficiary's 62nd birthday. For pension agreements signed before December 31, 2011, Board of Management members can also opt to draw early retirement benefits from their 60th birthday, subject to corresponding actuarial deductions. The amount to be provided annually is individualized and decoupled from other remuneration components. The exact definition of the contribution is based on a comparison with peer companies that are suitable for benchmarking and also offer plans with contribution-based promises.

In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In the event of a permanent incapacity for work (invalidity), the beneficiary is also entitled to the pension fund.

Service cost and defined benefit obligations for each member of the Board of Management are shown in the following table:

€

	Service cost 2017	Defined benefit obligation (DBO) Dec. 31, 2017	Service cost 2016	Defined benefit obligation (DBO) Dec. 31, 2016
Reinhard Clemens	797,142	7,803,566	737,710	7,132,977
Niek Jan van Damme	302,706	3,225,063	303,289	2,874,190
Thomas Dannenfeldt	281,578	1,200,998	276,804	903,460
Srini Gopalan (since January 1, 2017)	305,625	306,749	–	–
Timotheus Höttges	1,129,225	12,183,195	1,030,510	11,203,561
Dr. Christian P. Illek	272,566	778,582	269,168	496,574
Dr. Thomas Kremer	247,956	1,525,513	250,534	1,253,693
Claudia Nemat	291,092	2,077,262	213,170	1,756,131

An annual contribution of EUR 290,000 was allocated to Niek Jan van Damme in accordance with the provisions of the new company pension plan. The contributions for Thomas Dannenfeldt, Srini Gopalan, Dr. Christian P. Illek, Dr. Thomas Kremer, and Claudia Nemat amount to EUR 250,000 each for each year of service rendered.

The pension expense resulting from the company pension plan is shown as service cost.

Board of Management compensation for the 2017 financial year. In reliance on legal requirements and other guidelines, a total of EUR 21.3 million (2016: EUR 16.7 million) is reported in the following table as total compensation for the 2017 financial year for the members of the Board of Management. The Board of Management compensation comprises the fixed annual remuneration as well as other benefits, non-cash benefits and remuneration in kind, short-term variable remuneration (Variable I), fully earned tranches of long-term variable remuneration (Variable II), and the fair value of the matching shares. This was calculated on the basis of the estimated amount of Variable I at the grant date and the resulting number of entitlements to matching shares.

The fixed annual remuneration and other remuneration are totally unrelated to performance.

Total compensation. The compensation of the Board of Management is shown in detail in the following table:

€

		Non-performance-based compensation		Performance-based compensation			Total compensation
		Fixed annual remuneration	Other remuneration	Short-term variable remuneration	Long-term variable performance-based remuneration (Variable II)	Long-term variable performance-based remuneration (fair value of matching shares)	
Reinhard Clemens	2017	840,000	20,387	709,800	676,000	184,994	**2,431,181**
	2016	840,000	25,221	733,850	468,000	185,899	**2,252,970**
Niek Jan van Damme	2017	850,000	27,040	821,744	665,687	183,286	**2,547,757**
	2016	850,000	28,913	781,172	396,000	184,183	**2,240,268**
Thomas Dannenfeldt	2017	860,000	24,631	835,490	572,000	190,686	**2,482,807**
	2016	860,000	26,711	858,270	–	191,619	**1,936,600**
Srini Gopalan (since January 1, 2017)	2017	700,000	1,139,610 [a]	654,500	–	156,533	**2,650,643**
	2016	–	–	–	–	–	**–**
Timotheus Höttges	2017	1,450,000	29,061	1,749,968	1,135,680	381,941	**4,746,650**
	2016	1,450,000	156,742	1,760,704	547,560	383,809	**4,298,815**
Dr. Christian P. Illek	2017	700,000	35,741	685,850	–	156,533	**1,578,124**
	2016	700,000	37,585	674,850	–	157,299	**1,569,734**
Dr. Thomas Kremer	2017	700,000	63,620	654,500	572,000	156,533	**2,146,653**
	2016	700,000	65,910	666,600	396,000	157,299	**1,985,809**
Claudia Nemat	2017	900,000	78,567	804,600	702,000	192,109	**2,677,276**
	2016	900,000	75,616	807,975	486,000	193,049	**2,462,640**
	2017	**7,000,000**	**1,418,657**	**6,916,452**	**4,323,367**	**1,602,615**	**21,261,091**
	2016	**6,300,000**	**416,698**	**6,283,421**	**2,293,560**	**1,453,157**	**16,746,836**

[a] This amount includes a one-time sign-on bonus of EUR 500,000 and a payment of EUR 620,000 to compensate for the loss of share-based compensation he would have been entitled to at the previous employer. Srini Gopalan was obligated to invest the net amount paid out from the compensation payment in shares of Deutsche Telekom AG. Upon expiry of lock-up period, he can freely dispose of these shares.

The amounts shown in the "Long-term variable performance-based remuneration (Variable II)" column had been pledged to the eligible Board of Management members in the 2014 financial year.

Niek Jan van Damme resigned from his position as member of the Board of Management effective midnight on December 31, 2017. The termination agreement between Niek Jan van Damme and the Company contains the components described below. The Company will pay Niek Jan van Damme a final settlement of EUR 2.3 million for early termination of his service contract. For his participation in Deutsche Telekom AG's Share Matching Plan, Niek Jan van Damme was awarded a total of 51,300 matching shares in January 2018, but has no other entitlements to matching shares. Niek Jan van Damme will participate on a pro rata basis in the tranches of long-term variable remuneration (Variable II) granted to him. Potential payments of long-term variable remuneration will not take place until after expiry of the term of the plan and will be calculated on the basis of the final level of target achievement as determined by the Supervisory Board. Niek Jan van Damme has vested rights to a Board of Management pension; this entitlement remains in place for the amount in the pension account as of December 31, 2017 until such time as he retires.

Reinhard Clemens also resigned from the Board of Management effective midnight, December 31, 2017. The termination agreement between Reinhard Clemens and the Company contains the components described below. Reinhard Clemens will receive a final settlement of EUR 2.0 million for early termination of his service contract. For his participation in Deutsche Telekom AG's Share Matching Plan, Reinhard Clemens was awarded 36,312 matching shares in January 2018, but has no other entitlements to the transfer of matching shares. In accordance with his completed period of service, Reinhard Clemens will participate on a pro rata basis in the tranches of long-term variable remuneration (Variable II) granted to him. Potential payments of long-term variable remuneration will not take place until after expiry of the term of the plan for each tranche and will be calculated on the basis of the final level of target achievement as determined by the Supervisory Board. Reinhard Clemens has vested rights to a Board of Management pension; this entitlement will remain in place for the amount earned as of December 31, 2017 until such time as he retires.

As of December 31, 2017, sufficient provisions were recognized to cover the existing obligations from both termination agreements. No member of the Board of Management received benefits or corresponding commitments from a third party for his or her activity as a Board of Management member during the past financial year.

Former members of the Board of Management. A total of EUR 11.3 million (2016: EUR 7.2 million) was included for payments to and entitlements for former members of the Board of Management and those who left in the reporting year as well as any surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 195.4 million (December 31, 2016: EUR 201.6 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

Other. The Company has not granted any advances or loans to current or former Board of Management members, nor were any other financial obligations to the benefit of this group of people entered into.

Table view in accordance with the requirements of the German Corporate Governance Code
The following tables are based on model tables 1 and 2 recommended by the German Corporate Governance Code, which present the total compensation granted for the reporting year and the remuneration components allocated.

Benefits granted for the reporting year

Compensation of the Board of Management
€

	Timotheus Höttges Function: Chairman of the Board of Management (CEO) since Jan. 1, 2014			
	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration	1,450,000	1,450,000	1,450,000	1,450,000
Fringe benefits	156,742	29,061	29,061	29,061
Total fixed annual remuneration	**1,606,742**	**1,479,061**	**1,479,061**	**1,479,061**
One-year variable remuneration	1,342,000	1,342,000	0	2,013,000
Multi-year variable remuneration	**1,725,809**	**1,723,941**	**0**	**4,026,000**
Of which: 2016 Variable II (4-year term)	1,342,000			
Of which: 2017 Variable II (4-year term)		1,342,000	0	2,013,000
Of which: 2016 Share Matching Plan (4-year term)	383,809			
Of which: 2017 Share Matching Plan (4-year term)		381,941	0	2,013,000
Total	**4,674,551**	**4,545,002**	**1,479,061**	**7,518,061**
Service cost	1,030,510	1,129,225	1,129,225	1,129,225
TOTAL COMPENSATION	**5,705,061**	**5,674,227**	**2,608,286**	**8,647,286**

	Srini Gopalan Function: Europe since Jan. 1, 2017			
	2016	2017	2017 (min.)	2017 (max.)
Fixed remuneration		700,000	700,000	700,000
Fringe benefits		1,139,610 [a]	1,139,610 [a]	1,139,610 [a]
Total fixed annual remuneration	–	**1,839,610**	**1,839,610**	**1,839,610**
One-year variable remuneration		550,000	0	825,000
Multi-year variable remuneration	–	**706,533**	**0**	**1,650,000**
Of which: 2016 Variable II (4-year term)				
Of which: 2017 Variable II (4-year term)		550,000	0	825,000
Of which: 2016 Share Matching Plan (4-year term)				
Of which: 2017 Share Matching Plan (4-year term)		156,533	0	825,000
Total	–	**3,096,143**	**1,839,610**	**4,314,610**
Service cost		305,625	305,625	305,625
TOTAL COMPENSATION	–	**3,401,768**	**2,145,235**	**4,620,235**

[a] This amount includes a one-time sign-on bonus of EUR 500,000 and a payment of EUR 620,000 to compensate for the loss of share-based compensation he would have been entitled to at the previous employer. Srini Gopalan was obligated to invest the net amount paid out from the compensation payment in shares of Deutsche Telekom AG. Upon expiry of lock-up period, he can freely dispose of these shares.

Reinhard Clemens				Niek Jan van Damme				Thomas Dannenfeldt			
Function: T-Systems				Function: Germany				Function: Finance (CFO)			
until Dec. 31, 2017				until Dec. 31, 2017				since Jan. 1, 2014			
2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)
840,000	840,000	840,000	840,000	850,000	850,000	850,000	850,000	860,000	860,000	860,000	860,000
25,221	20,387	20,387	20,387	28,913	27,040	27,040	27,040	26,711	24,631	24,631	24,631
865,221	**860,387**	**860,387**	**860,387**	**878,913**	**877,040**	**877,040**	**877,040**	**886,711**	**884,631**	**884,631**	**884,631**
650,000	650,000	0	975,000	644,000	644,000	0	966,000	670,000	670,000	0	1,005,000
835,899	**834,994**	**0**	**1,950,000**	**828,183**	**827,286**	**0**	**1,932,000**	**861,619**	**860,686**	**0**	**2,010,000**
650,000				644,000				670,000			
	650,000	0	975,000		644,000	0	966,000		670,000	0	1,005,000
185,899				184,183				191,619			
	184,994	0	975,000		183,286	0	966,000		190,686	0	1,005,000
2,351,120	**2,345,381**	**860,387**	**3,785,387**	**2,351,096**	**2,348,326**	**877,040**	**3,775,040**	**2,418,330**	**2,415,317**	**884,631**	**3,899,631**
737,710	797,142	797,142	797,142	303,289	302,706	302,706	302,706	276,804	281,578	281,578	281,578
3,088,830	**3,142,523**	**1,657,529**	**4,582,529**	**2,654,385**	**2,651,032**	**1,179,746**	**4,077,746**	**2,695,134**	**2,696,895**	**1,166,209**	**4,181,209**

Dr. Christian P. Illek				Dr. Thomas Kremer				Claudia Nemat			
Function: Human Resources				Function: Data Privacy, Legal Affairs and Compliance				Function: Technology and Innovation			
since Apr. 1, 2015				since June 1, 2012				since Oct. 1, 2011			
2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)	2016	2017	2017 (min.)	2017 (max.)
700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000	900,000	900,000	900,000	900,000
37,585	35,741	35,741	35,741	65,910	63,620	63,620	63,620	75,616	78,567	78,567	78,567
737,585	**735,741**	**735,741**	**735,741**	**765,910**	**763,620**	**763,620**	**763,620**	**975,616**	**978,567**	**978,567**	**978,567**
550,000	550,000	0	825,000	550,000	550,000	0	825,000	675,000	675,000	0	1,012,500
707,299	**706,533**	**0**	**1,650,000**	**707,299**	**706,533**	**0**	**1,650,000**	**868,049**	**867,109**	**0**	**2,025,000**
550,000				550,000				675,000			
	550,000	0	825,000		550,000	0	825,000		675,000	0	1,012,500
157,299				157,299				193,049			
	156,533	0	825,000		156,533	0	825,000		192,109	0	1,012,500
1,994,884	**1,992,274**	**735,741**	**3,210,741**	**2,023,209**	**2,020,153**	**763,620**	**3,238,620**	**2,518,665**	**2,520,676**	**978,567**	**4,016,067**
269,168	272,566	272,566	272,566	250,534	247,956	247,956	247,956	213,170	291,092	291,092	291,092
2,264,052	**2,264,840**	**1,008,307**	**3,483,307**	**2,273,743**	**2,268,109**	**1,011,576**	**3,486,576**	**2,731,835**	**2,811,768**	**1,269,659**	**4,307,159**

Benefits allocated for the reporting year

Unlike the table of benefits granted shown on the previous page, the table below contains not the target values for short- and long-term variable remuneration components, but rather the actual benefits allocated for 2017. There is another difference between the following table and the table of benefits granted with regard to the presentation of the Share Matching Plan. The figures for the Share Matching Plan disclosed in the following table show the value of the benefits allocated applicable under German tax law at the time of transfer of the matching shares, whereas the table of benefits granted on the previous pages shows the fair values of remuneration at the grant date.

Compensation of the Board of Management
€

	Timotheus Höttges		Reinhard Clemens	
	Function: Chairman of the Board of Management (CEO)		Function: T-Systems	
	since Jan. 1, 2014		until Dec. 31, 2017	
	2016	2017	2016	2017
Fixed remuneration	1,450,000	1,450,000	840,000	840,000
Fringe benefits	156,742	29,061	25,221	20,387
Total fixed annual remuneration	**1,606,742**	**1,479,061**	**865,221**	**860,387**
One-year variable remuneration	1,760,704	1,749,968	733,850	709,800
Multi-year variable remuneration	**1,099,526**	**1,585,809**	**839,525**	**1,118,579**
Of which: Variable II (4-year term) [a]	547,560	1,135,680	468,000	676,000
Of which: Share Matching Plan (4-year term) [b]	551,966	450,129	371,525	442,579
Other	0	0	0	0
Total	**4,466,972**	**4,814,838**	**2,438,596**	**2,688,766**
Service cost	1,030,510	1,129,225	737,710	797,142
TOTAL COMPENSATION	**5,497,482**	**5,944,063**	**3,176,306**	**3,485,908**

	Dr. Thomas Kremer		Claudia Nemat	
	Function: Data Privacy, Legal Affairs and Compliance		Function: Technology and Innovation	
	since June 1, 2012		since Oct. 1, 2011	
	2016	2017	2016	2017
Fixed remuneration	700,000	700,000	900,000	900,000
Fringe benefits	65,910	63,620	75,616	78,567
Total fixed annual remuneration	**765,910**	**763,620**	**975,616**	**978,567**
One-year variable remuneration	666,600	654,500	807,975	804,600
Multi-year variable remuneration	**396,000**	**795,928**	**596,283**	**1,178,312**
Of which: Variable II (4-year term) [a]	396,000	572,000	486,000	702,000
Of which: Share Matching Plan (4-year term) [b]	0	223,928	110,283	476,312
Other	0	0	0	0
Total	**1,828,510**	**2,214,048**	**2,379,874**	**2,961,479**
Service cost	250,534	247,956	213,170	291,092
TOTAL COMPENSATION	**2,079,044**	**2,462,004**	**2,593,044**	**3,252,571**

[a] Variable II as shown in the column for 2017 relates to the payment of the 2014 tranche; the figure in the column for 2016 relates to the payment of the 2013 tranche.

[b] The Share Matching Plan relates to the non-cash benefit arising from the inflow of the matching shares, with the corresponding personal investment having been made in 2012 or 2013.

[c] This amount includes a one-time sign-on bonus of EUR 500,000 and a payment of EUR 620,000 to compensate for the loss of share-based compensation he would have been entitled to at the previous employer. Srini Gopalan was obligated to invest the net amount paid out from the compensation payment in DTAG shares. Upon expiry of lock-up period, he can freely dispose of these shares.

	Niek Jan van Damme		Thomas Dannenfeldt		Srini Gopalan		Dr. Christian P. Illek	
	Function: Germany		Function: Finance (CFO)		Function: Europe		Function: Human Resources	
	until Dec. 31, 2017		since Jan. 1, 2014		since Jan. 1, 2017		since Apr. 1, 2015	
	2016	2017	2016	2017	2016	2017	2016	2017
	850,000	850,000	860,000	860,000		700,000	700,000	700,000
	28,913	27,040	26,711	24,631		1,139,610 [c]	37,585	35,741
	878,913	**877,040**	**886,711**	**884,631**	**–**	**1,839,610**	**737,585**	**735,741**
	781,172	821,744	858,270	835,490		654,500	674,850	685,850
	749,066	**1,132,139**	**0**	**572,000**	**–**	**0**	**0**	**0**
	396,000	665,687	0	572,000		0	0	0
	353,066	466,452	0	0		0	0	0
	0	0	0	0		0	0	0
	2,409,151	**2,830,923**	**1,744,981**	**2,292,121**	**–**	**2,494,110**	**1,412,435**	**1,421,591**
	303,289	302,706	276,804	281,578	–	305,625	269,168	272,566
	2,712,440	**3,133,629**	**2,021,785**	**2,573,699**	**–**	**2,799,735**	**1,681,603**	**1,694,157**

COMPENSATION OF THE SUPERVISORY BOARD

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Under the compensation system applicable for the 2017 financial year, members of the Supervisory Board receive fixed annual compensation of EUR 70,000.00.

The Chairman of the Supervisory Board receives a further EUR 70,000.00 and the Deputy Chairman EUR 35,000.00. Members of the Supervisory Board also receive compensation as follows for activities on Supervisory Board committees:

(a) The Chairman of the Audit Committee receives EUR 80,000.00, ordinary members of the Audit Committee EUR 40,000.00.

(b) The Chairman of the General Committee receives EUR 70,000.00, ordinary members of the General Committee EUR 30,000.00.

(c) The Chairman of the Nomination Committee receives EUR 25,000.00, ordinary members of the Nomination Committee EUR 12,500.00.

(d) The Chairman of any other committee receives EUR 40,000.00, ordinary members of any other committee EUR 25,000.00.

Chairmanship and membership of the Mediation Committee are not remunerated.

Members of the Supervisory Board receive an attendance fee amounting to EUR 1,000.00 for each meeting of the Supervisory Board or its committees that they have attended. The Company reimburses value-added tax payable on remuneration and expenses.

The total compensation of the members of the Supervisory Board in 2017 amounted to EUR 2,899,500.00 (plus VAT).

The Company has not granted any advances or loans to current or former Supervisory Board members, nor were any other financial obligations to the benefit of this group of people entered into.

The compensation of the individual members of the Supervisory Board for 2017 is as follows:

in €

Member of the Supervisory Board	Fixed remuneration	Meeting attendance fee	Total
Baldauf, Sari	95,000.00	12,000.00	107,000.00
Bednarski, Josef	165,000.00	25,000.00	190,000.00
Dr. Bernotat, Wulf H. (until August 27, 2017 †)	80,000.00	7,000.00	87,000.00
Brandl, Monika	95,000.00	12,000.00	107,000.00
Geismann, Johannes	158,750.00	27,000.00	185,750.00
Hanas, Klaus-Dieter	95,000.00	12,000.00	107,000.00
Hauke, Sylvia[a] (until June 30, 2017)	60,000.00	6,000.00	66,000.00
Hinrichs, Lars	95,000.00	14,000.00	109,000.00
Dr. Jung, Helga	70,000.00	10,000.00	80,000.00
Kallmeier, Hans-Jürgen[b] (until December 31, 2017)	135,000.00	19,000.00	154,000.00
Prof. Dr. Kaschke, Michael	110,000.00	14,000.00	124,000.00
Koch, Nicole[c]	70,000.00	10,000.00	80,000.00
Kollmann, Dagmar P.	187,500.00	21,000.00	208,500.00
Kreusel, Petra Steffi[d]	110,000.00	17,000.00	127,000.00
Prof. Dr. Lehner, Ulrich (Chairman)	300,000.00	27,000.00	327,000.00
Schröder, Lothar[e] (Deputy Chairman)	240,000.00	25,000.00	265,000.00
Dr. Schröder, Ulrich	135,000.00	2,000.00	137,000.00
Sommer, Michael	111,666.67	14,000.00	125,666.67
Spoo, Sibylle	95,000.00	8,000.00	103,000.00
Streibich, Karl-Heinz	120,000.00	17,000.00	137,000.00
Suckale, Margret (since September 28, 2017)	29,583.33	3,000.00	32,583.33
Topel, Karin (since July 1, 2017)	35,000.00	5,000.00	40,000.00
	2,592,500.00	**307,000.00**	**2,899,500.00**

[a] In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Sylvia Hauke also received other remuneration amounting to EUR 8,000.00 (including meeting attendance fees) in the 2017 financial year (for her mandate as member of the supervisory board of Telekom Deutschland GmbH).

[b] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Hans-Jürgen Kallmeier also received other remuneration amounting to EUR 16,000.00 (including meeting attendance fees) in the 2017 financial year (for his mandate as member of the supervisory board of T-Systems International GmbH).

[c] In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Nicole Koch also received other remuneration amounting to EUR 4,500.00 (including meeting attendance fees) in the 2017 financial year (for her mandate as member of the supervisory board of Telekom Shop Vertriebsgesellschaft mbH).

[d] In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Petra Steffi Kreusel also received other remuneration amounting to EUR 15,500.00 (including meeting attendance fees) in the 2017 financial year (for her mandate as member of the supervisory board of T-Systems International GmbH).

[e] In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Schröder also received other remuneration amounting to EUR 25,000.00 (including meeting attendance fees) in the 2017 financial year (EUR 19,000.00 for his mandate as member of the supervisory board of Deutsche Telekom Services Europe GmbH and EUR 6,000.00 as Chairman of the Data Privacy Advisory Council).

SHARE OWNERSHIP BY MEMBERS OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Members of the Board of Management and Supervisory Board of Deutsche Telekom AG were reported to have purchased 270,755 shares and sold 9,531 in the course of 2017. Total direct or indirect holdings in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

ANNEX: REPORT ON EQUALITY AND EQUAL PAY

Deutsche Telekom is a leading integrated telecommunications company, with a presence in more than 50 countries.

We embrace diversity. With its global focus, our Group unites a wide variety of different cultures, experience, and talent, and we are actively committed to fostering this diversity. Our ultimate goal is to benefit from the creativity and innovation that diversity offers. As early as 1992, our then Board of Management launched a program for the advancement of women. That program ushered in a whole range of measures that are still in place today, including efforts to increase the percentage of women in management positions and in technical professions, and to come up with more flexible working-time models for both women and men.

Since 2010, our goal has been to achieve a share of 30.0 percent of women in (upper and middle) management. The corresponding figure in 2010 was already a gratifying 22.7 percent across the Group, and by 2016 we had succeeded in raising it to 25.4 percent. The corresponding figures for our Group companies in Germany have also risen: from 12.5 percent in 2010 to 21.2 percent in 2016. At year-end 2016, women accounted for 35.3 percent of our global workforce. At Deutsche Telekom AG, they made up an average of 42.5 percent of the workforce in 2016. On average, 62.5 percent of these women worked full time, while 37.5 percent worked part time.

In 2015, the Act on the Equal Participation of Women and Men in Management came into force in Germany, creating a statutory obligation to fill 30.0 percent of supervisory board positions with women. We have gone a step further, setting ourselves the goal of filling 30.0 percent of board of management and managing board positions and 30.0 percent of management level 1 and 2 positions with women. Deutsche Telekom AG had already achieved one of these goals at the end of 2016, with 40.0 percent of its Supervisory Board positions held by women. The corresponding figures for management levels 1 and 2 at year-end 2016 were gratifying as well, at 29.6 percent and 25.5 percent respectively. Only at Board of Management level was the share of women – at 14.3 percent – not yet close to the target level. We continue our efforts to promote gender equality and focus on raising the profile of this issue in HR processes, for example using

- regular reports that track the trend in what we term the fair share quota;
- events and partnerships such as women@work, FEMTEC, and the STEM award;
- partnerships with HR consultants that specialize in finding women to fill management positions;
- strategic succession planning with a focus on rules for filling positions (e.g., at least one woman on the successor shortlist);
- flexible working-time options such as flexitime, part time with a guaranteed option to return to full-time work, phased retirement, family care leave, leave of absence, lifetime work accounts, leave without pay, parental leave, caregiver's leave, education leave, tandem models, working from home or on the move.

Improving its employees' work-life balance is a top priority for Deutsche Telekom, which is why we offer company childcare facilities or parent-child offices at many locations. We also have an experienced partner in the shape of AWO Lifebalance GmbH, a company that offers our employees information and consultation free of charge on all aspects of childcare and care for the next-of-kin, and can help find the right services for them. The latter include not only classical childcare and nursing care services, but also personal and household services.

In order to create the basis for diversity among our junior staff, we rely on a selection procedure that is geared to talent – one that focuses less on grades, and more on the aptitudes, strengths and interests that the applicants require for their respective courses of training/study and for their prospective careers within our Group. This selection procedure enables us to win over new talent and access previously untapped pools of applicants. Another project, which we are conducting in cooperation with Germany's Federal Employment Agency, focuses on training and cooperative study programs on a part-time basis. Since 2011, we have been offering single parents part-time training and cooperative study programs. To enable this target group to balance the demands of bringing up their children and still earning initial professional qualifications, we allow them to reduce their weekly working time to 25 hours (though they still have to complete their study times in full).

Since 2015, we have been raising awareness of unconscious bias. In 2016 alone, more than 130 classroom and online workshops were held on this topic, and we began rolling out these workshops worldwide in July 2017. Unconscious bias refers to prejudicial assumptions that people hold regarding the capabilities, skills and tendencies of other people. Such assumptions are affected by numerous different factors, many of them physical. Unconscious bias thus denotes thought processes that occur unconsciously and very quickly, without being sufficiently questioned. For example, we often select applicants who seem similar to us, or who seem to be the right fit for our corporate culture. As a result, we can overlook others with great innovative and creative potential.

In order to prepare women for positions on supervisory boards, a Supervisory Board Readiness Program was conducted for women in management positions in 2015 and 2016. A new round of this program, which was entitled "Update your readiness," was launched in November 2017. Our mentoring program Child and Career [Karriere mit Kind] helps ease workers back into their jobs after a period of parental leave. The focus is on avoiding gaps in the individual's career and promoting a change in culture that will enable people to strike a balance between their careers and their parental obligations.

In our Company, compensation is based on the nature and scope of a person's work and not on their gender. Our collective agreements on remuneration and other matters reached with the trade unions ensure a transparent, gender-neutral system of compensation. As a result, we offer remuneration that is independent of gender, age, and nationality.

Deutsche Telekom AG
Friedrich-Ebert-Allee 140
53113 Bonn, Germany

DEUTSCHE TELEKOM

Q4/2017 RESULTS

LIFE IS FOR SHARING.

DISCLAIMER

This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and amortization, cash flows and personnel-related measures. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. Among the factors that might influence our ability to achieve our objectives are the progress of our workforce reduction initiative and other cost-saving measures, and the impact of other significant strategic, labor or business initiatives, including acquisitions, dispositions and business combinations, and our network upgrade and expansion initiatives. In addition, stronger than expected competition, technological change, legal proceedings and regulatory developments, among other factors, may have a material adverse effect on our costs and revenue development. Further, the economic downturn in our markets, and changes in interest and currency exchange rates, may also have an impact on our business development and the availability of financing on favorable conditions. Changes to our expectations concerning future cash flows may lead to impairment write downs of assets carried at historical cost, which may materially affect our results at the group and operating segment levels. If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance may materially differ from the performance expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved. Without prejudice to existing obligations under capital market law, we do not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

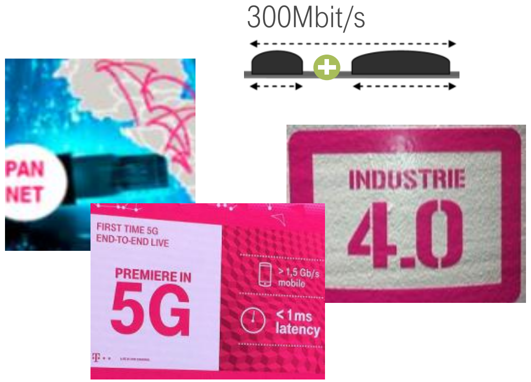
In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents alternative performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted net income, free cash flow, gross debt and net debt. These alternative performance measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Alternative performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways.

REVIEW FY/2017

2017 HIGHLIGHTS: GROWTH IN COMMERCIALS AND FINANCIALS

Growth: investments and innovations

- Cash capex +10.4% to €12.1 billion
- IP-Migration for 70% of HHs in GER and EU completed
- Fiber roll-out: 4.1 million new homes in GER and EU with access to Fiber
- LTE coverage both in GER and EU at 94%



Growth: customers

- Demand for fiber in Germany unabated
  - 9.6 million German homes with fiber (+41% yoy)
  - 2.8 million net adds
- Continued strong US growth
  - 5.7 million net adds[1]
- EU: mobile contract net adds +75%

1) Adj. for 4,528k wholesale customers no longer reported since Q2/17

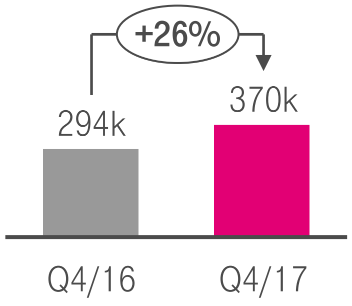
Growth: financials

- Strong growth continues
  - Revenue up 2.5% yoy
  - Adj. EBITDA up 3.8% yoy
  - FCF up 11.3% yoy
- Net debt/Adj. EBITDA at 2.3x
- ROCE at 5.8%
- Dividend proposal of €0.65 per share

2017 INNOVATIONS: FOCUS ON CUSTOMER EXPERIENCE

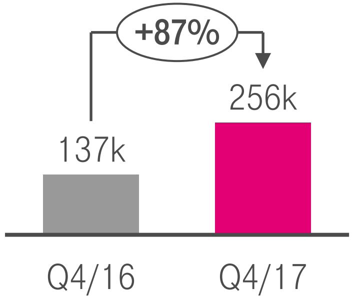
Hybrid Access[1]

subs



Smart Home[2]

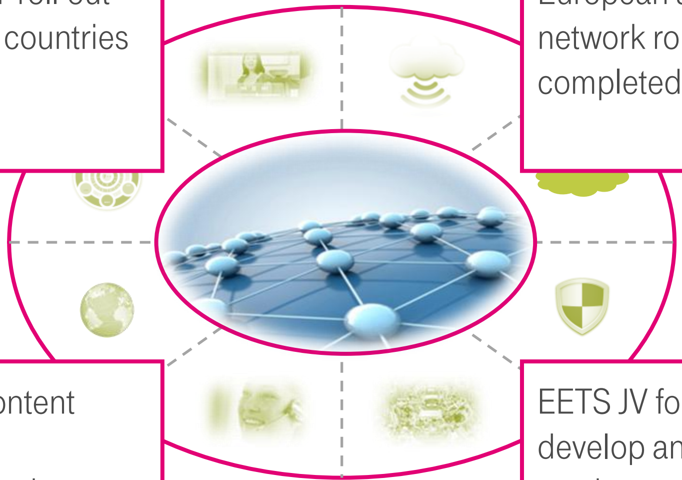
subs



Innovation/Network

Narrowband IoT roll-out started in eight countries

European aviation network roll-out completed

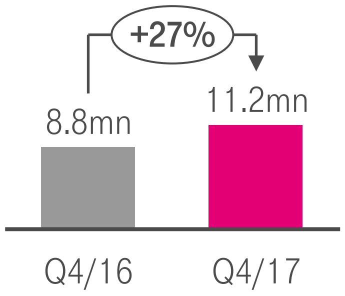


Attractive TV content integrated:
Sport, Netflix, Series

EETS JV founded to develop and deliver toll services across Europe

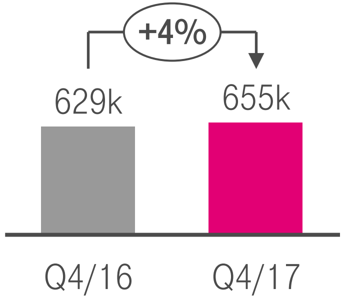
Digital Service App

visits



IT-Support[3]

subs

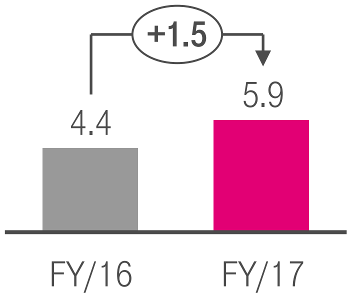


1) +5€ per customer/month 2) +10€ per customer/month 3) +8€ per customer/month

2017 CUSTOMERS: STRONG DEMAND DRIVES MOMENTUM

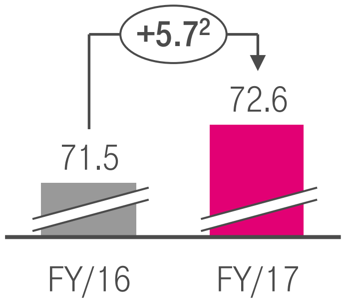
MagentaEINS (Germany + EU)[1]

mn



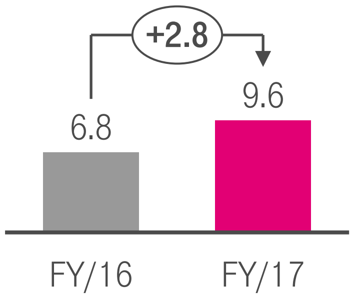
US Mobile

mn



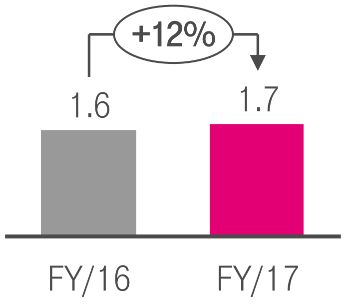
Fiber in Germany

mn



Cloud revenues

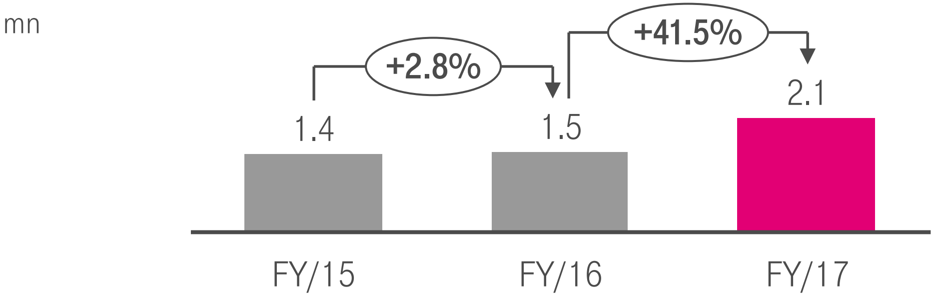
€ bn



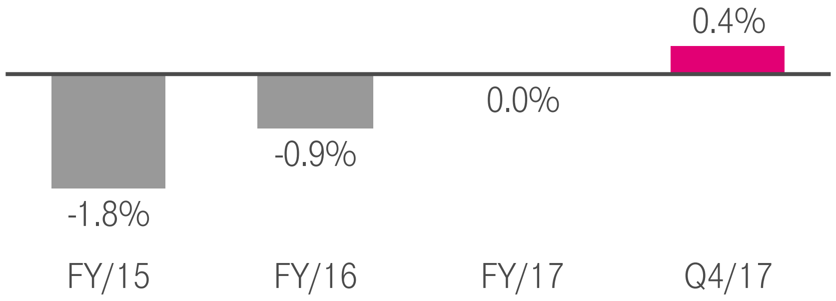
1) FMC RGUs may also appear under other brand name outside of Germany 2) Adj. for 4,528k wholesale customers no longer reported since Q2/17

2017 ACHIEVEMENTS: ACCELERATED GROWTH IN GER + EU[1]

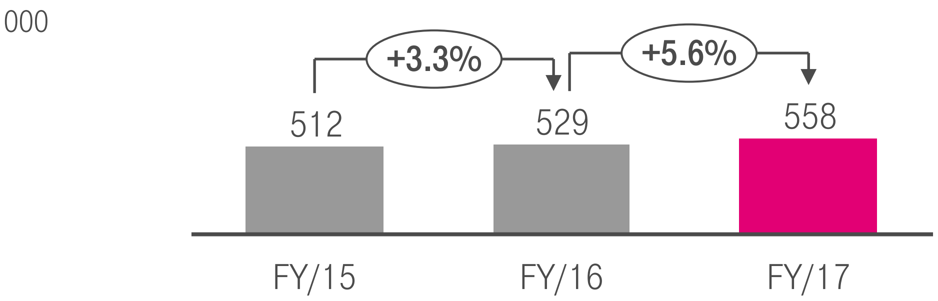
Net adds mobile contract (GER + EU[1])



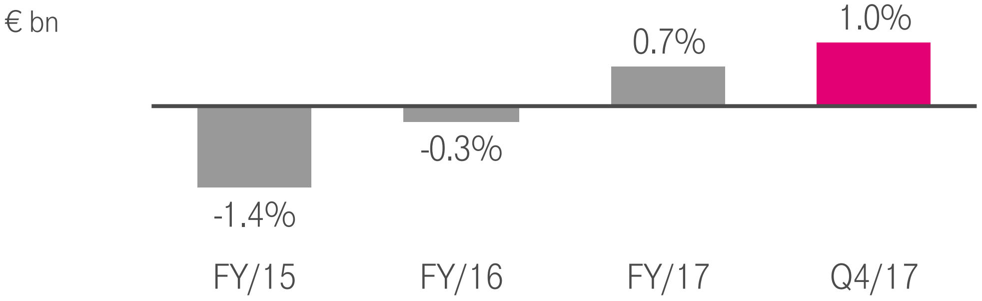
Service revenue trend yoy (GER + EU[1])



Net adds broadband (GER + EU[1])



Organic service revenue trend yoy (GER + EU[1])[2]



1) incl. NL 2) adjusted for regulation and currency effects

FY 2017 HIGHLIGHTS: CAPITAL ALLOCATION DECISIONS

Stronger assets

- Austria: acquisition of UPC Austria
- TM-NL: Take-over of Tele2 Netherlands
- Poland: Fiber wholesale agreement with Orange Polska[1]
- TM US: acquisition of Layer3 TV

Pension funding / BT

- BT stake to be transferred into DT pension fund
- Voluntary annual pension funding of c250m € discontinued

Shareholder returns DT

- Dividend increased in line with FCF to € 0.65/share[2]
- Dividend in kind to be discontinued

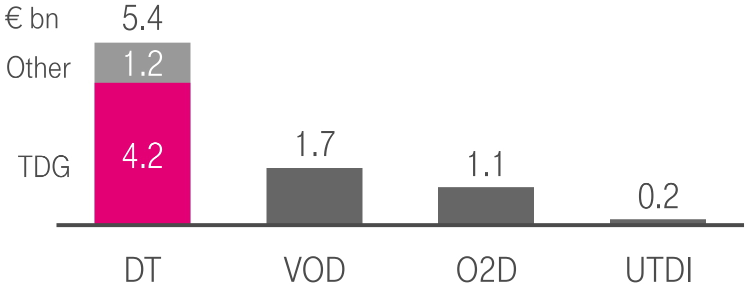
Shareholder returns DT subsidiaries

- TMUS: buyback of $1.5 billion + direct share purchases
- OTE to distribute excess free cash flow

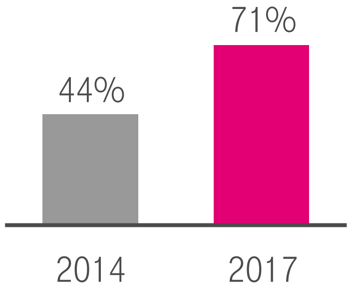
1) Statement of intent 2) subject to necessary resolutions

GERMAN INFRASTRUCTURE: ACHIEVEMENTS

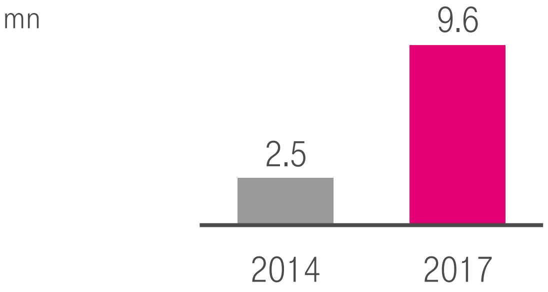
2017 German Capex[1]



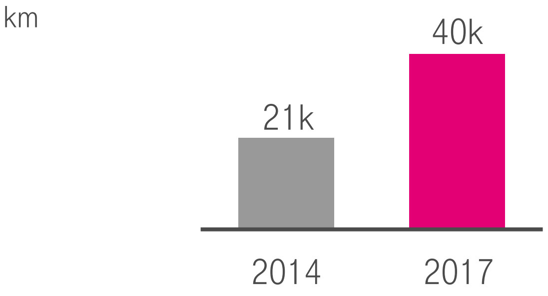
Fiber coverage



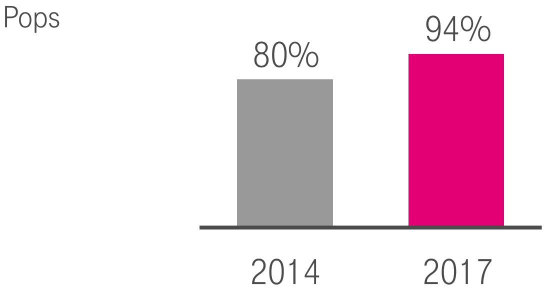
Fiber customers



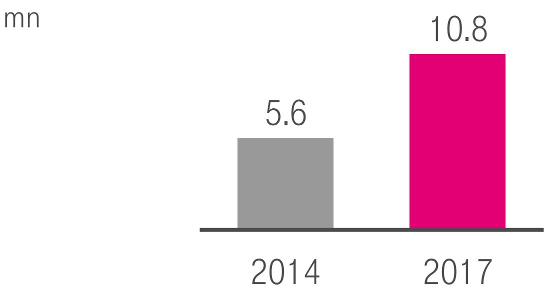
Fiber build



LTE Coverage



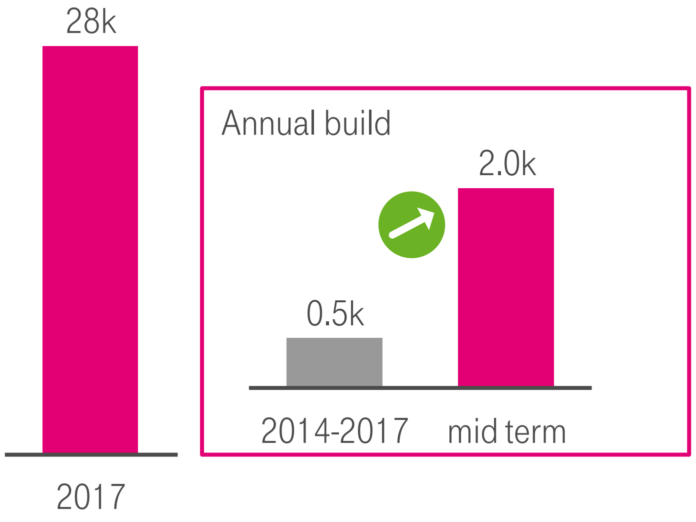
LTE Customers



1) Peers according to external reporting; VOD FY 2016/17; O2D and UI: FY 2016.

GERMAN INFRASTRUCTURE PRIORITIES: MOBILE

Accelerated tower build



- Coverage of “white spots”
- Improving customer experience
- DFMG capex to grow c0.1bn € in 2018

2018/19 milestones

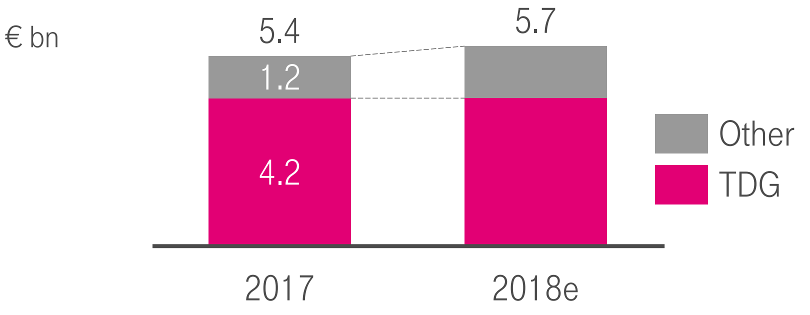
- Increase LTE pop coverage to 98% (2019)
- 3mn POPs in “white spots” to get LTE access by year end 2019
- Coverage of all German motorways and high speed (ICE) rail tracks in 2018/19

GERMAN INFRASTRUCTURE PRIORITIES: FIXED

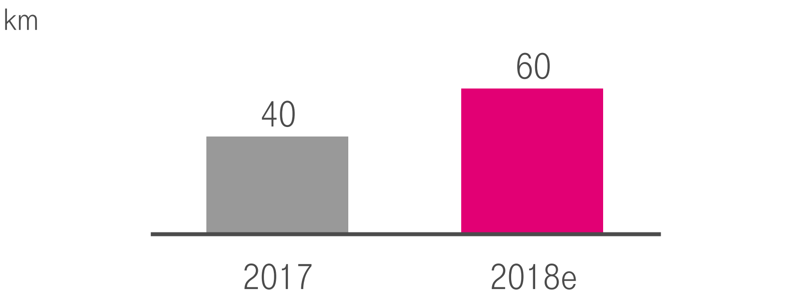
	B2C	B2B
2017	▪ 71% fiber coverage	▪ **c75% of businesses with up to 50Mbp/s available**
2018	▪ **80% fiber coverage** ▪ **15m homes with up to 250 Mbp/s by end 2018**	▪ Accelerated build out of business districts with direct fiber ▪ FTTC coverage and speed increases
Mid term	▪ Ongoing high investments towards Gigabit targets ▪ Further details to be provided with CMD in May	▪ **DT to connect 80% of businesses in business districts with fiber by early 2020ies**

GERMAN INFRASTRUCTURE: CONTINUED HIGH INVESTMENTS

2017 German Capex[1]



Fiber deployed by TDG



Outlook mid term

- High investments to stay in place
- Assuming fair and reliable regulatory framework
- TDG stable at high levels
  - Completion of promised vectoring roll-out in 2019
  - Investment framework to be redeployed towards Gigabit targets
  - Technology mix to include FTTH/B and FWA/Hybrid to maximize time-to-market and efficiency
- DFMG spending to remain elevated

1) Excl. spectrum

2017 FINANCIALS: GUIDANCE ACHIEVED

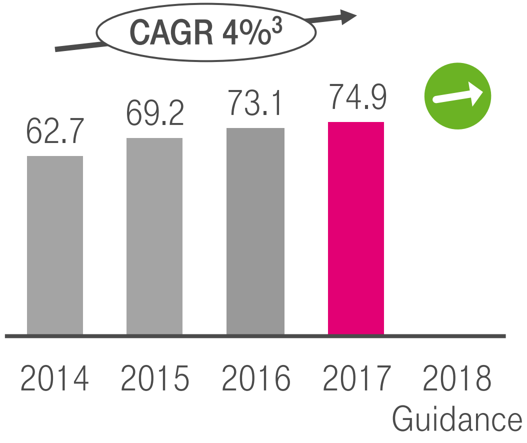
€ bn	Revenue	Adj. EBITDA	FCF
2014 – 2018 CAGR[1]	+1 – 2%	+2 – 4%	≈+10%
Initial 2017 Guidance ($/€: 1.11)	Increase	Around 22.2 bn[2]	Around 5.5 bn
Final 2017 Guidance ($/€: 1.11)	Increase	Around 22.4 – 22.5 bn[2]	Around 5.5 bn
Results 2017 at guidance f/x ($/€: 1.11)	**75.7 (+3.6%)** ✓	**22.45 (+4.9%)** ✓	**5.5 (+12%)** ✓
Results 2017 actual ($/€: 1.13)	74.9 (+2.5%)	22.2 (+3.8%)	5.5 (+11.3%)

1) 14-18 CAGRs as per CMD 2015 guidance 2) Handset lease and data stash $0.8 to 0.9 billion as per old guidance. $0.85 – 0.95 billion as per new guidance

2017 FINANCIALS: DELIVERING GROWTH

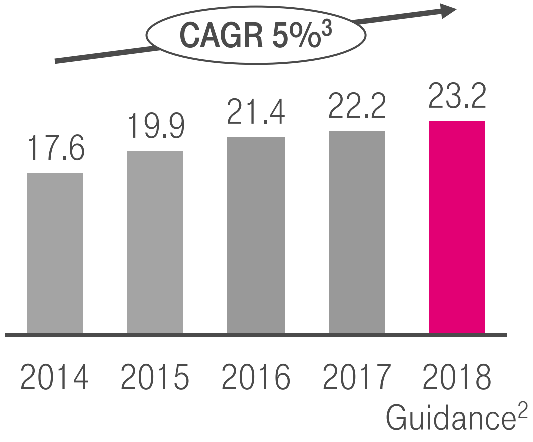
Revenue

€ bn



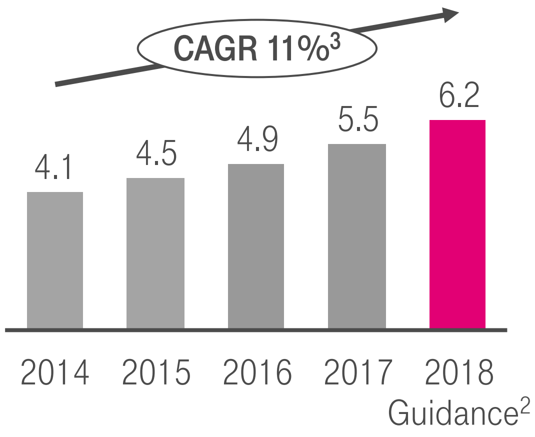
Adj. EBITDA

€ bn



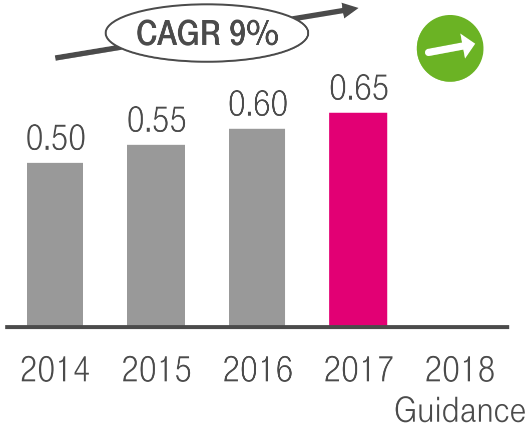
FCF

€ bn



Dividend[1]

€ per share



Medium term guidance (2014 – 2018 CAGR): Re-iterated

+1 – 2% | **+2 – 4%** | **+~10%** | **FOLLOWS FCF GROWTH**

1) 2017 and 2018 subject to necessary resolutions 2) Guidance based on 1.13 US$ = 1€ exchange rate 3) CAGRs are currency and handset lease effect adjusted

GUIDANCE 2018: WE WILL GROW ON BOTH SIDES OF THE ATLANTIC

€ bn	Revenue	Adj. EBITDA	FCF
2014 – 2018 CAGR[1]	+1 – 2%	+2 – 4%	≈+10%
2018 Guidance ($/€: 1.13)	Slight increase	Around 23.2	Around 6.2
thereof group excl. US		Around 13.2	
thereof TM US (US$ bn)		Around 11.3[1]	
impact of new revenue standard (US$ bn)		Around 0.35	
handset lease and data stash (US$ bn)		0.6 - 0.7	

1) equals mid-Point TMUS guidance ($11.5bn US GAAP) + mid-point revenue recognition guidance (+$0.35bn) and -$0.5bn IFRS bridge

REVIEW Q4/17

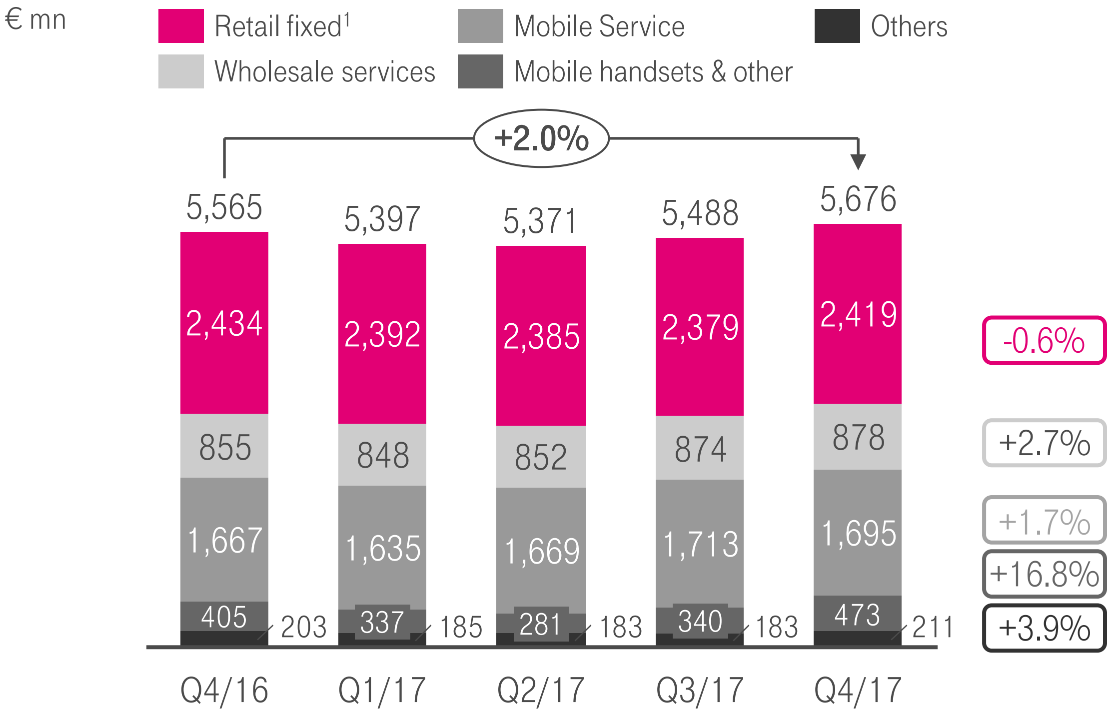
FY AND Q4 2017: FINANCIAL HIGHLIGHTS

€ mn	Q4			FY		
	2016	2017	Change	2016	2017	Change
Revenue	19,543	19,160	-2.0%	73,095	74,947	+2.5%
Adj. EBITDA	5,265	5,015	-4.7%	21,420	22,230	+3,8%
Adj. Net profit	973	2,657	+173.1%	4,114	6,039	+46.8%
Net profit	-2,124	1,332	n.m.	2,675	3,461	+29.4%
Adj. EPS (in €)	0.21	0.56	+166.6%	0.89	1.28	+43.8%
Free cash flow[1]	893	1,094	+22.5%	4,939	5,497	+11.3%
Cash capex[2]	2,724	2,860	+5.0%	10,958	12,099	+10.4%
Net debt	49,959	50,791	+1.7%	49,959	50,791	+1.7%

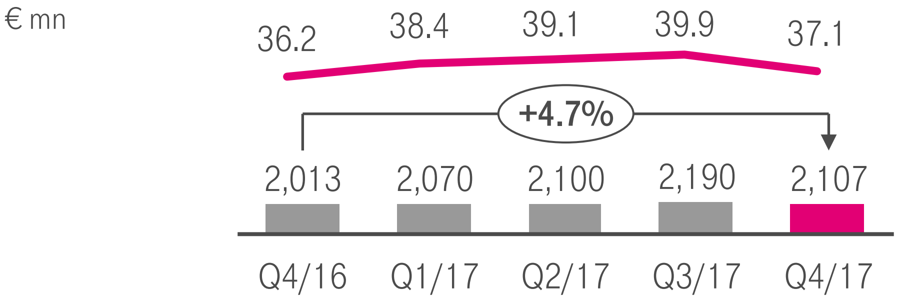
1) Free cash flow before dividend payments and spectrum investment 2) Excl. Spectrum: Q4/16: € 432 million; Q4/17: € 94 million; FY/16: € 2,682 million; FY/17: € 7,395 million

GERMANY: GROWING REVENUE AND ADJ. EBITDA

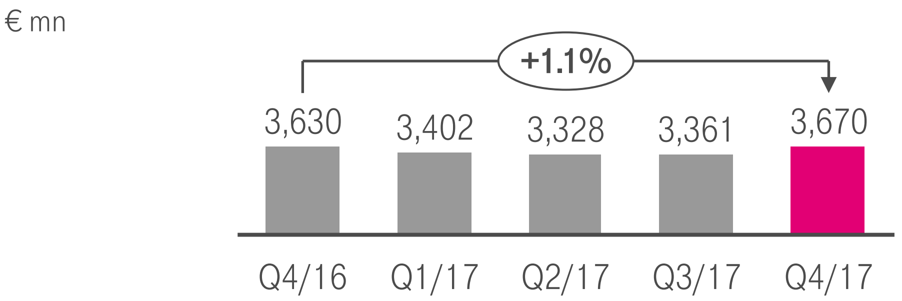
Revenue reported



Adj. EBITDA and margin (in %)



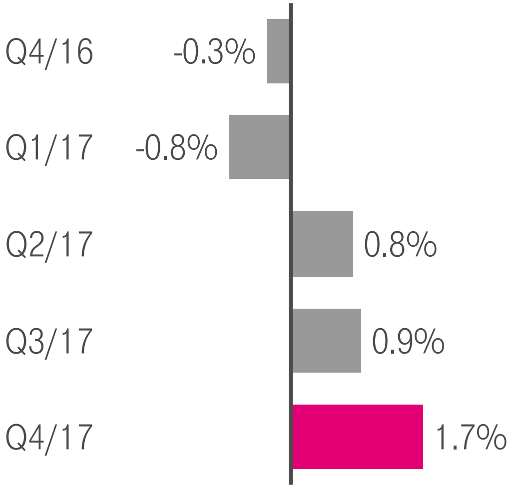
Adj. OPEX



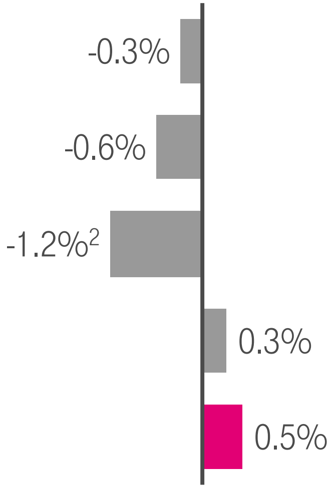
1) Fixed network core business

GERMANY: SUSTAINED GROWTH IN SERVICE REVENUES

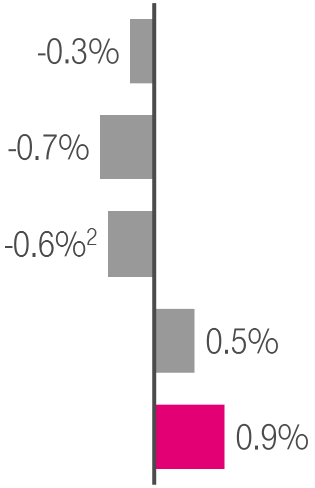
Mobile service revenue



Fixed line service revenue[1]



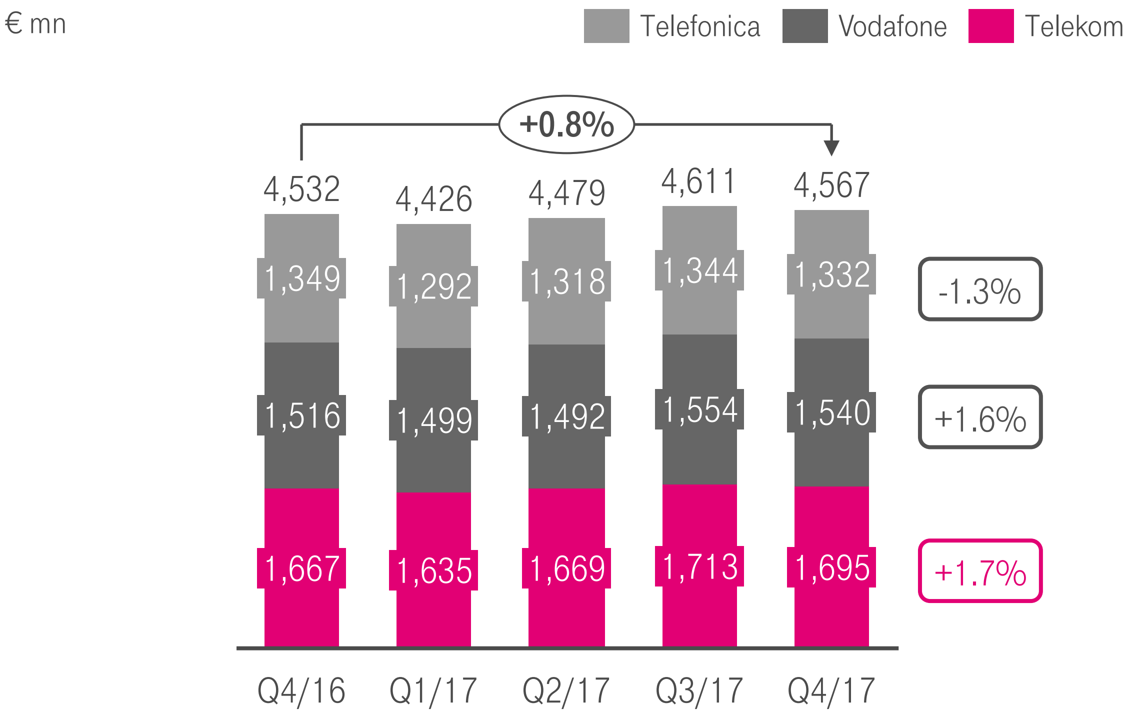
Total service revenue[1]



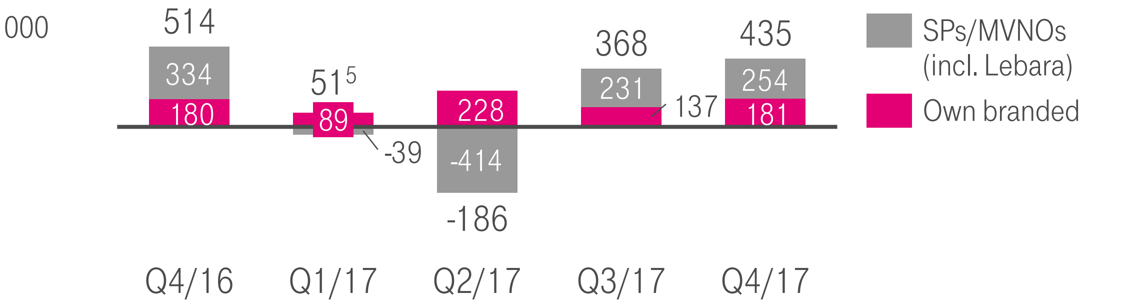
1) Total service revenue is a sum of fixed line and mobile service revenue. We define fixed line service revenue as fixed network core business revenue less fixed hardware revenue plus wholesale services fixed network revenue. From Q2/16 onwards we classify CPEs recurring rent revenue as fixed service revenue, and thus also part of total service revenue. Without this reclassification fixed line service revenue growth rate would be +0.1% in Q4/17, whereas TSR growth rate would be +0.6% in Q4/17.
Old growth rates have not been restated 2) Revenue in Q2/16 impacted by a negative special factor related to a settlement agreement. Adjusted growth rate at -1.5% for fixed service revenue, resp. -0.8% for total service revenue

GERMANY MOBILE: GOOD COMMERCIAL MOMENTUM

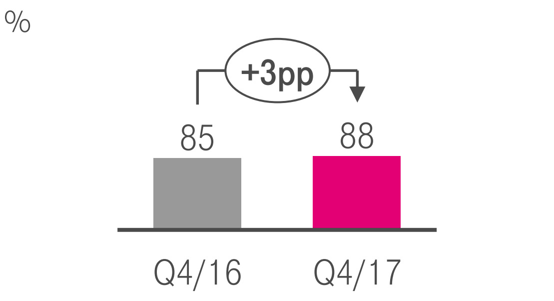
German mobile market service revenue[1]



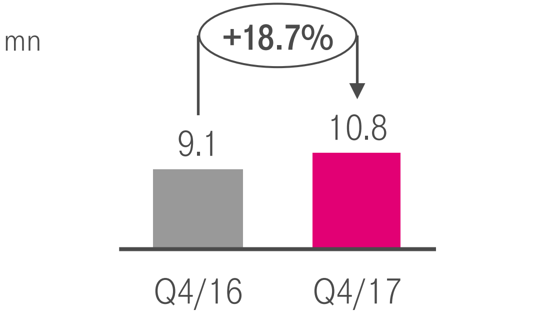
Contract net adds[2]



Smartphone penetration[3]



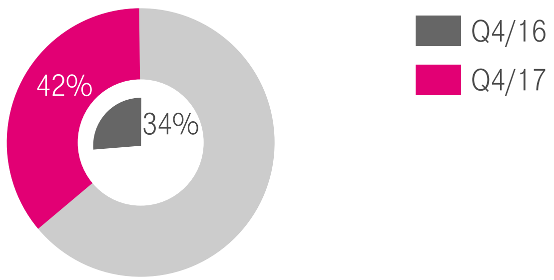
LTE customers[4]



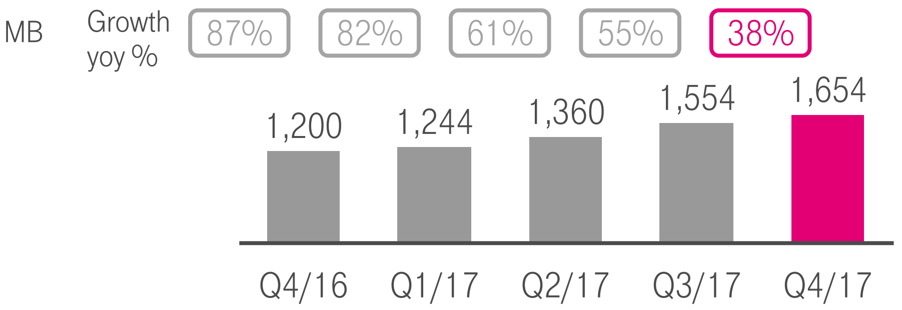
1) Management estimate 2) Figures may not add up due to rounding 3) Of own branded retail customers 4) Own customers using a LTE-device and tariff plan including LTE 5) Contract net adds under own brand impacted by disconnections (minus 41k)

GERMANY: GOOD PROGRESS WITH CONVERGENCE AND DATA

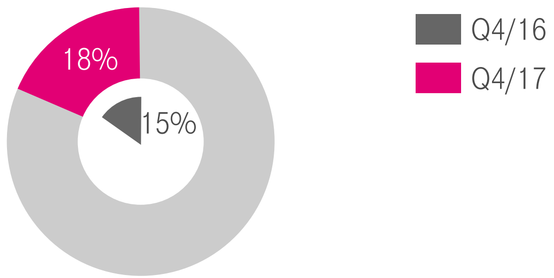
Mobile contract customers in MagentaEINS bundles[1]



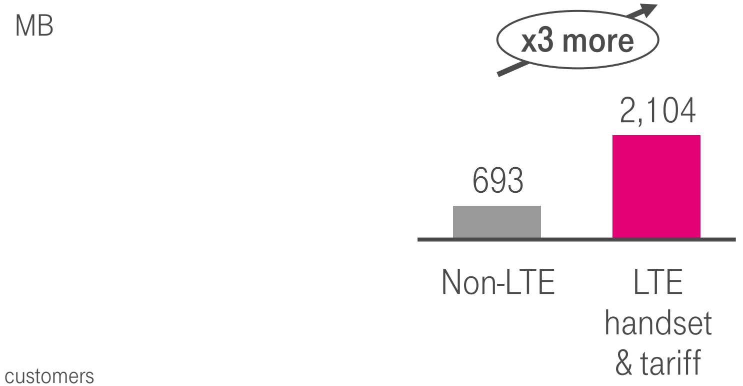
Average Consumer Data Usage[3]



Households in MagentaEINS bundles[2]



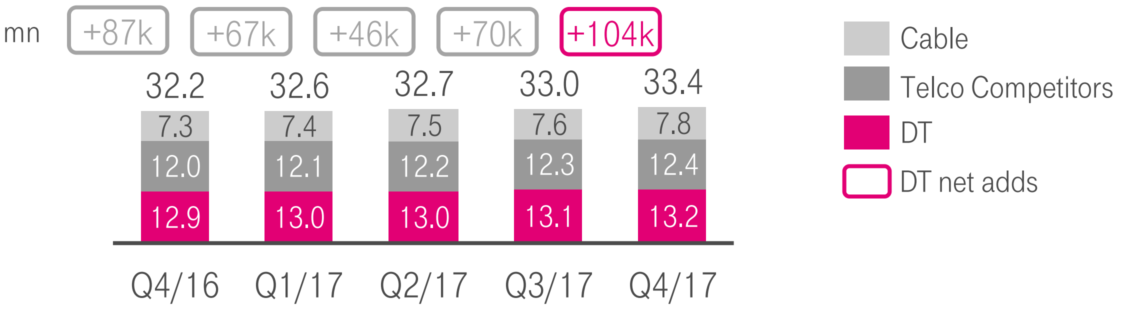
Average LTE usage uplift[3]



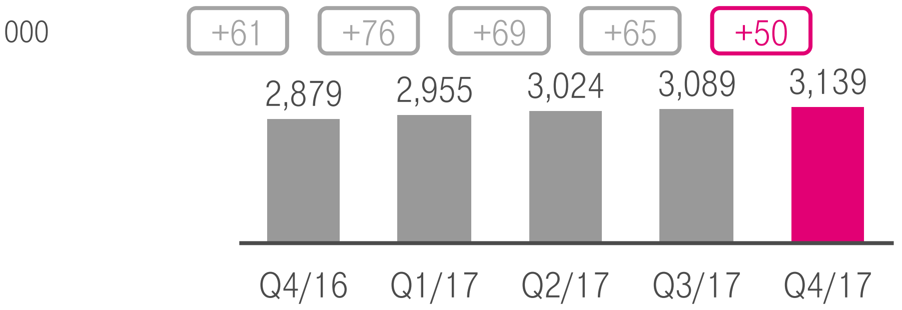
1) as % of B2C T-branded contract customers 2) as % of B2C broadband access lines 3) per month of B2C T-branded contract customers

GERMANY FIXED: STRONG BROADBAND CUSTOMER GROWTH

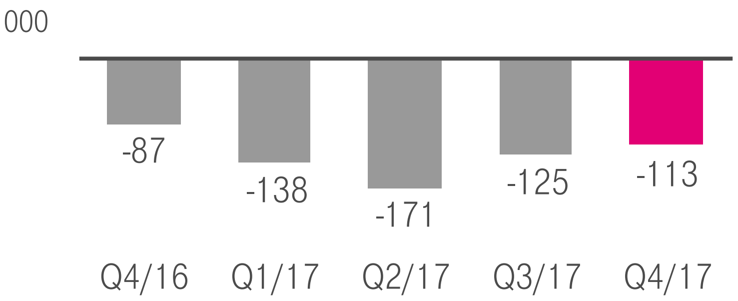
German broadband market[1]



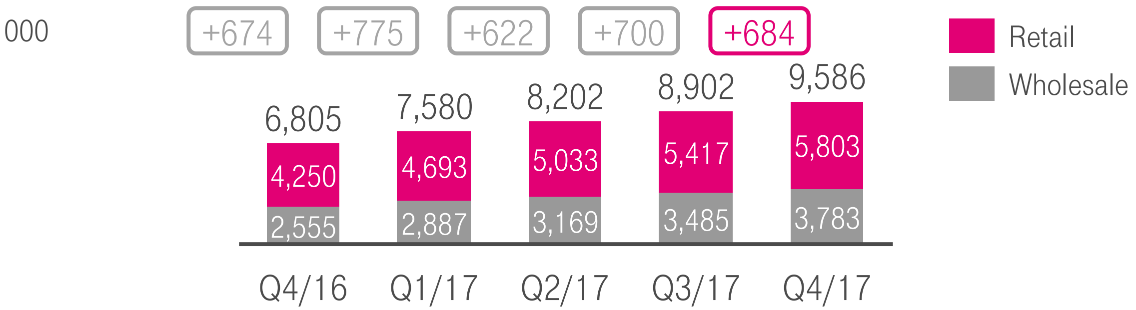
Entertain customers



Line losses



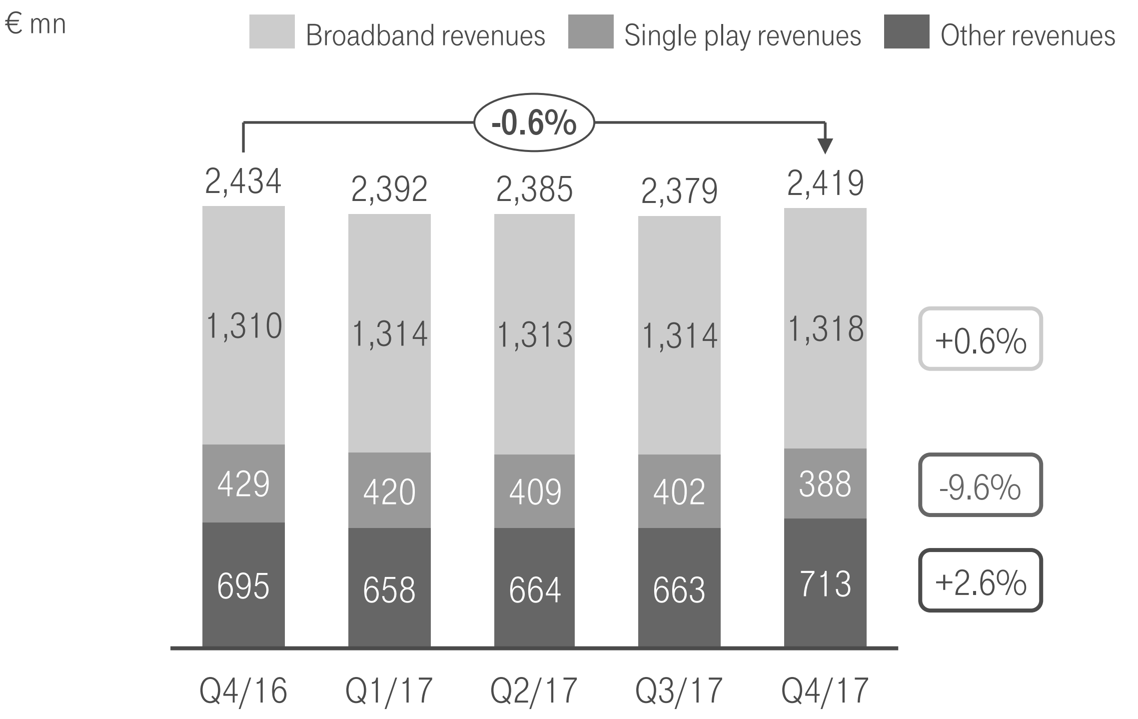
Fiber customers[2]



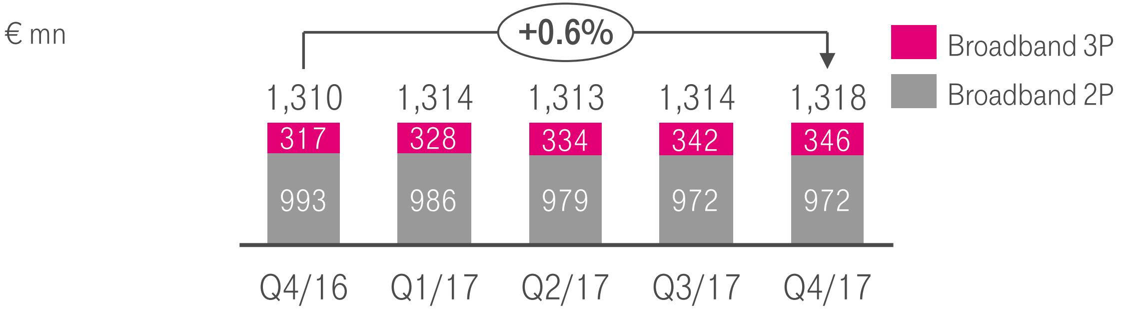
1) Based on management estimates 2) Sum of all FTTx accesses (e.g. FTTC/VDSL, Vectoring and FTTH)

GERMANY FIXED: FIXED RETAIL CLOSE TO STABLE

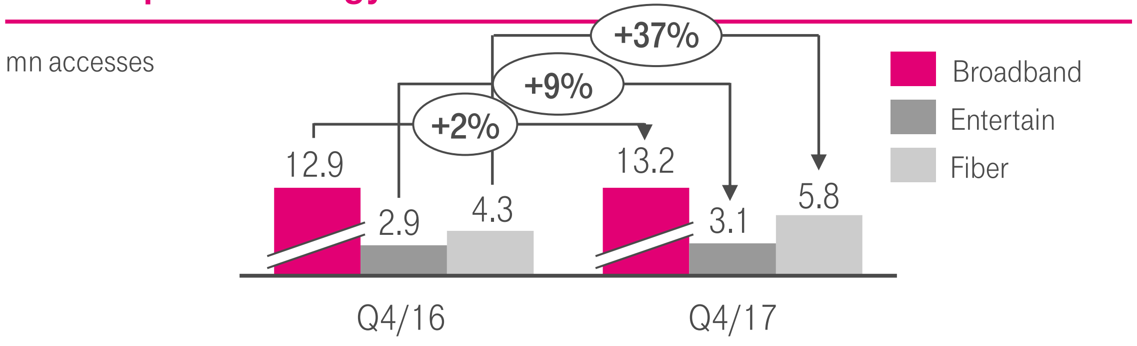
Fixed network revenue retail



Broadband revenue



Retail upsell strategy[1]

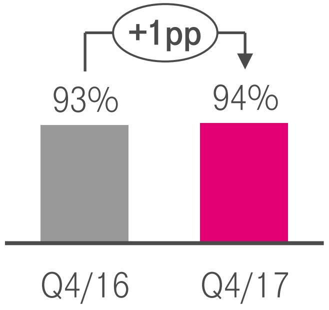


1) Percentages calculated on exact figures

GERMANY: NETWORK TRANSFORMATION ON TRACK

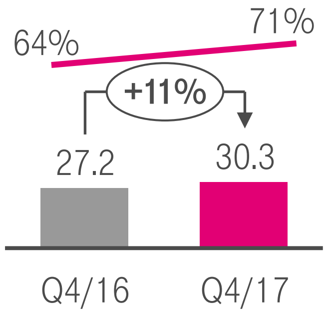
INS – Status LTE rollout

POP
Coverage in %[1]



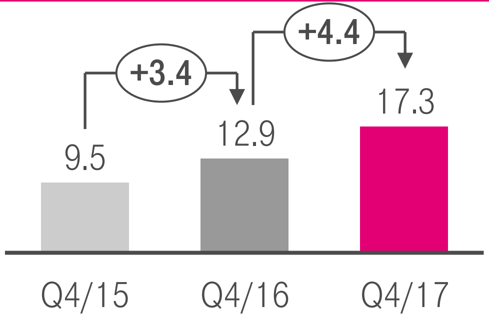
INS – Status fiber rollout[2]

Coverage in % and
millions of households



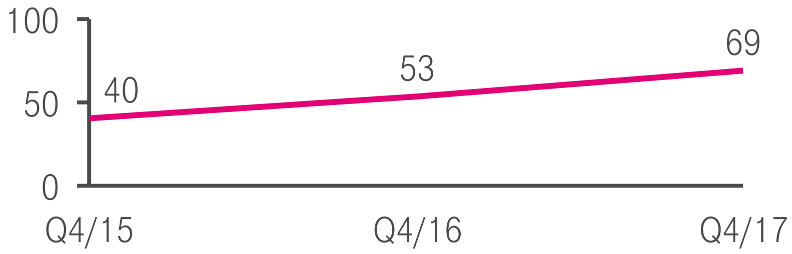
Status IP accesses (retail & wholesale)

mn



Status IP accesses (retail & wholesale)

% of lines

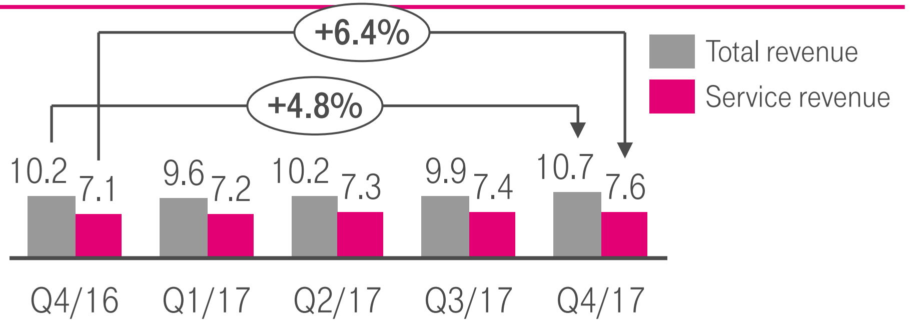


1) Outdoor coverage 2) In % of households within fixed network coverage in Germany

TMUS: CONTINUED INDUSTRY LEADING GROWTH

Revenue and service revenue

US-$ bn



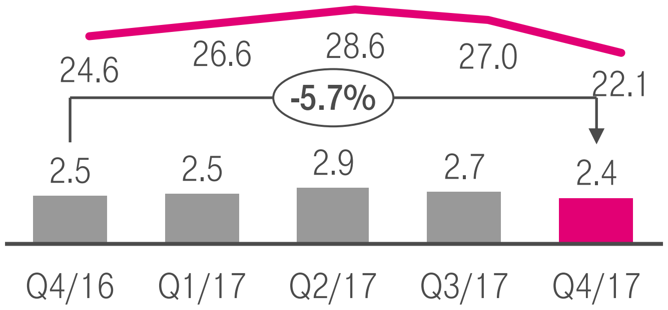
Net adds

000
Total net adds

Branded:	Q4/16	Q1/17	Q2/17	Q3/17	Q4/17
▪ Postpaid	1,197	914	817	817	1,072
▪ Prepay	541	386	94	226	149
Wholesale[1]	363	-158	422	286	633

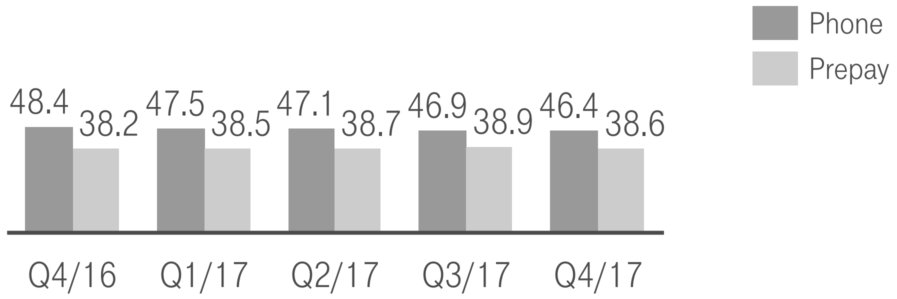
Adj. EBITDA and margin (in %)

US-$ bn



Branded customers: Postpaid phone and prepay ARPU

US-$ (US GAAP)

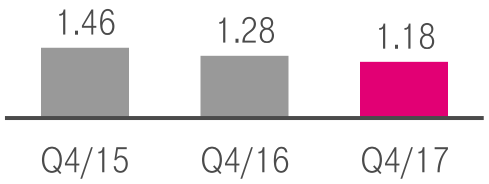


1) Wholesale includes MVNO and machine-to-machine (M2M). Amounts may not add up due to rounding

TMUS: EXECUTING ON KEY DRIVERS

Branded postpaid phone churn

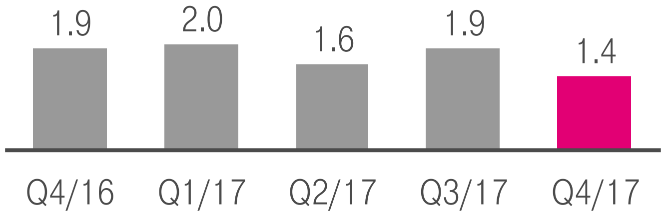
%



- Branded postpaid phone churn further decreased

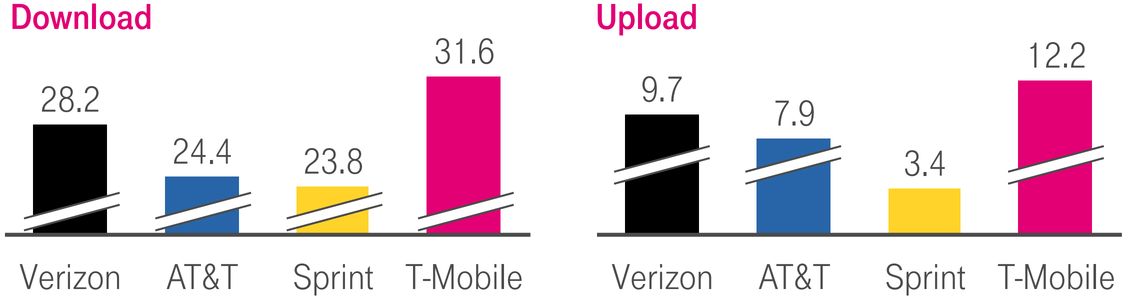
Bad debt expenses & losses from sale of receivables

% of total revenue



- Decrease reflects ongoing focus on managing customer quality

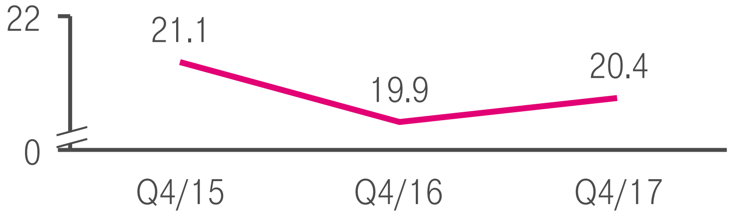
Average 4G LTE speeds (in Mbps) Q4/17



- Based on T-Mobile's analysis of national LTE results from Ookla® Speed test data

Cost of service

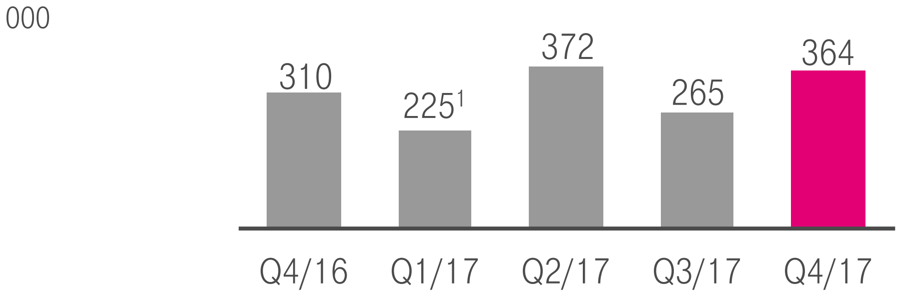
% of service revenue



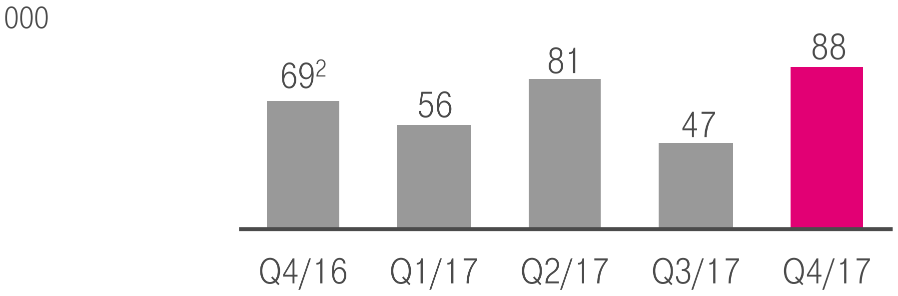
- Excl. hurricanes impact cost of service stable yoy

EUROPE: STRONG COMMERCIAL MOMENTUM

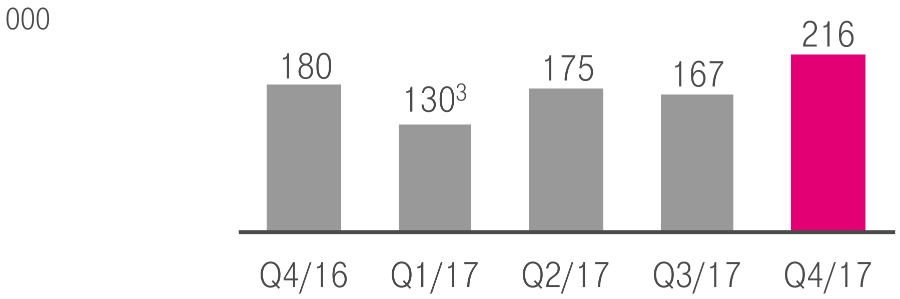
Contract Net Adds



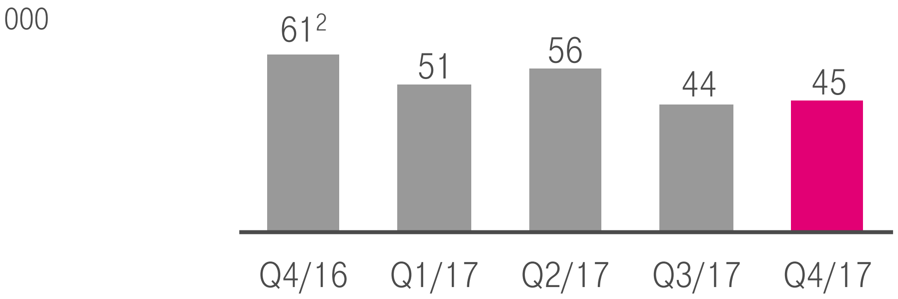
BB Net Adds



FMC Net Adds



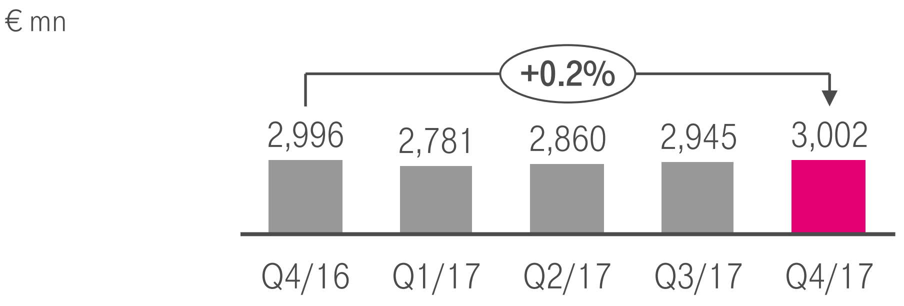
TV Net Adds



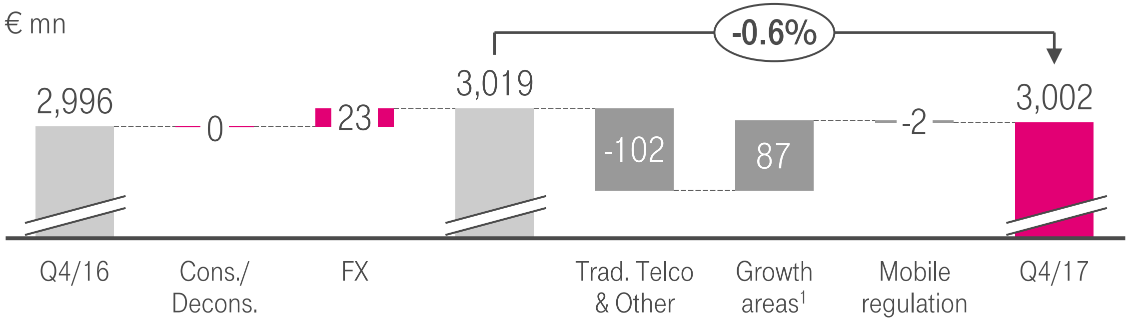
1) Organic view adjusted for re-classifications in Austria and Slovakia. Change in customer base is 167k 2) Organic view: adjusted for 19k re-classifications in Hungary. Change in base is 50k. Q4 TV net adds adjusted for 22k re-classifications in Hungary. Change in base is 39k 3) organic view: adjusted for 137k re-classifications in Greece. Change in base is 267k

EUROPE: FINANCIALS ON PATH TO TURNAROUND

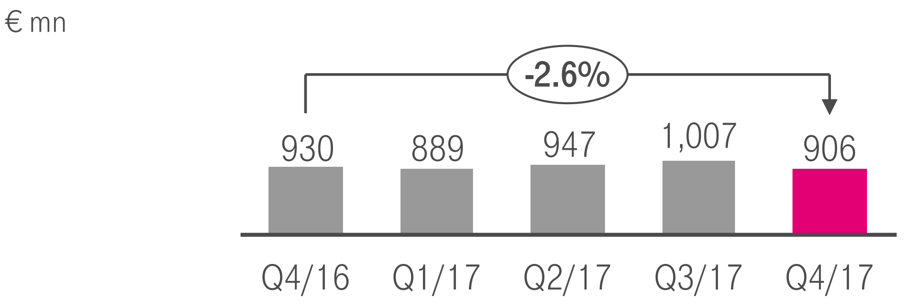
Revenue



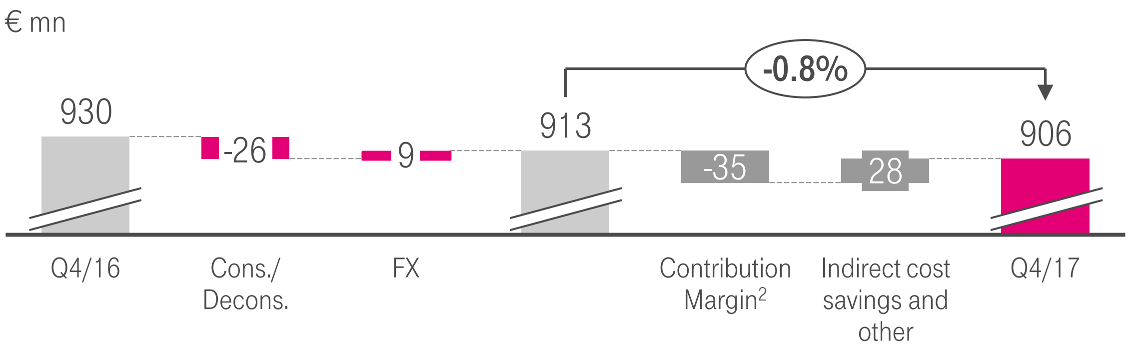
Organic revenue development



Adj. EBITDA



Organic adj. EBITDA development



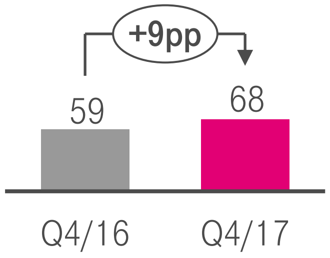
1) Mobile Data, Pay TV & fixed broadband, B2B/ICT, adjacent industries (online consumer services, energy and other) 2) Total Revenue – Direct Cost

EUROPE: ONGOING INVESTMENTS IN NETWORK LEADERSHIP

IP migration

IP share of fixed network access lines

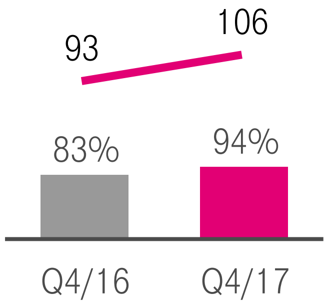
%



LTE rollout

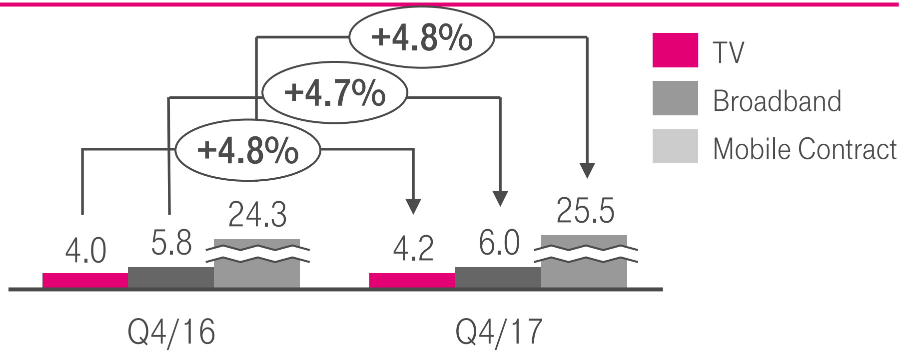
LTE outdoor pop coverage

mn and %



Customer base[1]

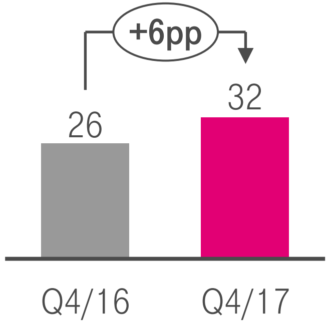
mn



Fiber rollout[1]

Fiber household coverage

%



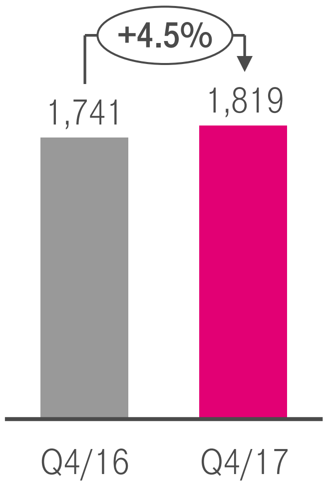
1) ≥ 100Mbit/s coverage: FTTH, FTTB, FTTC (with Vectoring), cable/ED3. Broadband also incl. wholesale customers

SYSTEMS SOLUTIONS: STRONG Q4 BUT LEGACY CHALLENGES REMAIN

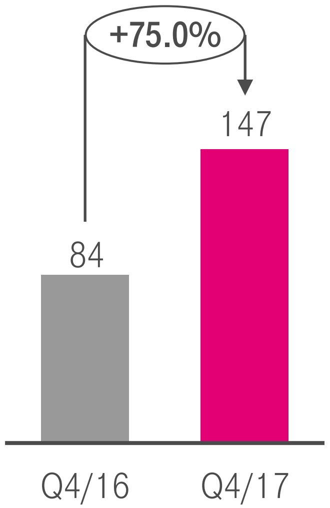
T-Systems financials

€ mn

Total revenue

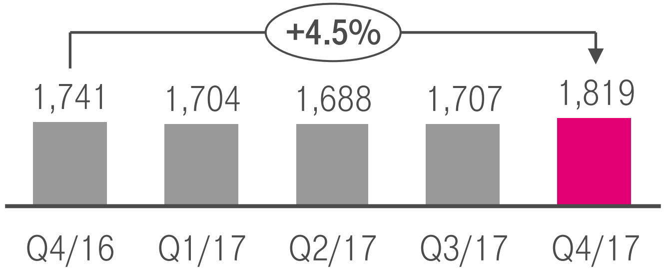


Adj. EBITDA



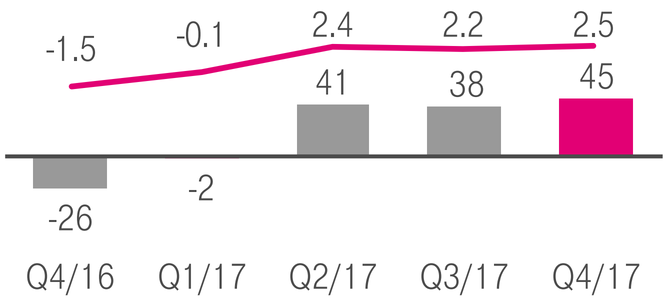
Revenue

€ mn



Adj. EBIT and margin in %

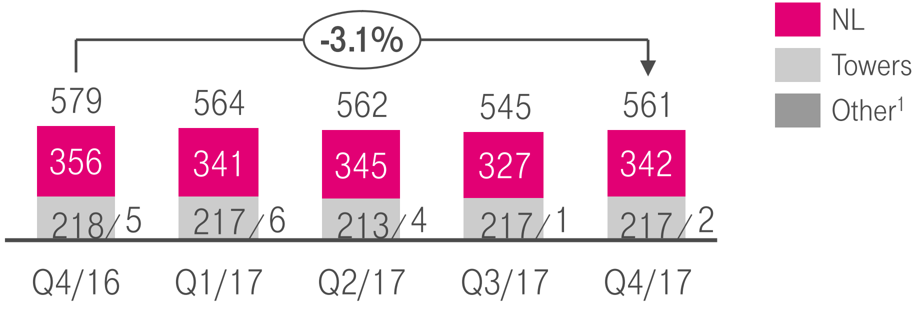
€ mn



GROUP DEVELOPMENT: STEADY DELIVERY

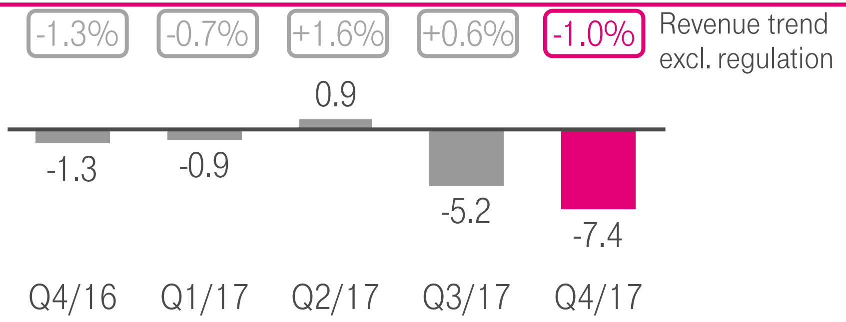
Revenue

€ mn



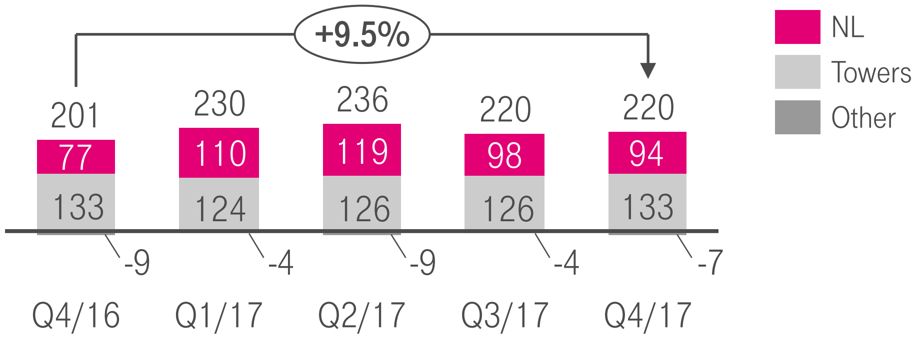
Mobile service revenue trend yoy (NL)

%



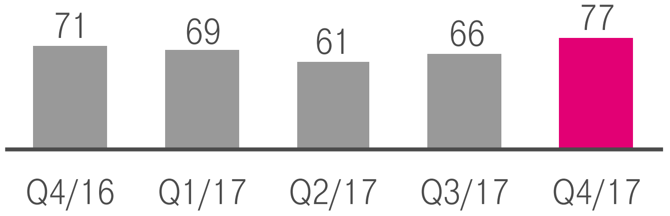
Adj. EBITDA

€ mn



Contract net adds (NL)

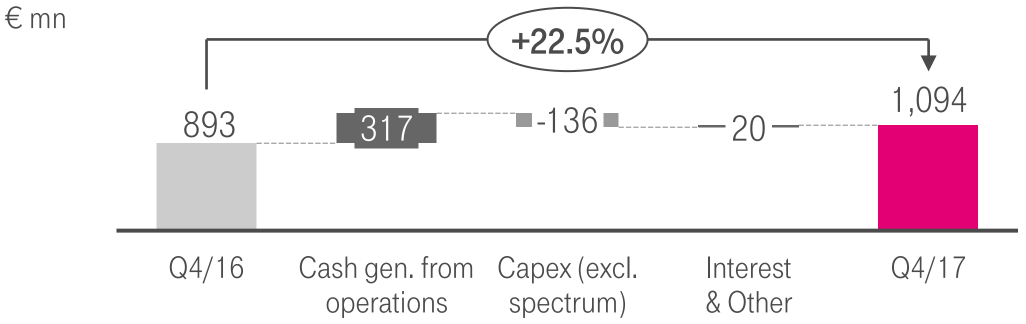
000



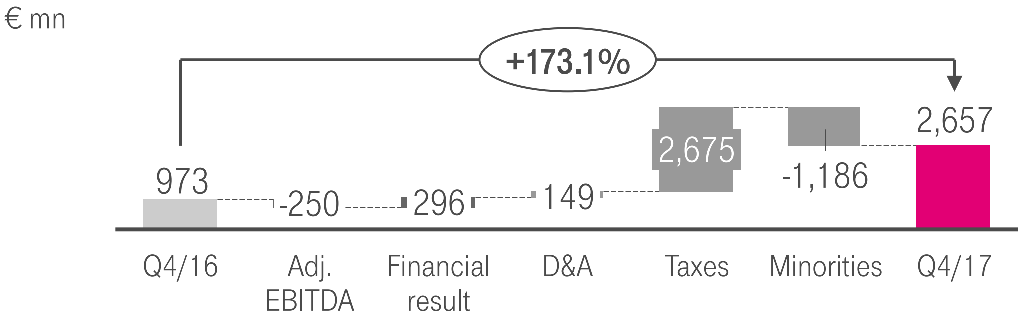
1) Strato was deconsolidated in Q2/17. Historic figures are also adjusted for Strato

FINANCIALS: FCF, NET DEBT, NET INCOME AND ROCE

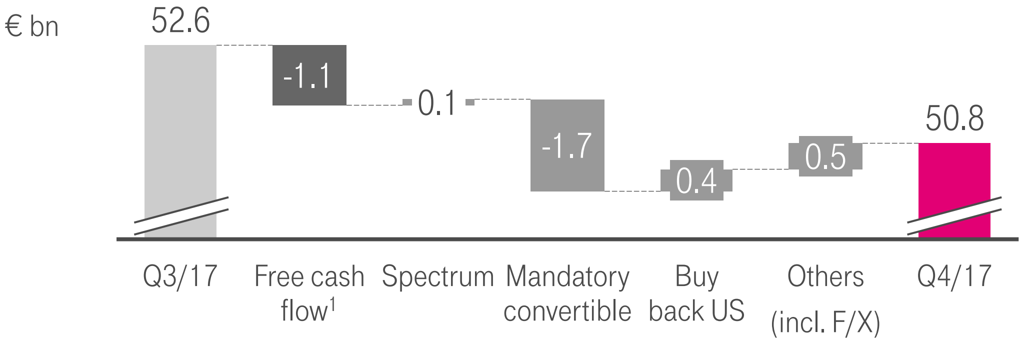
Free cash flow[1]



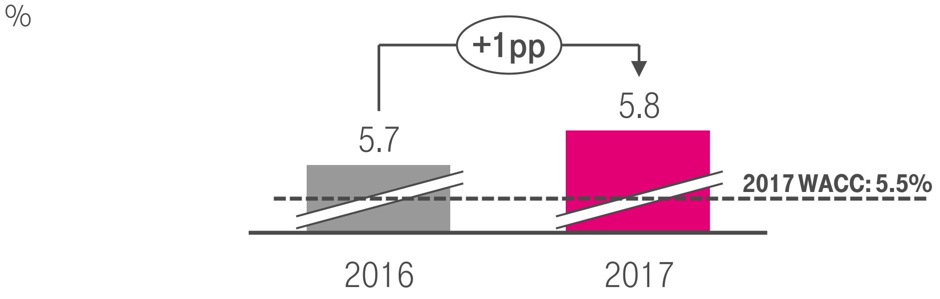
Adj. net income



Net debt development



ROCE



1) Free cash flow before dividend payments and excl. Spectrum Q4/16: € 432 million; Q4/17: € 94 million

FINANCIALS: BALANCE SHEET RATIOS IN TARGET CORRIDOR

€ bn	31/12/2016	31/03/2017	30/06/2017	30/09/2017	31/12/2017
Balance sheet total	148.5	148.6	141.5	139.8	141.3
Shareholders' equity	38.8	39.8	38.6	39.1	42.5
Net debt	50.0	50.0	55.2	52.6	50.8
Net debt/adj. EBITDA[1]	2.3	2.3	2.5	2.3	2.3
Equity ratio	26.2%	26.8%	27.3%	27.9%	30.0%

Comfort zone ratios

Rating: A-/BBB	●
2 – 2.5x net debt/Adj. EBITDA	●
25 – 35% equity ratio	●
Liquidity reserve covers redemption of the next 24 months	●

1) Ratios for the interim quarters calculated on the basis of previous 4 quarters

Current rating

Fitch:	**BBB+**	stable outlook
Moody's:	**Baa1**	stable outlook
S&P:	**BBB+**	stable outlook

EXECUTING OUR STRATEGY

1. Leading European Telco:
   Integrated market leader with superior margins and returns.
2. We strengthen our differentiation by best customer experience and by continuously investing into leading access networks and our transformation programs.
3. We transform towards a lean and highly agile IP production.
4. We are self-funding DT's transformation by disciplined cost management.
5. We will grow in all relevant financial KPI's (ROCE, Revenue, EBITDA, FCF).
6. Our shareholders will participate with growth of dividends following FCF growth and our prudent debt policy remains unchanged.

CONFERENCE CALL WITH Q&A SESSION

The conference call will be held on **February 22 at 2:00 PM CET, 1:00 PM GMT, 8 AM ET.**

DT Participants: **Tim Hoettges** (CEO), **Thomas Dannenfeldt** (CFO), **Hannes Wittig** (Head of IR)

Webcast

- The **link to the webcast** will be provided here 20 minutes before the call starts: www.telekom.com/17Q4
- To ask a question, **just type your question into the box below the stream**.
- We webcast in **HD Voice Quality**
- The **recording will be uploaded to YouTube** after the call.

Dial-in

DE	0800 9656288 +	code 69447490#
UK	0800 0515931 +	code 69447490#
US	+1 866 7192729 +	code 69447490#
Other	+49 69 271340801 +	code 69447490#

To **ask a questions**, please press "**star one**" on your touchtone telephone. Your name will be announced when it's your turn to ask a question. Should you require to **cancel your question**, please press "**star two**".

FURTHER QUESTIONS
PLEASE CONTACT THE IR DEPARTMENT

Investor Relations Contact details

Phone +49 228 181 – 8 88 80

E-Mail investor.relations@telekom.de

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IR Webpage

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IR YouTube Channel

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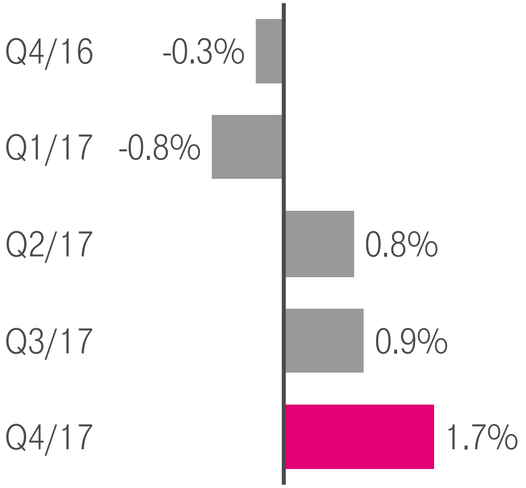
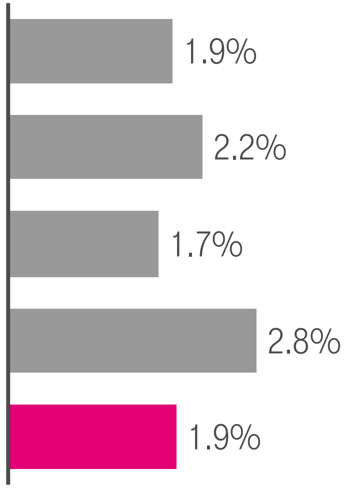
APPENDIX

GERMANY MOBILE: SERVICE REVENUE

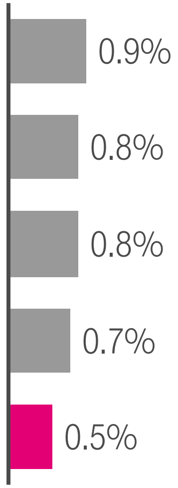
Reported mobile service revenue



Impact of mobile regulation[1]



Impact of convergent offers[2]



Medium term guidance (2014 – 2018 CAGR): Re-iterated

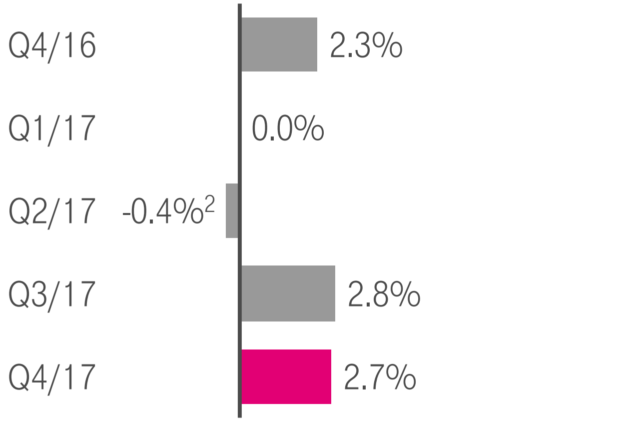
≈ +1% (without EU roaming impact)

1) Impact of MTR and EU Roaming regulation 2) Impact of MagentaEINS and Telekom LTE broadband

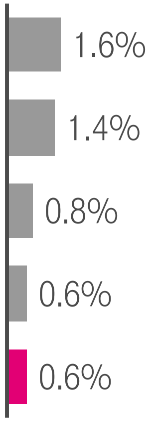
GERMAN FIXED: SERVICE REVENUE

Growth rates YOY

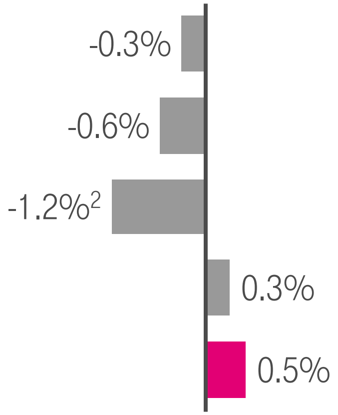
Wholesale revenue



Broadband revenue



Fixed line service revenue[1]



Medium term guidance (2014 – 2018 CAGR): Re-iterated

+0.0%

+2.0%

1) Fixed network core business revenue less fixed hardware revenue plus wholesale services fixed network revenue. From Q2/16 onwards we classify CPEs recurring rent revenue as fixed service revenue. Without this reclassification fixed line service revenue growth rate would be +0.1% in Q3/17. Prior quarters growth rates have not been restated 2) Revenue in Q2/17 impacted by a negative special factor related to a settlement agreement. Adjusted growth rate at -1.5% for wholesale revenue, resp. -1.5% for fixed line service revenue.

THANK YOU!

BACKUP Q4 2017
DEUTSCHE TELEKOM

Q4 2017

Check out our IR website www.telekom.com/investor-relations for:

- This backup in .pdf and excel-format
- The IR calender
- Detailed information for debt investors
- Shareholder structure
- Corporate governance

For further information on the business units please refer to:

www.telekom.com
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We have created the new Board of Management department Technology and Innovation, in which we have pooled our Group's overarching network, innovation, and IT tasks. This resulted in the following organizational changes: The Innovations, Telekom IT, and Technology units of our Germany, Europe, and Systems Solutions operating segments have been transferred into a separate Board department within Group Headquarters & Group Services. Comparative figures have been adjusted retrospectively.

Since January 1, 2017, we have reported on the new Group Development operating segment. Group Development actively manages and increases the value of selected subsidiaries and equity investments of the Group. The following units and subsidiaries have been included: T-Mobile Netherlands (previously in the Europe operating segment), Deutsche Funkturm (DFMG, previously in the Germany operating segment), as well as Deutsche Telekom Capital Partners (DTCP) and the stakes in BT plc, Ströer SE & Co. KGaA, as well as Strato, which was sold in March 2017, and the stake in Scout24 AG, which was sold in June 2017 (previously in the Group Headquarters & Group Services segment). The Group functions of Mergers & Acquisitions and Strategic Portfolio Management have also been assigned to Group Development. Comparative figures have been adjusted retrospectively.

The figures shown in this report were rounded in accordance with standard business rounding principles. As a result, the total indicated may not be equal to the precise sum of the individual figures.

LIFE IS FOR SHARING.

CONTENT

GROUP

AT A GLANCE

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
REVENUE										
Germany		5.565	5.397	5.371	5.488	5.676	2,0	21.774	21.931	0,7
United States		9.445	8.982	9.236	8.466	9.052	(4,2)	33.738	35.736	5,9
Europe		2.996	2.781	2.860	2.945	3.002	0,2	11.454	11.589	1,2
Systems Solutions		1.741	1.704	1.688	1.707	1.819	4,5	6.993	6.918	(1,1)
Group Development		610	595	562	545	561	(8,0)	2.347	2.263	(3,6)
Group Headquarters & Group Services		929	737	787	743	675	(27,3)	3.467	2.943	(15,1)
Reconciliation		(1.742)	(1.550)	(1.614)	(1.643)	(1.625)	6,8	(6.678)	(6.433)	3,7
GROUP		**19.543**	**18.646**	**18.890**	**18.251**	**19.160**	**(2,0)**	**73.095**	**74.947**	**2,5**
NET REVENUE										
Germany		5.210	5.069	5.036	5.139	5.308	1,9	20.405	20.552	0,7
United States		9.443	8.982	9.236	8.465	9.052	(4,1)	33.736	35.735	5,9
Europe		2.900	2.695	2.772	2.848	2.903	0,1	11.111	11.218	1,0
Systems Solutions		1.382	1.369	1.349	1.352	1.435	3,8	5.678	5.504	(3,1)
Group Development		458	444	415	394	408	(10,9)	1.744	1.660	(4,8)
Group Headquarters & Group Services		150	88	83	52	55	(63,3)	421	278	(34,0)
GROUP		**19.543**	**18.646**	**18.890**	**18.251**	**19.160**	**(2,0)**	**73.095**	**74.947**	**2,5**
EBITDA (ADJUSTED FOR SPECIAL FACTORS)										
Germany		2.013	2.070	2.100	2.190	2.107	4,7	8.237	8.468	2,8
United States		2.325	2.386	2.640	2.288	2.003	(13,8)	8.561	9.316	8,8
Europe		930	889	947	1.007	906	(2,6)	3.866	3.749	(3,0)
Systems Solutions		84	96	136	131	147	75,0	530	509	(4,0)
Group Development		213	238	236	220	220	3,3	943	915	(3,0)
Group Headquarters & Group Services		(293)	(128)	(90)	(115)	(383)	(30,7)	(670)	(716)	(6,9)
Reconciliation		(7)	(1)	(25)	(1)	15	n.a.	(47)	(11)	(76,6)
GROUP		**5.265**	**5.550**	**5.944**	**5.720**	**5.015**	**(4,7)**	**21.420**	**22.230**	**3,8**
Proportional EBITDA		4.114	4.414	4.690	4.543	3.780	(8,1)	17.096	17.427	1,9

GROUP

AT A GLANCE II

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
EBITDA MARGIN (ADJUSTED FOR SPECIAL FACTORS) (EBITDA / TOTAL REVENUE)										
Germany		36,2	38,4	39,1	39,9	37,1	0,9p	37,8	38,6	0,8p
United States		24,6	26,6	28,6	27,0	22,1	(2,5p)	25,4	26,1	0,7p
Europe		31,0	32,0	33,1	34,2	30,2	(0,8p)	33,8	32,3	(1,5p)
Systems Solutions		4,8	5,6	8,1	7,7	8,1	3,3p	7,6	7,4	(0,2p)
Group Development		34,9	40,0	42,0	40,4	39,2	4,3p	40,2	40,4	0,2p
Group Headquarters & Group Services		(31,5)	(17,4)	(11,4)	(15,5)	(56,7)	(25,2p)	(19,3)	(24,3)	(5,0p)
GROUP		**26,9**	**29,8**	**31,5**	**31,3**	**26,2**	**(0,7p)**	**29,3**	**29,7**	**0,4p**
CASH CAPEX										
Germany		1.228	1.005	1.052	1.052	1.105	(10,0)	4.031	4.214	4,5
United States		1.177	1.442	8.463	1.243	784	(33,4)	5.855	11.932	n.a.
Europe		413	475	403	395	601	45,5	2.600	1.874	(27,9)
Systems Solutions		143	86	91	87	120	(16,1)	402	383	(4,7)
Group Development		69	81	57	76	76	10,1	271	290	7,0
Group Headquarters & Group Services		279	242	239	231	294	5,4	936	1.005	7,4
Reconciliation		(152)	(51)	(65)	(63)	(26)	83,0	(455)	(204)	55,2
GROUP		**3.156**	**3.280**	**10.240**	**3.021**	**2.954**	**(6,4)**	**13.640**	**19.494**	**42,9**
- thereof spectrum investment		432	35	7.246	19	94	(78,2)	2.682	7.395	n.a.
NET PROFIT (LOSS)										
adjusted for special factors		973	939	1.199	1.244	2.657	n.a.	4.114	6.039	46,8
as reported		(2.124)	747	874	507	1.332	n.a.	2.675	3.461	29,4
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)		**893**	**1.228**	**1.302**	**1.873**	**1.094**	**22,5**	**4.939**	**5.497**	**11,3**
Proportional free cash flow		391	1.139	1.080	1.561	579	48,2	3.939	4.359	10,7
NET DEBT		**49.959**	**49.963**	**55.249**	**52.635**	**50.791**	**1,7**	**49.959**	**50.791**	**1,7**

DT GROUP

EXCELLENT MARKET POSITION[1]

	Note	Q4 2016 ('000)	Q1 2017 ('000)	Q2 2017 ('000)	Q3 2017 ('000)	Q4 2017 ('000)	Change compared to prior quarter abs.	Change compared to prior quarter %	Change compared to prior year abs.	Change compared to prior year %
BROADBAND RETAIL LINES (END OF PERIOD)	**2**	**18.479**	**18.609**	**18.728**	**18.851**	**19.047**	**196**	**1,0**	**568**	**3,1**
Germany		12.922	12.989	13.035	13.105	13.209	104	0,8	287	2,2
Europe		5.393	5.444	5.509	5.558	5.647	89	1,6	254	4,7
Greece		1.633	1.653	1.680	1.714	1.757	43	2,5	124	7,6
Romania		1.194	1.186	1.191	1.187	1.182	(5)	(0,4)	(12)	(1,0)
Hungary		1.011	1.026	1.047	1.059	1.071	12	1,1	60	5,9
Poland		10	20	18	17	15	(2)	(11,8)	5	50,0
Czech Republic		132	133	133	133	166	33	24,8	34	25,8
Croatia		649	653	655	654	652	(2)	(0,3)	3	0,5
Slovakia		509	523	532	541	552	11	2,0	43	8,4
other		254	250	253	252	251	(1)	(0,4)	(3)	(1,2)
Group Development		164	176	184	188	191	3	1,6	27	16,5
Netherlands	4	164	176	184	188	191	3	1,6	27	16,5
FIXED NETWORK LINES (END OF PERIOD)	**3**	**28.481**	**28.310**	**28.125**	**27.962**	**27.869**	**95**	**0,3**	**(612)**	**(2,1)**
Germany		19.786	19.648	19.477	19.352	19.239	(113)	(0,6)	(547)	(2,8)
Europe		8.531	8.486	8.464	8.422	8.439	17	0,2	(92)	(1,1)
Greece		2.564	2.547	2.539	2.536	2.547	11	0,4	(17)	(0,7)
Romania		1.969	1.937	1.922	1.894	1.865	(29)	(1,5)	(104)	(5,3)
Hungary		1.629	1.630	1.637	1.634	1.632	(2)	(0,1)	3	0,2
Poland		20	33	31	29	32	3	10,3	12	60,0
Czech Republic		140	143	146	153	197	44	28,8	57	40,7
Croatia		1.001	992	986	974	967	(7)	(0,7)	(34)	(3,4)
Slovakia		850	854	855	855	858	3	0,4	8	0,9
other		358	351	348	345	340	(5)	(1,4)	(18)	(5,0)
Group Development		164	176	184	188	191	3	1,6	27	16,5
Netherlands		164	176	184	188	191	16	1,6	27	16,5
MOBILE SUBSCRIBERS (END OF PERIOD)		**165.003**	**165.848**	**163.091**	**165.346**	**168.402**	**3.056**	**1,8**	**3.399**	**2,1**
Germany		41.849	42.114	42.011	42.534	43.125	591	1,4	1.276	3,0
United States		71.455	72.597	69.562	70.731	72.585	1.854	2,6	1.130	1,6
Europe		47.952	47.348	47.688	48.205	48.842	637	1,3	890	1,9
Greece		7.725	7.733	7.737	7.867	7.981	114	1,4	256	3,3
Romania		5.722	5.428	5.278	5.231	5.258	27	0,5	(464)	(8,1)
Hungary		5.332	5.304	5.390	5.401	5.293	(108)	(2,0)	(39)	(0,7)
Poland		10.634	10.229	10.251	10.297	10.454	157	1,5	(180)	(1,7)
Czech Republic		6.049	6.097	6.155	6.176	6.176	0	0,0	127	2,1
Croatia		2.234	2.210	2.237	2.297	2.244	(53)	(2,3)	10	0,4
Slovakia		2.225	2.230	2.235	2.245	2.243	(2)	(0,1)	18	0,8
Austria		4.594	4.713	4.984	5.201	5.702	501	9,6	1.108	24,1
other		3.438	3.404	3.420	3.490	3.490	0	0,0	52	1,5
Group Development		3.746	3.789	3.830	3.876	3.850	(26)	(0,7)	104	2,8
Netherlands		3.746	3.789	3.830	3.876	3.850	(26)	(0,7)	104	2,8

1 Figures rounded to the nearest million. The total is calculated on the basis of precise numbers. Percentages calculated on the basis of figures shown.

2 Broadband lines in operation excluding lines for internal use and public telecommunications; including IP-based access lines. Including BB via cable in Hungary.

3 Fixed network lines in operation excluding lines for internal use and public telecommunications.

4 In the fourth quarter of 2016, the number of fixed-network and broadband lines in the Netherlands grew as a result of the acquisition of Vodafone's fixed-network consumer business.

NOTES

CONTENT

DT CONSOLIDATED INCOME STATEMENT

ADJUSTED FOR SPECIAL FACTORS

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
NET REVENUE		**19.543**	**18.646**	**18.890**	**18.251**	**19.160**	**(2,0)**	**73.105**	**74.947**	**2,5**
Other operating income		280	251	223	231	431	53,9	1.033	1.137	10,1
Changes in inventories		(19)	40	(6)	(3)	(11)	42,1	(12)	21	n.a.
Own capitalized costs		581	542	563	563	624	7,4	2.111	2.292	8,6
Goods and services purchased		(10.660)	(9.284)	(9.218)	(8.868)	(10.562)	0,9	(36.863)	(37.933)	(2,9)
Personnel costs		(3.731)	(3.887)	(3.708)	(3.628)	(3.722)	0,2	(14.824)	(14.945)	(0,8)
Other operating expenses		(729)	(758)	(798)	(826)	(906)	(24,3)	(3.130)	(3.289)	(5,1)
Depreciation, amortization, and impairment losses		(3.301)	(3.191)	(3.154)	(2.975)	(3.152)	4,5	(12.757)	(12.472)	2,2
PROFIT (LOSS) FROM OPERATIONS (EBIT)		**1.964**	**2.359**	**2.791**	**2.745**	**1.863**	**(5,1)**	**8.663**	**9.757**	**12,6**
EBIT margin (EBIT / net revenue) %		10,0	12,7	14,8	15,0	9,7	(0,3p)	11,9	13,0	1,1p
Profit (loss) from financial activities		(831)	(1.355)	(515)	(490)	(535)	35,6	(2.323)	(2.895)	(24,6)
of which: finance costs		(562)	(638)	(512)	(541)	(509)	9,4	(2.496)	(2.201)	11,8
PROFIT (LOSS) BEFORE INCOME TAXES (EBT)		**1.133**	**1.004**	**2.276**	**2.256**	**1.328**	**17,2**	**6.340**	**6.863**	**8,2**
Income taxes		(213)	0	(753)	(760)	2.462	n.a.	(1.858)	949	n.a.
PROFIT (LOSS)		**920**	**1.004**	**1.523**	**1.495**	**3.790**	**n.a.**	**4.482**	**7.812**	**74,3**
Profit (loss) attributable to non-controlling interests		(53)	64	324	252	1.133	n.a.	368	1.773	n.a.
NET PROFIT (LOSS)		**973**	**939**	**1.199**	**1.244**	**2.657**	**n.a.**	**4.114**	**6.039**	**46,8**

GROUP

EBITDA RECONCILIATION

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	**Q4 2017 millions of €**	Change %	FY 2016 millions of €	**FY 2017 millions of €**	Change %
NET REVENUE			**19.543**	**18.646**	**18.890**	**18.251**	**19.160**	**(2,0)**	**73.095**	**74.947**	**2,5**
NET PROFIT (LOSS)			**(2.124)**	**747**	**874**	**507**	**1.332**	**n.a.**	**2.675**	**3.461**	**29,4**
+ Profit (loss) attributable to non-controlling interests			(57)	62	317	591	1.120	n.a.	429	2.090	n.a.
= Profit (loss)			(2.181)	809	1.192	1.098	2.452	n.a.	3.104	5.551	78,8
- Income taxes			(1)	78	(686)	(1.323)	2.489	n.a.	(1.443)	558	n.a.
= Profit (loss) before income taxes = EBT			(2.180)	731	1.877	2.421	(37)	98,3	4.547	4.994	9,8
- Profit (loss) from financial activities			(3.117)	(2.040)	(953)	(676)	(721)	76,9	(4.617)	(4.390)	4,9
PROFIT (LOSS) FROM OPERATIONS (EBIT)			**937**	**2.771**	**2.830**	**3.098**	**684**	**(27,0)**	**9.164**	**9.383**	**2,4**
- Depreciation, amortization and impairment losses			(3.909)	(3.191)	(3.156)	(4.220)	(4.019)	(2,8)	(13.380)	(14.586)	(9,0)
= EBITDA			**4.846**	**5.963**	**5.986**	**7.318**	**4.703**	**(3,0)**	**22.544**	**23.969**	**6,3**
EBITDA margin (EBITDA/net revenue)	%		24,8	32,0	31,7	40,1	24,5	(0,3p)	30,8	32,0	1,2p
- Special factors affecting EBITDA			(419)	412	42	1.598	(312)	25,5	1.124	1.740	54,8
= EBITDA ADJUSTED FOR SPECIAL FACTORS			**5.265**	**5.550**	**5.944**	**5.720**	**5.015**	**(4,7)**	**21.420**	**22.230**	**3,8**
EBITDA margin (adjusted for special factors) (EBITDA / net revenue)	%		26,9	29,8	31,5	31,3	26,2	(0,7p)	29,3	29,7	0,4p

DT CONSOLIDATED INCOME STATEMENT

AS REPORTED

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
NET REVENUE		**19.543**	**18.646**	**18.890**	**18.251**	**19.160**	**(2,0)**	**73.095**	**74.947**	**2,5**
Other operating income		357	770	479	2.081	488	36,7	4.180	3.819	(8,6)
Changes in inventories		(19)	40	(6)	(3)	(11)	42,1	(12)	21	n.a.
Own capitalized costs		582	542	563	563	624	7,2	2.112	2.292	8,5
Goods and services purchased		(10.682)	(9.312)	(9.281)	(8.910)	(10.658)	0,2	(37.084)	(38.161)	(2,9)
Personnel costs		(4.200)	(3.964)	(3.824)	(3.817)	(3.900)	7,1	(16.463)	(15.504)	5,8
Other operating expenses		(735)	(761)	(835)	(847)	(1.001)	(36,2)	(3.284)	(3.444)	(4,9)
Depreciation, amortization, and impairment losses		(3.909)	(3.191)	(3.156)	(4.220)	(4.019)	(2,8)	(13.380)	(14.586)	(9,0)
PROFIT (LOSS) FROM OPERATIONS (EBIT)		**937**	**2.771**	**2.830**	**3.098**	**684**	**(27,0)**	**9.164**	**9.383**	**2,4**
EBIT margin (EBIT / net revenue) %		4,8	14,9	15,0	17,0	3,6	(1,2p)	12,5	12,5	0,0p
Profit (loss) from financial activities		(3.117)	(2.040)	(953)	(676)	(721)	76,9	(4.617)	(4.390)	4,9
of which: finance costs		(561)	(637)	(511)	(540)	(508)	9,4	(2.492)	(2.197)	11,8
PROFIT (LOSS) BEFORE INCOME TAXES (EBT)		**(2.180)**	**731**	**1.877**	**2.421**	**(37)**	**98,3**	**4.547**	**4.994**	**9,8**
Income taxes		(1)	78	(686)	(1.323)	2.489	n.a.	(1.443)	558	n.a.
PROFIT (LOSS)		**(2.181)**	**809**	**1.192**	**1.098**	**2.452**	**n.a.**	**3.104**	**5.551**	**78,8**
Profit (loss) attributable to non-controlling interests		(57)	62	317	591	1.120	n.a.	429	2.090	n.a.
NET PROFIT (LOSS)		**(2.124)**	**747**	**874**	**507**	**1.332**	**n.a.**	**2.675**	**3.461**	**29,4**

GROUP

SPECIAL FACTORS IN THE CONSOLIDATED INCOME STATEMENT

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	FY 2016 millions of €	FY 2017 millions of €
NET REVENUE		**0**	**0**	**0**	**0**	**0**	**(10)**	**0**
Other operating income	1, 2	77	519	256	1.850	57	3.147	2.683
Changes in inventories		0	0	0	0	0	0	0
Own capitalized costs		1	0	0	0	0	1	0
Goods and services purchased		(22)	(28)	(62)	(42)	(96)	(221)	(229)
Personnel costs		(469)	(77)	(115)	(189)	(178)	(1.639)	(559)
Other operating expenses		(6)	(2)	(37)	(21)	(95)	(154)	(155)
Depreciation, amortization, and impairment losses	3, 4	(608)	0	(2)	(1.245)	(867)	(623)	(2.114)
PROFIT (LOSS) FROM OPERATIONS (EBIT)		**(1.027)**	**412**	**40**	**352**	**(1.178)**	**501**	**(374)**
Profit (loss) from financial activities		(2.286)	(685)	(438)	(187)	(186)	(2.294)	(1.495)
PROFIT (LOSS) BEFORE INCOME TAXES (EBT)		**(3.313)**	**(272)**	**(398)**	**166**	**(1.365)**	**(1.793)**	**(1.869)**
Income taxes		212	78	67	(563)	27	415	(392)
PROFIT (LOSS)		**(3.101)**	**(195)**	**(331)**	**(397)**	**(1.338)**	**(1.378)**	**(2.261)**
Profit (loss) attributable to non-controlling interests		(4)	(2)	(7)	339	(13)	61	317
NET PROFIT (LOSS)		**(3.097)**	**(193)**	**(324)**	**(736)**	**(1.324)**	**(1.439)**	**(2.578)**

1 Q1/2017: Sale of Strato; Q2/2017: Sale of Scout and DeTe Medien

2 Q3/2017: Income from the settlement with BT (0.2 bn. €) ; Income from the reversal of impairment on spectrum licenses TM US (1.7 bn. €)

3 Q3/2017: Impairment Goodwill T-Systems Market Unit (1.2 bn. €)

4 Q4/2017: Impairment Goodwill T-Mobile Poland (0.8 bn €)

GROUP

DETAILS ON SPECIAL FACTORS I

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
EFFECT ON OPERATING EXPENSES		**(496)**	**(107)**	**(215)**	**(253)**	**(369)**	**25,6**	**(2.013)**	**(943)**	**53,2**
of which: expenses / income for early retirement (civil servants)		(309)	5	(7)	(7)	5	n.a.	(1.136)	(4)	n.a.
of which: expenses for severance payments		(95)	(35)	(53)	(139)	(114)	(20,0)	(294)	(342)	(16,3)
of which: expenses / income for partial retirement (termination benefit)		(51)	(46)	(53)	(43)	(64)	(25,5)	(189)	(205)	(8,5)
of which: expenses for other personnel restructuring charges		(7)	(1)	(1)	0	(1)	85,7	(12)	(4)	66,7
of which: Vivento transfer payments		(6)	0	(1)	(1)	(3)	50,0	(7)	(5)	28,6
of which: restructuring charges		(9)	(12)	(11)	(13)	(49)	n.a.	(81)	(85)	(4,9)
of which: expenses due to de-consolidations and other asset sales		38	8	7	(10)	(57)	n.a.	(103)	(53)	48,5
of which: others		(57)	(26)	(95)	(40)	(85)	(49,1)	(191)	(246)	(28,8)
EFFECT ON OTHER OPERATING INCOME		**77**	**519**	**256**	**1.850**	**57**	**(26,0)**	**3.147**	**2.683**	**(14,7)**
of which: income due to asset sales	1	49	519	256	(1)	57	16,3	3.118	831	(73,3)
of which: others	2	28	0	0	1.852	0	n.a.	29	1.852	n.a.
EFFECT ON REVENUE		**0**	**0**	**0**	**0**	**0**	**n.a.**	**(10)**	**0**	**n.a.**
EFFECT ON EBITDA		**(419)**	**412**	**42**	**1.598**	**(312)**	**25,5**	**1.124**	**1.740**	**54,8**
DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	**3, 4**	**(608)**	**0**	**(2)**	**(1.245)**	**(867)**	**(42,6)**	**(623)**	**(2.114)**	**n.a.**
EFFECT ON PROFIT FROM OPERATIONS = EBIT		**(1.027)**	**412**	**40**	**352**	**(1.178)**	**(14,7)**	**501**	**(374)**	**n.a.**

1 Q1/2017: Sale of Strato; Q2/2017: Sale of Scout and DeTe Medien
2 Q3/2017: Income from the settlement with BT (0.2 bn. €) ; Income from the reversal of impairment on spectrum licenses TM US (1.7 bn. €)
3 Q3/2017: Impairment Goodwill T-Systems Market Unit (1.2 bn. €)
4 Q4/2017: Impairment Goodwill T-Mobile Poland (0.8 bn €)

GROUP

DETAILS ON SPECIAL FACTORS II

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
EFFECT ON PROFIT (LOSS) FROM FINANCIAL ACTIVITIES		**(2.286)**	**(685)**	**(438)**	**(187)**	**(186)**	**91,9**	**(2.294)**	**(1.495)**	**34,8**
EFFECT ON PROFIT (LOSS) BEFORE INCOME TAXES		**(3.313)**	**(272)**	**(398)**	**166**	**(1.365)**	**58,8**	**(1.793)**	**(1.869)**	**(4,2)**
EFFECT ON TAXES		**212**	**78**	**67**	**(563)**	**27**	**(87,3)**	**415**	**(392)**	**n.a.**
Tax effect of special factors within EBIT		132	28	48	76	77	(41,7)	548	229	(58,2)
Tax effect of special factors on profit (loss) from financial activities		80	50	19	(639)	(50)	n.a.	(133)	(620)	n.a.
Other tax effects		0	0	0	0	0	n.a.	0	0	n.a.
EFFECT ON PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**(4)**	**(2)**	**(7)**	**339**	**(13)**	**n.a.**	**61**	**317**	**n.a.**
EFFECT ON NET PROFIT (LOSS)		**(3.097)**	**(193)**	**(324)**	**(736)**	**(1.324)**	**57,2**	**(1.439)**	**(2.578)**	**(79,2)**

CHANGE IN THE COMPOSITION OF THE GROUP IN THE CURRENT YEAR

		REPORTED NUMBERS	PLUS ACQUISITION EFFECTS							MINUS DECONSOLIDATION EFFECTS							TOTAL EFFECT	PRO FORMA	REPORTED NUMBERS	ORGANIC CHANGE
	Note	FY 2016 millions of	Total millions of €	Germany millions of €	United States millions of	Europe millions of €	Group Development	Systems Solutions millions of	GHS millions of €	Total millions of €	Germany millions of €	United States millions of	Europe millions of €	Group Development	Systems Solutions millions of	GHS millions of €		FY 2016 millions of	FY 2017 millions of	Change %
NET REVENUE		**73.095**	**89**	**0**	**0**	**0**	**89**	**0**	**0**	**214**	**0**	**0**	**0**	**96**	**0**	**118**	**(125)**	**72.970**	**74.947**	**2,7**
PROFIT (LOSS) FROM OPERATIONS = EBIT		**9.164**	**(20)**	**0**	**0**	**0**	**(20)**	**0**	**0**	**33**	**0**	**0**	**0**	**17**	**0**	**16**	**(53)**	**9.111**	**9.383**	**3,0**
Profit (loss) from financial activities		(4.617)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0	0	0	0	0	0	0	**(4.617)**	(4.390)	(4,9)
of which finance costs		(2.492)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0	0	0	0	0	0	0	**(2.492)**	(2.197)	(11,8)
PROFIT (LOSS) BEFORE INCOME TAXES = EBT		**4.547**	**(20)**	**0**	**0**		**(20)**	**0**	**0**	**33**	**0**	**0**	**0**	**17**	**0**	**16**	**(53)**	**4.494**	**4.994**	**11,1**
Income taxes		(1.443)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0	0	0	0	0	0	0	**(1.443)**	558	n.a.
PROFIT (LOSS)		**3.104**	**(20)**	**0**	**0**	**0**	**(20)**	**0**	**0**	**33**	**0**	**0**	**0**	**17**	**0**	**16**	**(53)**	**3.051**	**5.551**	**81,9**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	Note	Dec. 31 2016 millions of €	Mar. 31 2017 millions of €	Jun. 30 2017 millions of €	Sep. 30 2017 millions of €	Dec. 31 2017 millions of €	Change compared to prior quarter %	Change compared to prior year %
CURRENT ASSETS		**26.638**	**27.663**	**17.808**	**18.344**	**20.392**	**11,2**	**(23,4)**
Cash and cash equivalents		7.747	9.542	2.441	2.860	3.312	15,8	(57,2)
Trade and other receivables		9.362	9.093	9.161	9.196	9.723	5,7	3,9
Current recoverable income taxes		218	192	181	160	236	47,5	8,3
Other financial assets		5.713	4.907	2.116	2.442	3.329	36,3	(41,7)
Inventories		1.629	1.646	1.729	1.520	1.985	30,6	21,9
Current and non-current assets and disposal groups held for sale		372	148	204	371	161	(56,6)	(56,7)
Other assets		1.597	2.136	1.975	1.795	1.646	(8,3)	3,1
NON-CURRENT ASSETS		**121.847**	**120.961**	**123.682**	**121.497**	**120.943**	**(0,5)**	**(0,7)**
Intangible assets		60.599	60.269	64.809	63.577	62.865	(1,1)	3,7
Property, plant and equipment		46.758	46.788	46.203	46.081	46.878	1,7	0,3
Investments accounted for using the equity method		725	722	606	601	651	8,3	(10,2)
Other financial assets		7.886	6.971	6.417	5.963	5.716	(4,1)	(27,5)
Deferred tax assets		5.210	5.477	4.898	4.498	4.013	(10,8)	(23,0)
Other assets		669	733	748	778	819	5,3	22,4
TOTAL ASSETS		**148.485**	**148.624**	**141.490**	**139.841**	**141.334**	**1,1**	**(4,8)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	Dec. 31 2016 millions of €	Mar. 31 2017 millions of €	Jun. 30 2017 millions of €	Sep. 30 2017 millions of €	Dec. 31 2017 millions of €	Change compared to prior quarter %	Change compared to prior year %
LIABILITIES		**109.640**	**108.806**	**102.896**	**100.787**	**98.864**	**(1,9)**	**(9,8)**
CURRENT LIABILITIES		**33.126**	**32.375**	**27.200**	**25.937**	**27.366**	**5,5**	**(17,4)**
Financial liabilities		14.422	14.871	10.351	9.250	8.358	(9,6)	(42,0)
Trade and other payables		10.441	8.983	8.735	8.516	10.971	28,8	5,1
Income tax liabilities		222	238	358	341	224	(34,3)	0,9
Other provisions		3.068	3.076	2.796	2.953	3.372	14,2	9,9
Liabilities directly associated with non-current assets and disposal groups held for sale		194	133	0	0	0	n.a.	n.a.
Other liabilities		4.779	5.075	4.959	4.877	4.440	(9,0)	(7,1)
NON-CURRENT LIABILITIES		**76.514**	**76.431**	**75.696**	**74.850**	**71.498**	**(4,5)**	**(6,6)**
Financial liabilities		50.228	50.402	50.638	49.387	49.171	(0,4)	(2,1)
Provisions for pensions and other employee benefits		8.451	8.293	8.113	8.185	8.375	2,3	(0,9)
Other provisions		3.320	3.285	3.215	3.220	3.155	(2,0)	(5,0)
Deferred tax liabilities		10.007	10.025	9.582	10.060	6.967	(30,7)	(30,4)
Other liabilities		4.508	4.427	4.148	3.999	3.831	(4,2)	(15,0)
SHAREHOLDERS' EQUITY		**38.845**	**39.818**	**38.594**	**39.055**	**42.470**	**8,7**	**9,3**
Issued capital		11.973	11.973	12.189	12.189	12.189	0,0	1,8
Capital reserves		53.356	53.349	54.574	54.638	55.010	0,7	3,1
Retained earnings incl. carryforwards		(38.727)	(35.971)	(38.622)	(38.656)	(38.750)	(0,2)	(0,1)
Total other comprehensive income		78	145	(558)	(1.055)	(1.127)	(6,8)	n.a.
Net profit (loss)		2.675	747	1.621	2.129	3.461	62,6	29,4
Treasury shares		(50)	(50)	(49)	(49)	(49)	0,0	2,0
Non-controlling interests		9.540	9.625	9.439	9.859	11.737	19,0	23,0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**148.485**	**148.624**	**141.490**	**139.841**	**141.334**	**1,1**	**(4,8)**

DT GROUP

PROVISIONS FOR PENSIONS

		2017 millions of €	2016 millions of €	2015 millions of €	2014 millions of €	2013 millions of €
FROM DEFINED BENEFIT OBLIGATION TO PROVISION IN BALANCE SHEET						
Present value of obligation (DBO)	1	11.462	11.427	10.753	10.940	8.965
Plan assets		(3.102)	(2.990)	(2.744)	(2.498)	(1.973)
Others		15	14	19	23	14
Provision in balance sheet		8.375	8.451	8.028	8.465	7.006
PENSION COSTS INCLUDED IN P&L (INCLUDED EXPECTED RETURN ON PLAN ASSETS)		**402**	**396**	**442**	**445**	**388**
thereof included in EBITDA		266	230	285	220	160
thereof included in financial result		136	166	157	225	228
CASH PAYMENTS FOR PENSIONS						
1) funding of plan assets by DT (investment in financial assets)		10	264	276	266	269
2) benefits paid through plan assets	2	31	32	31	30	42
3) benefits paid through provision (included in cash flow from operations)		378	375	386	298	366
cash payments included in cash flow statement = 1) + 3)		388	639	662	564	635
cash payments included in free cash flow = 3)		378	375	386	298	366

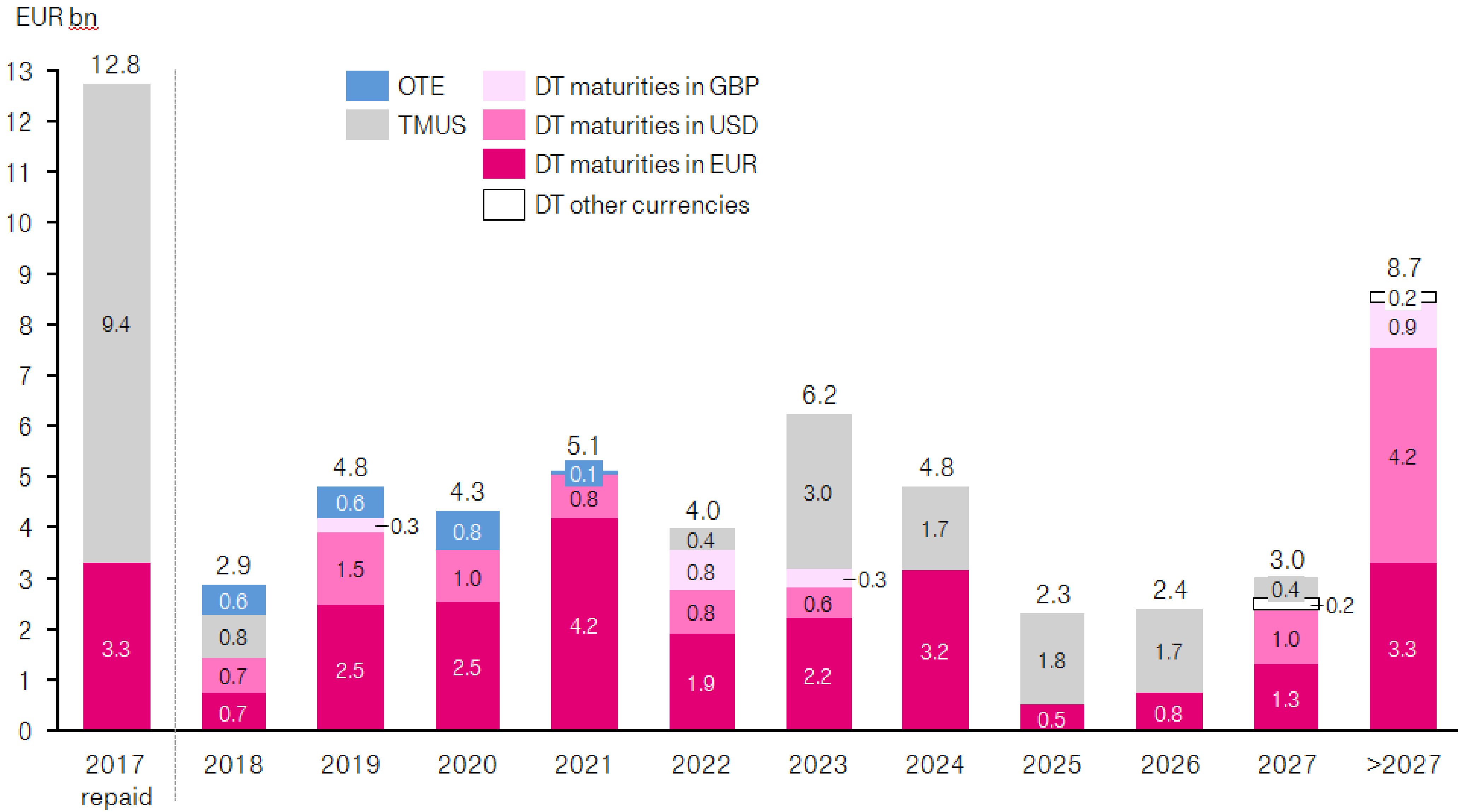
CHANGE IN THE PRESENT VALUE OF THE OBLIGATION (EXAMPLE 2015)		
End of 2016		11.427
pension costs included in P&L		450
benefits paid		(378)
actuarial losses/gains	3	(11)
F/X		(29)
Others		3
End of 2017		11.462

1 Increase in obligation mainly due to a change in the discount rate.

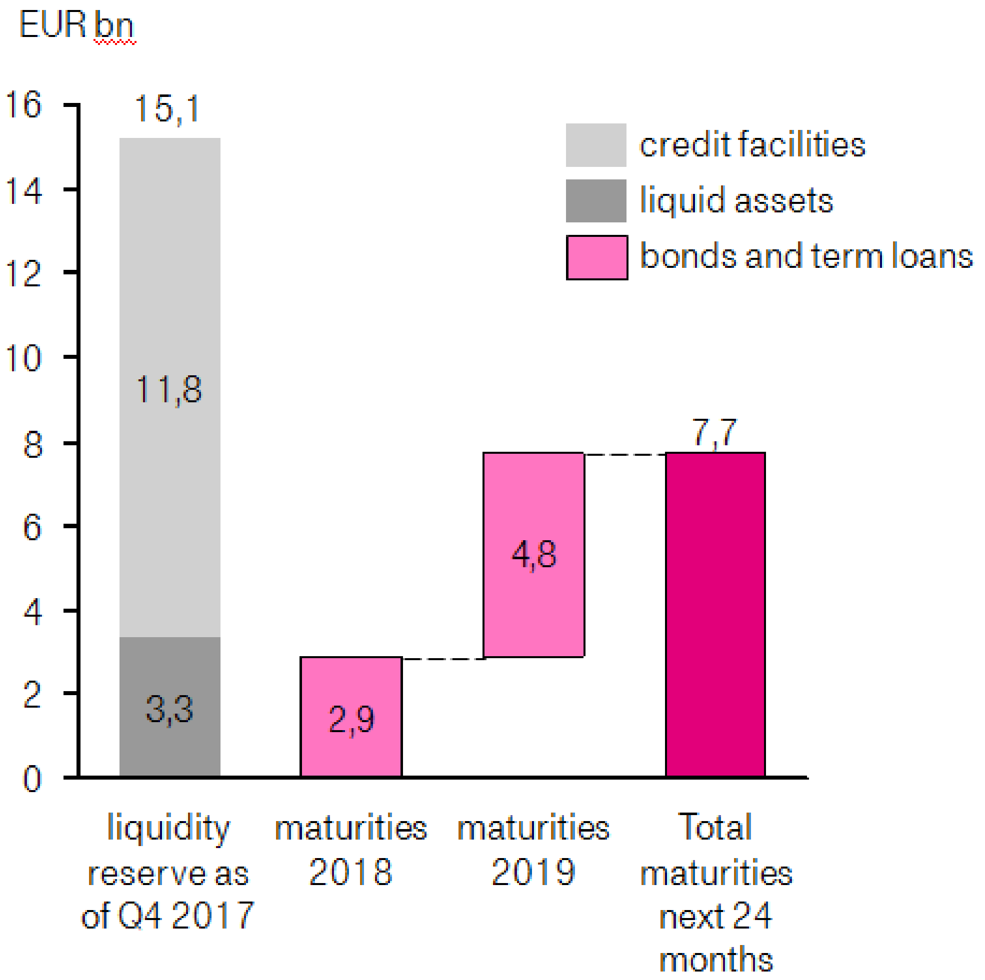
2 The sum of payments through plan assets and the benefit paid through provisions equal the "benefits paid" in "Change in the present value of the obligation".

3 Actuarial losses/gains are via other comprehensive income directly billed vs. equity.

WELL-BALANCED MATURITY PROFILE AS OF DECEMBER 31, 2017



STRONG LIQUIDITY AS OF DECEMBER 31, 2017



- EUR 12.9 bn firm bilateral lines available
  - unconditionally committed
  - no MAC clauses
  - diversified: 22 banks
  - 3 year tenor, staggered maturities

- CPs outstanding EUR 1.1 bn
- Residual undrawn amount EUR 11.8 bn
- Maturities of next 24 months covered

DT/TMUS FUNDING - CREDIT POSITIVE FOR DT

DT's funding support as of December 31st 2017

- USD 10.6bn unsecured HY bonds (disbursed)
- USD 2.5bn Revolving Credit Facility, thereof 1.5bn secured (undrawn)
- USD 4.0bn secured term loan (disbursed)

USD 17.1bn total inter-company financing, thereof 5.5bn secured

In addition, TMUS has issued USD 11.9bn High Yield bonds to external investors (thereof 1.0bn called for redemption in January 2018)

Positive credit implications

- Results in significant interest costs savings
- DT in preferential creditor position due to large portion of secured financing
- Eliminates structural subordination issues with rating agencies

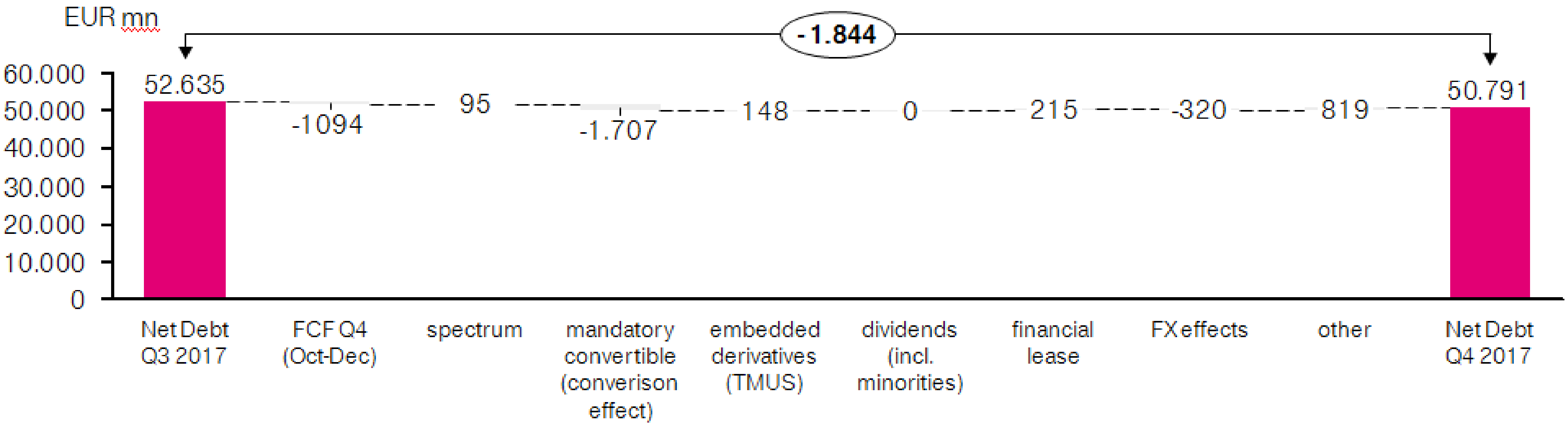
GROUP

NET DEBT

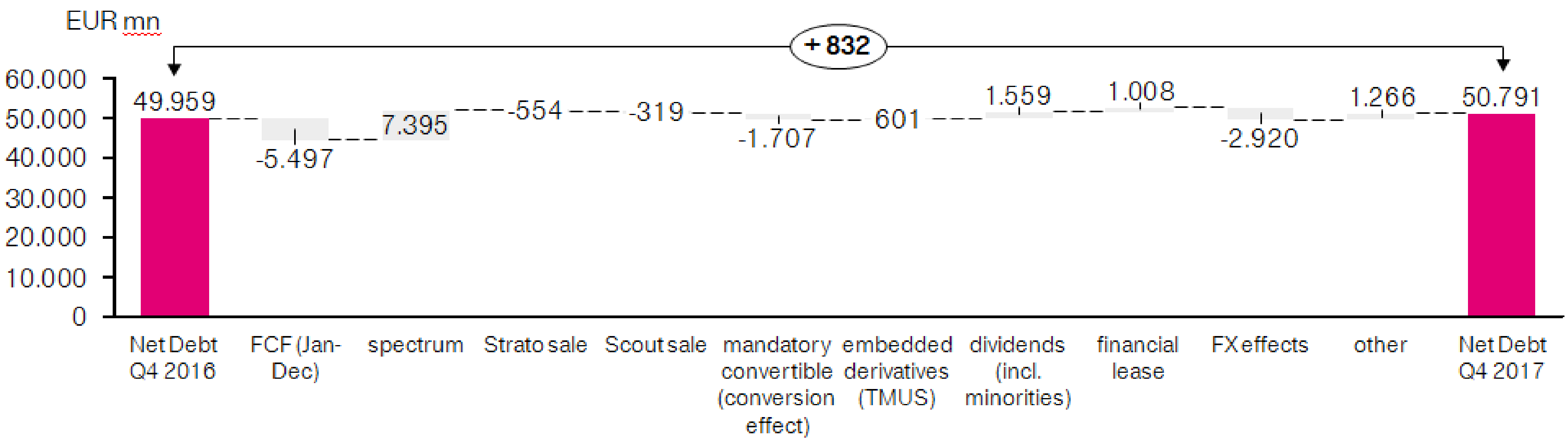
	Note	Dec. 31, 2016 millions of €	Mar. 31, 2017 millions of €	Jun. 30, 2017 millions of €	Sep. 30, 2017 millions of €	**Dec. 31, 2017 millions of €**	Change compared to prior quarter %	Change compared to prior year %
Bonds		50.090	52.791	48.450	46.816	45.453	(2,9)	(9,3)
Other financial liabilities		12.576	10.860	10.998	10.461	10.603	1,4	(15,7)
GROSS DEBT		**62.666**	**63.651**	**59.448**	**57.277**	**56.056**	**(2,1)**	**(10,5)**
Cash and cash equivalents		7.747	9.542	2.441	2.860	3.312	15,8	(57,2)
Available-for-sale/held-for-trading financial assets		10	7	7	7	7	n.a.	(30,0)
Other financial assets		4.950	4.139	1.752	1.775	1.946	9,6	(60,7)
NET DEBT		**49.959**	**49.963**	**55.249**	**52.635**	**50.791**	**(3,5)**	**1,7**

NET DEBT DEVELOPMENT Q4 2017

Net debt reconciliation Q3 2017 – Q4 2017



Net debt reconciliation Q4 2016 – Q4 2017



DT GROUP

CASH CAPEX

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
CASH CAPEX										
Germany		1.228	1.005	1.052	1.052	1.105	(10,0)	4.031	4.214	4,5
United States		1.177	1.442	8.463	1.243	784	(33,4)	5.855	11.932	n.a.
Europe		413	475	403	395	601	45,5	2.600	1.874	(27,9)
Systems Solutions		143	86	91	87	120	(16,1)	402	383	(4,8)
Group Development		69	81	57	76	76	10,1	271	290	7,1
Group Headquarters & Group Services		279	242	239	231	294	5,4	936	1.005	7,4
Reconciliation		(153)	(51)	(65)	(63)	(26)	83,0	(455)	(205)	55,2
GROUP	**1**	**3.156**	**3.280**	**10.240**	**3.021**	**2.954**	**(6,4)**	**13.640**	**19.494**	**42,9**
- thereof spectrum investment		432	35	7.246	19	94	(78,2)	2.682	7.395	n.a.

1 Amounts of payouts for property, plant and equipment and intangible assets excluding goodwill.

DT GROUP

FREE CASH FLOW

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
Net profit (loss)		(2.124)	747	874	507	1.332	n.a.	2.675	3.461	29,4
Profit (loss) attributable to non-controlling interests		(57)	62	317	591	1.120	n.a.	429	2.090	n.a.
PROFIT (LOSS) AFTER INCOME TAXES		**(2.181)**	**809**	**1.192**	**1.098**	**2.452**	**n.a.**	**3.104**	**5.551**	**78,8**
Depreciation, amortization and impairment losses		3.909	3.191	3.156	4.220	4.019	2,8	13.380	14.586	9,0
Income tax expense/(benefit)		1	(78)	686	1.323	(2.489)	n.a.	1.443	(558)	n.a.
Interest (income) and interest expenses		561	637	511	540	508	(9,4)	2.492	2.197	(11,8)
Other financial (income) expense		2.503	1.406	445	139	279	(88,9)	2.072	2.269	9,5
Share of (profit) loss of associates and joint ventures accounted for using the equity method		53	(4)	(3)	(3)	(66)	n.a.	53	(76)	n.a.
(Profit) loss on the disposal of fully consolidated subsidiaries		0	(519)	(31)	2	11	n.a.	(7)	(537)	n.a.
(Income) loss from the sale of stakes accounted for using the equity method		(41)	0	(226)	0	0	n.a.	(2.591)	(226)	(91,3)
Other non-cash transactions		58	119	66	(1.742)	110	89,7	316	(1.447)	n.a.
(Gain) loss from the disposal of intangible assets and property, plant and equipment		12	(33)	(2)	19	(87)	n.a.	(495)	(103)	79,2
Change in assets carried as working capital		(1.244)	358	(467)	(26)	(1.740)	(39,9)	(1.000)	(1.874)	(87,4)
Change in provisions		174	(70)	(256)	154	437	n.a.	(234)	265	n.a.
Change in other liabilities carried as working capital		262	(531)	(31)	(441)	1.054	n.a.	(510)	51	n.a.
Income taxes received (paid)		(147)	(80)	(100)	(204)	(250)	(70,1)	(527)	(634)	(20,3)
Dividends received		1	75	13	153	0	n.a.	331	241	(27,2)
Net payments from entering into or canceling interest rate swaps		0	0	0	0	0	n.a.	289	0	n.a.
CASH GENERATED FROM OPERATIONS		**3.921**	**5.280**	**4.955**	**5.232**	**4.238**	**8,1**	**18.116**	**19.706**	**8,8**
Interest received (paid)		(372)	(926)	(752)	(424)	(408)	(9,7)	(2.583)	(2.509)	2,9
NET CASH FROM OPERATING ACTIVITIES		**3.549**	**4.355**	**4.204**	**4.808**	**3.830**	**7,9**	**15.533**	**17.196**	**10,7**
Cash outflows for investments in (proceeds from disposal of)		(2.656)	(3.127)	(2.903)	(2.935)	(2.736)	(3,0)	(10.594)	(11.699)	(10,4)
Intangible assets		(1.209)	(718)	(7.983)	(682)	(941)	22,2	(5.602)	(10.324)	(84,3)
Property, plant and equipment		(1.879)	(2.444)	(2.166)	(2.272)	(1.889)	(0,5)	(7.674)	(8.770)	(14,3)
Spectrum investment		432	35	7.246	19	94	(78,2)	2.682	7.395	n.a.
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM)		**893**	**1.228**	**1.301**	**1.873**	**1.094**	**22,5**	**4.939**	**5.497**	**11,3**

DT GROUP

PERSONNEL

AT REPORTING DATE	Note	Dec. 31 2016	Mar. 31 2017	Jun. 30 2017	Sep. 30 2017	Dec. 31 2017	Change compared to prior quarter		Change compared to prior year	
							abs.	%	abs.	%
Germany		65.452	64.973	64.560	64.388	63.928	(460)	(0,7)	(1.524)	(2,3)
United States		44.820	42.925	43.566	44.394	45.888	1.494	3,4	1.068	2,4
Europe		46.808	47.378	47.610	47.579	47.421	(158)	(0,3)	613	1,3
Systems Solutions		37.472	37.839	37.801	37.596	37.924	328	0,9	452	1,2
Group Development		2.572	2.549	1.980	1.949	1.967	18	0,9	(605)	(23,5)
Group Headquarters & Group Services		21.216	20.884	20.618	20.436	20.222	(214)	(1,0)	(994)	(4,7)
GROUP		**218.341**	**216.548**	**216.135**	**216.343**	**217.349**	**1.006**	**0,5**	**(992)**	**(0,5)**
of which: Domestic		104.662	104.231	103.014	102.652	101.901	(751)	(0,7)	(2.761)	(2,6)
of which: Civil servants (in Germany, with an active service relationship)		15.999	15.871	15.846	15.726	15.482	(244)	(1,6)	(517)	(3,2)
of which: International		113.679	112.317	113.121	113.690	115.448	1.758	1,5	1.769	1,6

AVERAGE	Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change compared to prior year	
							abs.	%
Germany		66.009	65.040	64.539	64.491	64.208	(1.801)	(2,7)
United States		44.262	43.497	43.237	43.839	45.166	904	2,0
Europe		46.766	47.130	47.509	47.621	47.402	636	1,4
Systems Solutions		37.404	37.840	37.775	37.578	37.786	382	1,0
Group Development		2.594	2.599	1.989	1.956	1.965	(629)	(24,2)
Group Headquarters & Group Services		21.576	20.920	20.813	20.503	20.414	(1.162)	(5,4)
GROUP		**218.610**	**217.026**	**215.862**	**215.988**	**216.941**	**(1.669)**	**(0,8)**
of which: Domestic		105.607	104.359	103.167	102.737	102.449	(3.158)	(3,0)
of which: Civil servants (in Germany, with an active service relationship)		16.361	15.906	15.850	15.762	15.608	(753)	(4,6)
of which: International		113.003	112.684	112.695	113.251	114.493	1.490	1,3

EXCHANGE RATES

AVERAGE

	Q4 2016 1 €	FY 2016 1 €	Q1 2017 1 €	Q2 2017 1 €	Q3 2017 1 €	Q4 2017 1 €
US Dollar (USD)	1,07782	1,10662	1,06469	1,08192	1,17453	1,17752
British pound (GBP)	0,86825	0,81965	0.86005	0,86026	0,89786	0,88761
Czech korunas (CZK)	27,02775	27.03349	27,02065	26,81334	26,08514	25,64734
Croatian kunas (HRK)	7,52327	7,53365	7,46718	7,45359	7,42567	7,53318
Hungarian forints (HUF)	309,38976	311,39281	309,09362	309,46069	306,41761	311,61191
Macedonian Denar (MKD)	61,57615	61.59350	61,56872	61,58923	61,58090	61,56612
Polish Zloty (PLN)	4,38094	4,36308	4,32077	4,27205	4,25847	4,23134
Romanian leu (RON)	4,50832	4,49035	4.52137	4,53608	4,58230	4,61979

END OF PERIOD

	Dec. 31 2016 1€	Mar. 31 2017 1 €	Jun. 30 2017 1 €	Sep. 30 2017 1 €	Dec. 31 2017 1 €
US Dollar (USD)	1,05405	1,06830	1,14060	1,18135	1,19990
British pound (GBP)	0,85515	0,85580	0,87880	0,88220	0,88759
Czech korunas (CZK)	27,01943	27,02700	26,20650	25,93751	25,57800
Croatian kunas (HRK)	7,55583	7.43710	7,41075	7,49423	7,44275
Hungarian forints (HUF)	309,96987	307,89500	309,35000	311,04489	310,27956
Macedonian Denar (MKD)	61,57000	61,57000	62,53000	61,64012	61,50364
Polish Zloty (PLN)	4,41368	4,22070	4,22900	4,31390	4,17875
Romanian leu (RON)	4,54055	4.55275	4,55450	4,59920	4,65851

Please note: the above quarterly and yearly average exchange rates are given as an indication only.

NOTES

CONTENT

GERMANY

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**5.565**	**5.397**	**5.371**	**5.488**	**5.676**	**2,0**	**21.784**	**21.931**	**0,7**
NET REVENUE			**5.210**	**5.069**	**5.036**	**5.139**	**5.308**	**1,9**	**20.415**	**20.552**	**0,7**
EBITDA			**2.013**	**2.070**	**2.100**	**2.190**	**2.107**	**4,7**	**8.237**	**8.468**	**2,8**
EBITDA margin (EBITDA / total revenue)	%		36,2	38,4	39,1	39,9	37,1	0,9p	37,8	38,6	0,8p
Depreciation, amortization and impairment losses			(937)	(935)	(953)	(963)	(977)	(4,3)	(3.703)	(3.828)	(3,4)
Profit (loss) from operations = EBIT			1.076	1.135	1.147	1.227	1.130	5,0	4.534	4.640	2,3
CASH CAPEX			**1.228**	**1.005**	**1.052**	**1.052**	**1.105**	**(10,0)**	**4.031**	**4.214**	**4,5**
CASH CONTRIBUTION			**785**	**1.065**	**1.048**	**1.138**	**1.002**	**27,6**	**4.206**	**4.254**	**1,1**

FINANCIALS (AS REPORTED)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**5.565**	**5.397**	**5.371**	**5.488**	**5.676**	**2,0**	**21.774**	**21.931**	**0,7**
NET REVENUE			**5.210**	**5.069**	**5.036**	**5.139**	**5.308**	**1,9**	**20.405**	**20.552**	**0,7**
EBITDA			**1.763**	**2.021**	**1.995**	**2.116**	**2.029**	**15,1**	**7.327**	**8.162**	**11,4**
EBITDA margin (EBITDA / total revenue)	%		31,7	37,4	37,1	38,6	35,7	4,0p	33,7	37,2	3,5p
Depreciation, amortization and impairment losses			(937)	(935)	(953)	(963)	(977)	(4,3)	(3.703)	(3.828)	(3,4)
Profit (loss) from operations = EBIT			826	1.086	1.042	1.153	1.052	27,4	3.624	4.334	19,6
CASH CAPEX			**1.228**	**1.005**	**1.052**	**1.052**	**1.105**	**(10,0)**	**4.031**	**4.214**	**4,5**
CASH CONTRIBUTION			**535**	**1.016**	**943**	**1.064**	**924**	**72,7**	**3.296**	**3.948**	**19,8**

GERMANY

EBITDA RECONCILIATION

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**5.565**	**5.397**	**5.371**	**5.488**	**5.676**	**2,0**	**21.774**	**21.931**	**0,7**
TOTAL REVENUE (ADJUSTED FOR SPECIAL FACTORS)			**5.565**	**5.397**	**5.371**	**5.488**	**5.676**	**2,0**	**21.784**	**21.931**	**0,7**
Profit (loss) from operations = EBIT			826	1.086	1.042	1.153	1.052	27,4	3.624	4.334	19,6
- Depreciation, amortization and impairment losses			(937)	(935)	(953)	(963)	(977)	(4,3)	(3.703)	(3.828)	(3,4)
= EBITDA			**1.763**	**2.021**	**1.995**	**2.116**	**2.029**	**15,1**	**7.327**	**8.162**	**11,4**
EBITDA margin	%		31,7	37,4	37,1	38,6	35,7	4,0p	33,7	37,2	3,5p
- Special factors affecting EBITDA			(250)	(49)	(105)	(74)	(78)	68,8	(910)	(306)	66,4
= EBITDA (ADJUSTED FOR SPECIAL FACTORS)			**2.013**	**2.070**	**2.100**	**2.190**	**2.107**	**4,7**	**8.237**	**8.468**	**2,8**
EBITDA margin (adjusted for special factors)	%		36,2	38,4	39,1	39,9	37,1	0,9p	37,8	38,6	0,8p

SPECIAL FACTORS

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
EFFECTS ON EBITDA		**(250)**	**(49)**	**(105)**	**(74)**	**(78)**	**68,8**	**(910)**	**(306)**	**66,4**
- of which personnel		(238)	(37)	(54)	(64)	(64)	73,1	(854)	(219)	74,4
- of which other		(12)	(12)	(51)	(10)	(14)	(16,7)	(56)	(87)	(55,4)
EFFECTS ON PROFIT (LOSS) FROM OPERATIONS = EBIT		**(250)**	**(49)**	**(105)**	**(74)**	**(78)**	**68,8**	**(910)**	**(306)**	**66,4**
- of which personnel		(238)	(37)	(54)	(64)	(64)	73,1	(854)	(219)	74,4
- of which other		(12)	(12)	(51)	(10)	(14)	(16,7)	(56)	(87)	(55,4)

GERMANY

OPERATIONALS

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %
GERMANY								
ACCESS LINES								
Fixed network	('000)	1	19.786	19.648	19.477	19.352	19.239	(2,8)
retail IP-based	('000)	1	9.042	9.801	10.351	11.177	11.996	32,7
Broadband	('000)	1	12.922	12.989	13.035	13.105	13.209	2,2
Fiber	('000)	1,2	4.250	4.693	5.033	5.417	5.803	36,5
TV (incl. IPTV, SAT)	('000)	1	2.879	2.955	3.024	3.089	3.139	9,0
ULLs	('000)	1	7.195	6.952	6.723	6.417	6.138	(14,7)
Wholesale bundled	('000)	1	165	148	125	109	100	(39,4)
Wholesale unbundled	('000)	1	4.212	4.554	4.855	5.206	5.539	31,5
Fiber	('000)		2.555	2.887	3.169	3.485	3.783	48,1
MOBILE CUSTOMERS		**3**						
Total	('000)		41.849	42.114	42.011	42.534	43.125	3,0
- contract	('000)		25.219	25.270	25.084	25.452	25.887	2,6
- prepaid	('000)		16.630	16.844	16.927	17.082	17.238	3,7

GERMANY

MOBILE COMMUNICATIONS KPIS

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
AVERAGE MONTHLY CHURN	**(%)**		**1,7**	**1,7**	**1,9**	**1,3**	**1,5**	**(0,2p)**	**1,6**	**1,6**	**0,0p**
- contract	(%)		1,6	1,9	2,3	1,1	1,5	(0,1p)	1,6	1,7	0,1p
SAC PER GROSS ADD	**(€)**		**81**	**73**	**75**	**92**	94	**16,0**	**78**	84	**7,7**
- contract	(€)		112	106	107	154	138	23,2	110	125	13,6
- prepaid	(€)		14	9	11	10	11	(21,4)	15	10	(33,3)
SRC PER RETAINED CUSTOMER	**(€)**		**275**	**254**	**263**	**226**	**268**	**(2,5)**	**266**	**253**	**(4,9)**
ARPU	**(€)**		**13**	**13**	**13**	**14**	**13**	**0,0**	**14**	**13**	**(7,1)**
- contract	(€)		20	20	20	21	20	0,0	21	20	(4,8)
- prepaid	(€)		3	3	3	3	3	0,0	3	3	0,0
MOU PER CUSTOMER	**(min)**		**88**	**89**	**89**	**89**	**91**	**3,4**	**89**	**89**	**0,0**
- contract	(min)		137	138	138	138	140	2,2	139	138	(0,7)

1 Figures do not add up.

2 Sum of all FTTx accesses (e.g. FTTC/VDSL, Vectoring and FTTH).

3 As of 1.January 2017 business customers are effected by two adjustments. At contract, customers are now shown without test cards (minus 41k) and at prepaid, there has been a system integration (plus 180k). Prior year figures have not been adjusted accordingly.

GERMANY

REVENUE SPLIT - PRODUCTS

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
GERMANY		**5.565**	**5.397**	**5.371**	**5.488**	**5.676**	**2,0**	**21.774**	**21.931**	**0,7**
FIXED NETWORK CORE BUSINESS		**2.434**	**2.392**	**2.385**	**2.379**	**2.419**	**(0,6)**	**9.659**	**9.575**	**(0,9)**
of which Fixed Revenues		1.739	1.734	1.722	1.716	1.706	(1,9)	6.992	6.879	(1,6)
Voice only revenues		429	420	409	402	388	(9,6)	1.776	1.620	(8,8)
Broadband revenues		993	986	979	972	972	(2,1)	3.976	3.909	(1,7)
TV revenues		317	328	334	342	346	9,1	1.240	1.350	8,9
of which Variable Revenues		213	198	191	186	179	(16,0)	880	755	(14,2)
of which Revenues from add-on options		48	46	46	48	49	2,1	196	189	(3,6)
thereof revenues from voice centric options		14	14	13	13	12	(14,3)	62	52	(16,1)
thereof revenues from broadband centric options		16	16	15	15	14	(12,5)	66	60	(9,1)
thereof revenues from TV centric options		17	17	17	17	17	0,0	68	68	0,0
of which Revenues from devices (fixed line)		124	127	131	132	129	4,0	478	519	8,6
thereof revenues from sale of devices and accessories (Fixed line)		33	32	33	31	25	(24,2)	127	120	(5,5)
MOBILE COMMUNICATIONS		**2.072**	**1.972**	**1.950**	**2.053**	**2.168**	**4,6**	**7.955**	**8.142**	**2,4**
of which Service Revenues		1.667	1.635	1.669	1.713	1.695	1,7	6.669	6.713	0,7
WHOLESALE SERVICES FIXED NETWORK		**855**	**848**	**852**	**874**	**878**	**2,7**	**3.407**	**3.451**	**1,3**
of which access full ULL		238	231	222	214	204	(14,3)	1.007	871	(13,5)
of which bundled and unbundled access line		239	257	267	289	295	23,4	903	1.107	22,6
ONLINE CONSUMER SERVICES		**0**	**0**	**0**	**0**	**0**	**n.a.**	**0**	**0**	**n.a.**
VALUE-ADDED SERVICES		**52**	**49**	**47**	**47**	**48**	**(7,7)**	**205**	**192**	**(6,3)**
OTHERS		**151**	**136**	**136**	**136**	**163**	**7,9**	**546**	**571**	**4,6**

REVENUE SPLIT - SEGMENTS

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
GERMANY		**5.565**	**5.397**	**5.371**	**5.488**	**5.676**	**2,0**	**21.774**	**21.931**	**0,7**
Consumer		2.988	2.918	2.878	2.964	3.038	1,7	11.739	11.797	0,5
Business customers	1	1.537	1.465	1.473	1.486	1.587	3,3	5.923	6.017	1,6
Wholesale		938	926	928	947	945	0,7	3.742	3.747	0,1
Others	1	102	88	92	91	106	3,9	370	370	0,0

1 Due to reorganisation partial shift from „Others" to „Business customers" from Q3/2017.

GERMANY

Magenta Mobil

Magenta Mobil PLANS IN €	S	M	L	L Plus
Monthly charge (without handset)	34.95	44.95	54.95	79.95
Monthly charge (with entry level handset)	39.95			
Monthly charge (with handset)	44.95	54.95	64.95	—
Monthly charge (with top handset)	54.95	64.95	74.95	99.95
Voice and SMS [1]	flat	flat	flat	flat
Data	flat	flat	flat	flat
- Data Speed (download)	max	max	max	max
- Data Speed (upload)	max	max	max	max
- Data Volume until speed step down	2 GB	4 GB	6 GB	10 GB
- Data Network	3G/LTE	3G/LTE	3G/LTE	3G/LTE
Streaming	—	StreamOn Music	StreamOn Music & Video	StreamOn Music & Video
VoIP	free	free	free	free
Tethering	free	free	free	free
MMS all net	0.39	0.39	0.39	0.39
International Calls (minutes)	—	—	—	100 [2]
International SMS (pieces)	—	—	—	100 [2]
HotSpot Flatrate	free	free	free	free
MultiSim	—	—	—	free [3]
Roaming Voice, SMS and Data	free (EU)	free (EU)	free (EU)	free (EU)
Fixed line number	—	—	—	free
Activation fee	39.95	39.95	39.95	39.95
Duration of contract	24 months	24 months	24 months	24 months

1 voice and sms within all german networks (mobile and fixed network).
2 Country Group 1 and 2
3 up to two MultiSIM bookable.

GERMANY

Magenta Mobil Premium

Premium PLANS IN €	L PREMIUM	L Plus PREMIUM	XL PREMIUM
Monthly charge (with top handset)	84.95	109.95	199.95
handset upgrade period	12 months	12 months	12 months
Voice and SMS [1]	flat	flat	flat
Data	flat	flat	flat
- Data Speed (download)	max	max	max
- Data Speed (upload)	max	max	max
- Data Volume until speed step down	6 GB	10 GB	flat
- Data Network	3G/LTE	3G/LTE	3G/LTE
Streaming	StreamOn Music & Video	StreamOn Music & Video	n.r.
VoIP	free	free	free
Tethering	free	free	free
MMS all net	0.39	0.39	0.39
International Calls (minutes)	—	100 [2]	flat[4]
International SMS (pieces)	—	100 [2]	flat[4]
HotSpot Flatrate	free	free	free
MultiSim	—	**free**[3]	free[3]
Roaming Voice, SMS and Data	free (EU)	free (EU)	free (EU Plus[4])
Fixed line number	—	free	free
Activation fee	39.95	39.95	39.95
Duration of contract	24 months	24 months	24 months

1 voice and sms within all german networks (mobile and fixed network).
2 EU and Country Group 2
3 up to two MultiSIM bookable.
4 EU, Switzerland, US, Canada, Turkey

GERMANY

Mobile Options

StreamOn	StreamOn Music	StreamOn Music & Video	MagentaEINS StreamOn Music & Video Max
Monthly charge	0	0	0
Description	Music Streaming zero-rating for connected partners	Music &Video Streaming zero-rating for connected partners, mobile optimated	Music &Video Streaming zero-rating for connected partners, high resolution
Booking restrictions	Starting with MagentaMobil M /MagentaMobil S Young / FamilyCard M	Starting with MagentaMobil L /MagentaMobil M Young / FamilyCard L	Only MagentaEINS: Starting with MagentaMobil M /MagentaMobil M Young / FamilyCard M

INTERNATIONAL OPTIONS IN €	INTERNATIONAL 100 or 400	INTERNATIONAL SMS 100
Monthly charge	9.95 or 29.95	9.95
Description	100 or 400 min. mobile and fixed Network to Country Code 1 + 2	100 SMS to Country Code 1 + 2

ADDITIONAL DATA VOLUME OPTIONS IN €	Data S	Data M	Data L
Monthly charge	9.95	14.95	24.95
Additional Data Volume (per month)	1 GB	2 GB	5 GB

OHTER OPTIONS IN €	MULTISIM	DayFlat unlimited
Monthly charge	4.95/9.90	4.95
Description	one/two MultiSIM bookable.	Data Full Flat for 24h

ADDITIONAL DATA PACKAGES IN €	MultiData S	MultiData M	MultiData L
Monthly charge	10.00	15.00	25.00
Additional Data Volume (per month)	1 GB	2 GB	5 GB
Description	up to two MultiSIM bookable	up to two MultiSIM bookable	up to two MultiSIM bookable

GERMANY

DOUBLE PLAY VIA WIRELESS (CALL & SURF VIA FUNK)

DOUBLE PLAY VIA WIRELESS [1] in €	S	M	L
Monthly Charge[2]	34.95[3]	39.95[4]	49.95[5]
Data Speed (Mbit/s)	16 Mbit/s	50 Mbit/s	100 Mbit/s
Data Volume until Speed Step Down (SSD)	10 GB	15 GB	30 GB
Voice minutes		**€ Cent/Minute**	
fixed net national		flat	
international		from 2.9	
fixed to mobile		19.0	
Options			
Speed On	€14.95 per 10GB	€14.95 per 15GB	€14.95 per 30GB
fixed to mobile		12.9 cents/minute, minimum charge €4 per month	
mobile flat		to Telekom Mobile €14.95 per month	
CountryFlat 1		€3.95 per month	
CountryFlat 2		€14.95 per month	
Mail & Cloud M		€4.95 per month	
Security Package M		€3.95 per month	

1 Standard-PSTN; Universal-PSTN + €4

2 without terminal equipment. Monthly rent for Router €4.95

3 Promotional price. Regular price €39.95

4 Promotional price. Regular price €49.95

5 Promotional price. Regular price €69.95

For general conditions and further details, please see www.telekom.de. All prices in € including VAT.

GERMANY

MAGENTA ZUHAUSE

<table>
<tr><th>MAGENTA ZUHAUSE IN €</th><th>ZUHAUSE XS[1]</th><th>ZUHAUSE S[1]</th><th>ZUHAUSE M[1]</th><th>ZUHAUSE L[1]</th><th>ZUHAUSE GIGA[1]</th></tr>
<tr><td></td><td>29.95</td><td>34.95[2]</td><td>39.95[2]</td><td>44.95[2]</td><td>119.95</td></tr>
<tr><td></td><td>16 Mbit/s bandwidth flat rate Internet usage</td><td>16 Mbit/s bandwidth, flat rate Internet usage flat rate voice usage</td><td>50 Mbit/s bandwidth flat rate Internet usage flat rate voice usage</td><td>100 Mbit/s bandwidth[5] flat rate Internet usage flat rate voice usage</td><td>1.000 Mbit/s bandwidth flat rate Internet usage all net flat rate voice usage</td></tr>
<tr><td>ENTERTAIN</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>START TV</td><td>–</td><td colspan="3">2.00</td><td>–</td></tr>
<tr><td>ENTERTAIN TV</td><td>–</td><td colspan="3">10.00[3,4]</td><td>–</td></tr>
<tr><td>ENTERTAIN COMFORT SAT</td><td>–</td><td colspan="3">10.00[3,4]</td><td>–</td></tr>
<tr><td>ENTERTAIN TV PLUS</td><td>–</td><td colspan="3">15.00[3,4]</td><td>included</td></tr>
<tr><td>ENTERTAIN SAT</td><td>–</td><td>5.00[2]</td><td colspan="2">–</td><td>–</td></tr>
<tr><td>CITY, DLD</td><td colspan="5">CENT/MINUTE</td></tr>
<tr><td>Peak/Off peak</td><td>2.9 ct</td><td colspan="4">included</td></tr>
<tr><td>international</td><td colspan="5">from 2.9 ct</td></tr>
<tr><td>fixed to mobile</td><td colspan="4">19.0 ct</td><td>included</td></tr>
<tr><td>CALLING PLANS</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>fixed to mobile</td><td colspan="4">12.9 ct/minute, 4.00 monthly minimum charge</td><td>--</td></tr>
<tr><td>fixed to T-Mobile flatrate</td><td colspan="4">14.95</td><td>–</td></tr>
<tr><td>fixed to mobile flatrate</td><td colspan="4">19.95</td><td>–</td></tr>
<tr><td>CountryFlat 1</td><td colspan="5">3.94</td></tr>
<tr><td>CountryFlat 2</td><td colspan="5">14.95</td></tr>
<tr><td>Set-up</td><td colspan="5">69.95 (non-recurring charge)</td></tr>
</table>

1 IP-Access incl. 2 voice channels and 3 telephone no.

2 Promotional price for new broadband customers: -€15.00/-€20.00/-€25.00 for the first 6 months (ZUHAUSE S/M/L); -€5.00 for the first 6 months in combination with Entertain Sat

3 Additional (footnote 2) promotional price for new broadband customers: -€5.00 for the first 24 months (ZUHAUSE S) / ongoing (ZUHAUSE M&L)

4 Promotional price for upgraders from Double Play tariffs: -€5.00 for the first 24 months

5 SPEED OPTION XL / XXL: Also available with 200 / 500 Mbit for +€5.00 / +€25.00

All prices in € including VAT; excl. terminal equipment; excl. building connection fee

All prices are charged on a monthly basis if not identified seperately (usage prices excluded)

For general conditions and further details, please see www.telekom.de

GERMANY

MAGENTA ZUHAUSE HYBRID

MAGENTA ZUHAUSE HYBRID IN €	ZUHAUSE S[1] HYBRID	ZUHAUSE M[1] HYBRID	ZUHAUSE L[1] HYBRID
	34.95[2]	39.95[2]	44.95[2]
	16 Mbit/s bandwidth + Hybrid LTE-Boost (up to 16 Mbit/s), flat rate Internet usage flat rate voice usage	50 Mbit/s bandwidth[3] + Hybrid LTE-Boost (up to 50 Mbit/s), flat rate Internet usage flat rate voice usage	100 Mbit/s bandwidth + Hybrid LTE-Boost (up to 100 Mbit/s), flat rate Internet usage flat rate voice usage
ENTERTAIN			
START TV	2.00		
ENTERTAIN TV	10.00 [4,5]		
ENTERTAIN TV PLUS	15.00 [4,5]		
CITY, DLD	CENT/MINUTE		
national	0 ct		
international	from 2.9 ct		
fixed to mobile	19.0 ct		

CALLING PLANS

fixed to mobile		12.9 ct/minute, 4.00 monthly minimum charge
fixed to T-Mobile flatrate		14.95
fixed to mobile flatrate		19.95
CountryFlat 1		3.94
CountryFlat 2		14.95
Set-up		69.95 (non-recurring charge)

1 IP-Access incl. 2 voice channels and 3 telephone no.

2 Promotional price for new broadband customers: -€15.00/-€20.00/-€25.00 for the first 6 months (ZUHAUSE S/M/L Hybrid)

3 16 Mbit/s DSL-bandwidth in non-VDSL-areas (ZUHAUSE M Hybrid (2))

4 Additional (footnote 2) promotional price for new broadband customers: -€5.00 for the first 24 months (ZUHAUSE S Hybrid) / ongoing (ZUHAUSE M&L Hybrid)

5 Promotional price for upgraders from Double Play tariffs: -€5.00 for the first 24 months

All prices excl. terminal equipment; Speedport Hybrid required (rental price per month: 9.95€, purchase price 399.99€); excl. building connection fee

All prices in € including VAT; excl. terminal equipment.

All prices are charged on a monthly basis if not identified seperately (usage prices excluded)

For general conditions and further details, please see www.telekom.de

GERMANY

SINGLE PLAY

SINGLE PLAY IN €	CALL START[1]	CALL BASIC[1,2]	CALL COMFORT[1]
	20.95	20.95	30.94
	Standard, voice usage per minute	Standard, voice usage per minute, up to 120 minutes included within Germany	Standard, voice flat rate within Germany
CITY, CDL		**€ CENT/MINUTE**	
Peak/Off peak		2.9	flat
international		from 2.9	
fixed to mobile		19.0	
CALLING PLANS			
CountryFlat 1		€ 3.94 per month	
CountryFlat 2		€14.95 per month	
fixed to mobile		12.9 cents/minute, minimum charge €4 per month	
fixed to T-Mobile flatrate		€14.95 per month	
fixed to mobile flatrate		€19.95 per month	
Set-up		69.95 (non-recurring charge)	

1 Standard; Universal + €8

2 Universal up to 240 Min included

For general conditions and further details, please see www.telekom.de.
All prices in € including VAT.

GERMANY
MAGENTA EINS

Valid from 07th of February 2018

MAGENTA EINS[1] IN €	MagentaEINS S	MagentaEINS M	MagentaEINS L
Monthly charge	41.90 [2]	61.85 [2]	76.85 [2]
Fixed Line	Flatrate from fixed line to all national networks[3], including calls to all mobile networks. Internet Flat up to 16 Mbit/s download speed.	Flatrate from fixed line to all national networks[3], including calls to all mobile networks. Internet Flat up to 50 Mbit/s download speed.	Flatrate from fixed line to all national networks[3], including calls to all mobile networks. Internet Flat up to 100 Mbit/s download speed.
Mobile	Unlimited SMS and calls from mobile into all national networks in Germany[3]. 2 GB Internet flat with LTE Max until speed step down. Hotspot Flat and abroad option All Inclusive included.	Unlimited SMS and calls from mobile into all national networks in Germany[3]. 4 GB Internet flat with LTE Max until speed step down. Hotspot Flat and abroad option All Inclusive included.	Unlimited SMS and calls from mobile into all national networks in Germany[3]. 6 GB Internet flat with LTE Max until speed step down. Hotspot Flat and abroad option All Inclusive included.
TV		EntertainTV incl. UHD Receiver 500 GB Memory, including more than 20 channels in HD quality.	EntertainTV Plus incl. UHD Receiver 500 GB Memory, including more than 45 channels in HD quality.
MagentaEINS StreamOn Music&Video Max		Music &Video Streaming zero-rating for connected partners, high resolution	Music &Video Streaming zero-rating for connected partners, high resolution
Set-up	Service fee of 69,95€ for new fixed line & 39,95€ for new mobile contract.		
Duration of contract	24 months for new costumers; duration depends otherwise on fixed network and/or on mobile network contract conditions		
Handsets, options, calling plans, etc.	Available based on comparable mobile and fixed line stand-alone offers.		

1 Booking Prerequisites: only available as IP-Tariff; Mobile tariff with monthly charge ≥ €29.95; Identical adress for fixed and mobile contracts.

2 Promotional price in the first 6 months for new customers; Price after 6 months €56.90 (S), €81.85 (M), €101.85 (L), Regular price € 59.90 (S), €84.85 (M) and €104,85 (L). Prices might vary in online channel due to special online discounts.

3 Price for international calls depend of fixed-network and/or mobile-network contract. Otherwise from 2.9 cent/min. (fixed line) and from 69 cent/min. (mobile)

More MagentaEINS convergent Bundles including existing customers' tariffs available.

For general terms & conditions and further details, please visit: www.telekom.de. All prices in € and include VAT.

FIXED NETWORK

OVERVIEW DOM. INTERCONNECTION TARIFFS (EXCL. VAT)

TERMINATION FEES IN CENT/MIN.	PEAK (9:00-18:00), OLD	PEAK (9:00-18:00), NEW[1]	OFF-PEAK (18:00-9:00), OLD	OFF-PEAK (18:00-9:00), NEW[1]
Local	0.24	0.10	0.24	0.10
Single transit	0.26	entfallen	0.26	entfallen
Double transit national	0.26	0.10	0.26	0.10
ORIGINATION FEES IN CENT/MIN.	**PEAK (9:00-18:00), OLD**	**PEAK (9:00-18:00), NEW[1]**	**OFF-PEAK (18:00-9:00), OLD**	**OFF-PEAK (18:00-9:00), NEW[1]**
Local	0.24	0.23	0.24	0.23
Single transit	0.35	entfallen	0.35	entfallen
Double transit national	0.41	0.23	0.41	0.23

FULLY UNBUNDLED („ULL“)	OLD	NEW
One time fee	29.78 [2]	27.11 [3]
Monthly fee	10.19 [4]	10.02 [5]
PARTIALLY UNBUNDLED („LINE SHARING“)	**OLD**	**NEW**
One time fee	34.13 [11]	34.23 [12]
Monthly fee	1.68 [6]	1.78 [7]
IP-BSA ADSL SHARED (CLASSIC)	**OLD**	**NEW**
One time fee	–	44.87 [8,9]
Monthly fee	–	8.12 [8,9]
IP-BSA ADSL STAND ALONE (CLASSIC)	**OLD**	**NEW**
One time fee	–	47.68 [8,9]
Monthly fee	–	18.20 [8,9]
IP-BSA VDSL (until 50 Mbit/s)[10] STAND ALONE (CLASSIC)	**OLD (IN €)**	**NEW (IN €)**
One time fee	–	46.43 [8,9]
Monthly fee	–	25.32 [8,9]

1 Prices are valid from Jan. 01, 2017 to Dec. 31, 2018.
2 Depending on complexity – valid to Sep. 30, 2016.
3 Depending on complexity - valid to Sep. 30, 2018.
4 Twisted pair copper access line valid to Jun. 30, 2016.
5 Twisted pair copper access line valid to Jun. 30, 2019.
6 valid to Jun. 30, 2014.
7 valid from Jul. 01, 2014.
8 Since Dec. 01, 2010 these prices are ex post.
9 No price changes since Jul. 01, 2011 .
10 Monthly fee for VDSL Vectoring (over 50 to 100 Mbit/s): 29.52 €. Launch Aug. 01, 2014.
11 Depending on complexity – valid to Jun. 30, 2014.
12 Depending on complexity – valid from Jul. 01, 2014.

NOTES

CONTENT

UNITED STATES

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**9.445**	**8.982**	**9.236**	**8.466**	**9.052**	**(4,2)**	**33.738**	**35.736**	**5,9**
NET REVENUE			**9.443**	**8.982**	**9.236**	**8.466**	**9.052**	**(4,1)**	**33.736**	**35.736**	**5,9**
EBITDA		1	**2.325**	**2.386**	**2.640**	**2.288**	**2.003**	**(13,8)**	**8.561**	**9.316**	**8,8**
EBITDA margin (EBITDA / total revenues)	%		24,6	26,6	28,6	27,0	22,1	(2,5p)	25,4	26,1	0,7p
Depreciation, amortization and impairment losses			(1.353)	(1.387)	(1.308)	(1.130)	(1.194)	11,8	(5.282)	(5.019)	5,0
Profit (loss) from operations = EBIT			972	999	1.332	1.157	809	(16,8)	3.279	4.297	31,0
CASH CAPEX		2	**746**	**1.409**	**1.216**	**1.225**	**774**	**3,8**	**4.199**	**4.624**	**10,1**
CASH CONTRIBUTION		2	**1.579**	**977**	**1.423**	**1.063**	**1.229**	**(22,2)**	**4.362**	**4.692**	**7,6**

FINANCIALS (AS REPORTED)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**9.445**	**8.982**	**9.236**	**8.466**	**9.052**	**(4,2)**	**33.738**	**35.736**	**5,9**
NET REVENUE			**9.443**	**8.982**	**9.236**	**8.466**	**9.052**	**(4,1)**	**33.736**	**35.736**	**5,9**
EBITDA			**2.335**	**2.390**	**2.635**	**3.934**	**1.989**	**(14,8)**	**8.967**	**10.949**	**22,1**
EBITDA margin (EBITDA / total revenue)	%		24,7	26,6	28,5	46,5	22,0	(2,7p)	26,6	30,6	4,0p
Depreciation, amortization and impairment losses			(1.353)	(1.387)	(1.308)	(1.130)	(1.194)	11,8	(5.282)	(5.019)	5,0
Profit (loss) from operations = EBIT			982	1.003	1.328	2.804	795	(19,0)	3.685	5.930	60,9
CASH CAPEX			**1.177**	**1.442**	**8.463**	**1.243**	**784**	**(33,4)**	**5.855**	**11.932**	**n.a.**
CASH CONTRIBUTION			**1.158**	**948**	**(5.828)**	**2.691**	**1.206**	**4,1**	**3.112**	**(983)**	**n.a.**

1 Excluding special factors affecting EBITDA of EUR 10mn in Q4/16, EUR 4mn in Q1/17, EUR (4mn) in Q2/17, EUR 1,647mn (mainly related to reversal of impairment) in Q3/17 and EUR (14mn) in Q4/17

2 Adjusted by excluding spectrum purchases of EUR 431mn in Q4/16, EUR 33mn in Q1/17, EUR 7.247mn in Q2/17, EUR 18mn in Q3/17 and EUR 10mn in Q4/17

UNITED STATES

EBITDA RECONCILIATION

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE		**9.445**	**8.982**	**9.236**	**8.466**	**9.052**	**(4,2)**	**33.738**	**35.736**	**5,9**
Profit (loss) from operations = EBIT		982	1.003	1.328	2.804	795	(19,0)	3.685	5.930	60,9
- Depreciation, amortization and impairment losses		(1.353)	(1.387)	(1.308)	(1.130)	(1.194)	11,8	(5.282)	(5.019)	5,0
= EBITDA		**2.335**	**2.390**	**2.635**	**3.934**	**1.989**	**(14,8)**	**8.967**	**10.949**	**22,1**
EBITDA margin %		24,7	26,6	28,5	46,5	22,0	(2,7p)	26,6	30,6	4,0p
- Special factors affecting EBITDA		10	4	(4)	1.647	(14)	n.a.	406	1.633	n.a.
= EBITDA ADJUSTED FOR SPECIAL FACTORS	**1**	**2.325**	**2.386**	**2.640**	**2.288**	**2.003**	**(13,8)**	**8.561**	**9.316**	**8,8**
EBITDA margin (adjusted for special factors) %		24,6	26,6	28,6	27,0	22,1	(2,5p)	25,4	26,1	0,7p

SPECIAL FACTORS

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	FY 2016 millions of €	FY 2017 millions of €
EFFECTS ON EBITDA		**10**	**4**	**(4)**	**1.647**	**(14)**	**406**	**1.633**
- of which personnel		(1)	(1)	(4)	0	(2)	(11)	(7)
- of which other		11	5	0	1.647	(12)	417	1.640
EFFECTS ON PROFIT (LOSS) FROM OPERATIONS = EBIT		**10**	**4**	**(4)**	**1.647**	**(14)**	**406**	**1.633**
- of which personnel		(1)	(1)	(4)	0	(2)	(11)	(7)
- of which other		11	5	0	1.647	(12)	417	1.640

1 Excluding special factors affecting EBITDA of EUR 10mn in Q4/16, EUR 4mn in Q1/17, EUR (4mn) in Q2/17, EUR 1,647mn (mainly related to reversal of impairment) in Q3/17 and EUR (14mn) in Q4/17

UNITED STATES [4]

OPERATIONAL

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
CUSTOMERS (END OF PERIOD)	('000)		**71.455**	**72.597**	**69.562**	**70.731**	**72.585**	**1,6**	**71.455**	**72.585**	**1,6**
Branded postpaid	('000)	4	34.427	35.341	36.158	36.975	38.047	10,5	34.427	38.047	10,5
Branded prepay	('000)	4	19.813	20.199	20.293	20.519	20.668	4,3	19.813	20.668	4,3
- BRANDED	('000)	**4**	**54.240**	**55.540**	**56.451**	**57.494**	**58.715**	**8,3**	**54.240**	**58.715**	**8,3**
- WHOLESALE	('000)	**4, 5**	**17.215**	**17.057**	**13.111**	**13.237**	**13.870**	**(19,4)**	**17.215**	**13.870**	**(19,4)**
NET ADDS	('000)		**2.101**	**1.142**	**1.333**	**1.329**	**1.854**	**(11,8)**	**8.173**	**5.658**	**(30,8)**
Branded postpaid	('000)		1.197	914	817	817	1.072	(10,4)	4.097	3.620	(11,6)
Branded prepay	('000)		541	386	94	226	149	(72,5)	2.508	855	(65,9)
- BRANDED	('000)		**1.738**	**1.300**	**911**	**1.043**	**1.221**	**(29,7)**	**6.605**	**4.475**	**(32,2)**
- WHOLESALE	('000)		**363**	**(158)**	**422**	**286**	**633**	**74,4**	**1.568**	**1.183**	**(24,6)**
AVERAGE MONTHLY CHURN											
- Branded postpaid	(%)		1,5	1,4	1,3	1,4	1,4	(0,1p)	1,5	1,4	(0,1p)
- Branded prepay	(%)		3,9	4,0	3,9	4,3	4,0	0,1p	3,9	4,0	0,1p
TOTAL REVENUES	(€ million)		**9.445**	**8.982**	**9.236**	**8.466**	**9.052**	**(4,2)**	**33.738**	**35.736**	**5,9**
Service revenue	(€ million)	1	6.602	6.783	6.665	6.336	6.426	(2,7)	24.712	26.210	6,1
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	(€ million)	**2**	**2.325**	**2.386**	**2.640**	**2.288**	**2.003**	**(13,8)**	**8.561**	**9.316**	**8,8**
EBITDA margin (adjusted for special factors) (EBITDA / total revenue)	(%)		24,6	26,6	28,6	27,0	22,1	(2,5p)	25,4	26,1	0,7p
EBITDA margin (adjusted for special factors) (EBITDA / service revenue)	(%)		35,2	35,2	39,6	36,1	31,2	(4,0p)	34,6	35,5	0,9p
ARPU											
- Branded postpaid	(€)		42	42	40	37	37	(11,9)	40	39	(2,5)
- Branded prepay	(€)		35	36	35	33	32	(8,6)	34	34	0,0
NON-VOICE % OF ARPU	(%)		**59**	**61**	**63**	**65**	**67**	**8,0p**	**58**	**64**	**6,0p**
CASH CAPEX	(€ million)		**1.177**	**1.442**	**8.463**	**1.243**	**784**	**(33,4)**	**5.855**	**11.932**	**n.a.**
CASH CAPEX (ADJUSTED FOR SPECIAL FACTORS)	(€ million)	**3**	**746**	**1.409**	**1.216**	**1.225**	**774**	**3,8**	**4.199**	**4.624**	**10,1**
CASH CONTRIBUTION (ADJUSTED FOR SPECIAL FACTORS)	(€ million)	**3**	**1.579**	**977**	**1.423**	**1.063**	**1.229**	**(22,2)**	**4.362**	**4.692**	**7,6**

Note: T-Mobile's historical metrics have changed to conform with the current branded customer presentation. Branded customer metrics revenues exclude machine-to-machine, MVNO, third party roaming and third party one-time fees. Certain historical customer numbers may not tie to historical reports due to rounding.

1 Includes revenues from providing recurring wireless, customer roaming and handset insurance services.

2 Excluding special factors affecting EBITDA of EUR 10mn in Q4/16, EUR 4mn in Q1/17, EUR (4mn) in Q2/17, EUR 1,647mn (mainly related to reversal of impairment) in Q3/17 and EUR (14mn) in Q4/17.

3 Adjusted by excluding spectrum purchases of EUR 431mn in Q4/16, EUR 33mn in Q1/17, EUR 7.247mn in Q2/17, EUR 18mn in Q3/17 and EUR 10mn in Q4/17.

4 On September 1, 2016 T-Mobile US sold its marketing rights to certain of T-Mobile US' existing co-branded customers to a current wholesale partner for a nominal consideration (the Wholesale Transaction). Upon the sale, the transaction resulted in a transfer of 1,365 thousand branded postpaid customers and 326 thousand branded prepay customers to wholesale customers. Prospectively from September 1, 2016, net customer additions for these customers are included within wholesale customers. Ending customers as of September 30, 2016 reflect the transfer in connection with the transaction.

5 T-Mobile US believes current and future regulatory changes have made the Lifeline program offered by T-Mobile US' wholesale partners uneconomical. T-Mobile US will continue to support its wholesale partners offering the Lifeline program, but has excluded the Lifeline customers from the reported wholesale subscriber base resulting in a removal of 160 thousand and 4,368 thousand reported wholesale customers as of the beginning of the third quarter of 2017 and the second quarter of 2017, respectively. No further Lifeline adjustments are expected in future periods.

For plan details see:

https://www.t-mobile.com/cell-phone-plans

https://prepaid-phones.t-mobile.com/prepaid-plans

https://business.t-mobile.com/t-mobile-one-business

https://www.metropcs.com/shop/plans

UNITED STATES[4]

OPERATIONAL IN US-$

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
CUSTOMERS (END OF PERIOD)	('000)		**71.455**	**72.597**	**69.562**	**70.731**	**72.585**	**1,6**	**71.455**	**72.585**	**1,6**
Branded postpaid	('000)	4	34.427	35.341	36.158	36.975	38.047	10,5	34.427	38.047	10,5
Branded prepay	('000)	4	19.813	20.199	20.293	20.519	20.668	4,3	19.813	20.668	4,3
- BRANDED	('000)	**4**	**54.240**	**55.540**	**56.451**	**57.494**	**58.715**	**8,3**	**54.240**	**58.715**	**8,3**
- WHOLESALE	('000)	**4, 5**	**17.215**	**17.057**	**13.111**	**13.237**	**13.870**	**(19,4)**	**17.215**	**13.870**	**(19,4)**
NET ADDS	('000)		**2.101**	**1.142**	**1.333**	**1.329**	**1.854**	**(11,8)**	**8.173**	**5.658**	**(30,8)**
Branded postpaid	('000)		1.197	914	817	817	1.072	(10,4)	4.097	3.620	(11,6)
Branded prepay	('000)		541	386	94	226	149	(72,5)	2.508	855	(65,9)
- BRANDED	('000)		**1.738**	**1.300**	**911**	**1.043**	**1.221**	**(29,7)**	**6.605**	**4.475**	**(32,2)**
- WHOLESALE	('000)		**363**	**(158)**	**422**	**286**	**633**	**74,4**	**1.568**	**1.183**	**(24,6)**
AVERAGE MONTHLY CHURN											
- Branded postpaid	(%)		1,5	1,4	1,3	1,4	1,4	(0,1p)	1,5	1,4	(0,1p)
- Branded prepay	(%)		3,9	4,0	3,9	4,3	4,0	0,1p	3,9	4,0	0,1p
TOTAL REVENUES	(USD million)		**10.175**	**9.563**	**10.151**	**9.939**	**10.664**	**4,8**	**37.294**	**40.316**	**8,1**
Service revenue	(USD million)	1	7.115	7.221	7.329	7.439	7.570	6,4	27.328	29.558	8,2
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	(USD million)	2	**2.502**	**2.540**	**2.899**	**2.680**	**2.360**	**(5,7)**	**9.465**	**10.479**	**10,7**
EBITDA margin (adjusted for special factors) (EBITDA / total revenue)	(%)		24,6	26,6	28,6	27,0	22,1	(2,5p)	25,4	26,0	0,6p
EBITDA margin (adjusted for special factors) (EBITDA / service revenue)	(%)		35,2	35,2	39,6	36,0	31,2	(4,0p)	34,6	35,5	0,9p
BLENDED ARPU											
- Branded postpaid	(USD)		45	45	44	44	43	(4,4)	44	44	0
- Branded prepay	(USD)		38	38	38	38	38	0,0	38	38	0,0
NON-VOICE % OF ARPU	(%)		**59**	**61**	**63**	**65**	**67**	**8,0p**	**58**	**64**	**6,0p**
CASH CAPEX	(USD million)		**1.275**	**1.534**	**9.334**	**1.452**	**923**	**(27,6)**	**6.488**	**13.243**	**n.a.**
CASH CAPEX (ADJUSTED FOR SPECIAL FACTORS)	(USD million)	3	**812**	**1.498**	**1.330**	**1.429**	**913**	**12,4**	**4.663**	**5.170**	**10,9**
CASH CONTRIBUTION (ADJUSTED FOR SPECIAL FACTORS)	(USD million)	3	**1.690**	**1.042**	**1.569**	**1.251**	**1.447**	**(14,4)**	**4.802**	**5.309**	**10,6**

Note: T-Mobile's historical metrics have changed to conform with the current branded customer presentation. Branded customer metrics revenues exclude machine-to-machine, MVNO, third party roaming and third party one-time fees. Certain historical customer numbers may not tie to historical reports due to rounding.

1 Includes revenues from providing recurring wireless, customer roaming and handset insurance services.

2 Excluding special factors affecting EBITDA of USD 11mn in Q4/16, USD 5mn in Q1/17, USD (5mn) in Q2/17, USD 1,945mn (mainly related to reversal of impairment) in Q3/17 and USD (16mn) in Q4/17.

3 Adjusted by excluding spectrum purchases of USD 463mn in Q4/16, USD 36mn in Q1/17, USD 8.004mn in Q2/17, USD 22mn in Q3/17 and USD 11mn in Q4/17.

4 On September 1, 2016 T-Mobile US sold its marketing rights to certain of T-Mobile US' existing co-branded customers to a current wholesale partner for a nominal consideration (the Wholesale Transaction). Upon the sale, the transaction resulted in a transfer of 1,365 thousand branded postpaid customers and 326 thousand branded prepay customers to wholesale customers. Prospectively from September 1, 2016, net customer additions for these customers are included within wholesale customers. Ending customers as of September 30, 2016 reflect the transfer in connection with the transaction.

5 T-Mobile US believes current and future regulatory changes have made the Lifeline program offered by T-Mobile US' wholesale partners uneconomical. T-Mobile US will continue to support its wholesale partners offering the Lifeline program, but has excluded the Lifeline customers from the reported wholesale subscriber base resulting in a removal of 160 thousand and 4,368 thousand reported wholesale customers as of the beginning of the third quarter of 2017 and the second quarter of 2017, respectively. No further Lifeline adjustments are expected in future periods.

For US-GAAP numbers please visit investor.t-mobile.com to download the corresponding T-Mobile US earnings release.

For plan details see:

https://www.t-mobile.com/cell-phone-plans

https://prepaid-phones.t-mobile.com/prepaid-plans

https://business.t-mobile.com/t-mobile-one-business

https://www.metropcs.com/shop/plans

NOTES

CONTENT

EUROPE

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**2.996**	**2.781**	**2.860**	**2.945**	**3.002**	**0,2**	**11.454**	**11.589**	**1,2**
NET REVENUE			**2.900**	**2.695**	**2.772**	**2.848**	**2.903**	**0,1**	**11.111**	**11.218**	**1,0**
EBITDA		**1**	**930**	**889**	**947**	**1.007**	**906**	**(2,6)**	**3.866**	**3.749**	**(3,0)**
EBITDA margin (EBITDA / total revenue)	%		31,0	32,0	33,1	34,2	30,2	(0,8p)	33,8	32,3	(1,5p)
Depreciation, amortization and impairment losses		4	(659)	(553)	(557)	(558)	(624)	5,3	(2.405)	(2.292)	4,7
Profit (loss) from operations = EBIT		2	271	336	390	449	282	4,1	1.461	1.457	(0,3)
CASH CAPEX		**3**	**411**	**473**	**403**	**395**	**517**	**25,8**	**1.598**	**1.787**	**11,8**
CASH CONTRIBUTION			**519**	**416**	**544**	**613**	**389**	**(25,0)**	**2.268**	**1.962**	**(13,5)**

FINANCIALS (AS REPORTED)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**2.996**	**2.781**	**2.860**	**2.945**	**3.002**	**0,2**	**11.454**	**11.589**	**1,2**
NET REVENUE			**2.900**	**2.695**	**2.772**	**2.848**	**2.903**	**0,1**	**11.111**	**11.218**	**1,0**
EBITDA			**894**	**877**	**913**	**959**	**870**	**(2,7)**	**3.773**	**3.619**	**(4,1)**
EBITDA margin (EBITDA / total revenue)	%		29,8	31,5	31,9	32,6	29,0	(0,8p)	32,9	31,2	(1,7p)
Depreciation, amortization and impairment losses			(843)	(553)	(557)	(558)	(1.489)	(76,6)	(2.589)	(3.157)	(21,9)
Profit (loss) from operations = EBIT			51	324	357	400	(620)	n.a.	1.184	462	(61,0)
CASH CAPEX			**413**	**475**	**403**	**395**	**601**	**45,5**	**2.600**	**1.874**	**(27,9)**
CASH CONTRIBUTION			**481**	**402**	**510**	**564**	**269**	**(44,1)**	**1.173**	**1.745**	**48,8**

1 Special factors affecting EBITDA: EUR 36mn in Q4/16, EUR 12mn in Q1/17, EUR 33mn in Q2/17, EUR 49mn in Q3/17 and EUR 36mn in Q4/17.
2 Special factors affecting EBIT: 220mn in Q4/16 (thereof 36mn resulting from EBITDA), EUR 12mn in Q1/17 (thereof EUR12mn resulting from EBITDA), EUR 33mn in Q2/17 (thereof EUR 33mn resulting from EBITDA), EUR 49mn in Q3/17 (thereof EUR 49mn resulting from EBITDA) and EUR 902mn in Q4/17 (thereof EUR 36mn resulting from EBITDA).
3 EUR 1mn in Poland in Q4/16, EUR 1mn in Greece in Q4/16, EUR 1mn in Montenegro in Q4/16, EUR 2mn in Greece in Q1/17 and EUR 84mn in Greece in Q4/17.
4 The Q4/17 numbers are affected by an EUR 787mn impairment in Poland.

EUROPE

EBITDA RECONCILIATION

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**2.996**	**2.781**	**2.860**	**2.945**	**3.002**	**0,2**	**11.454**	**11.589**	**1,2**
TOTAL REVENUE (ADJUSTED FOR SPECIAL FACTORS)			**2.996**	**2.781**	**2.860**	**2.945**	**3.002**	**0,2**	**11.454**	**11.589**	**1,2**
Profit (loss) from operations = EBIT			51	324	357	400	(620)	n.a.	1.184	462	(61,0)
- Depreciation, amortization and impairment losses			(843)	(553)	(557)	(558)	(1.489)	(76,6)	(2.589)	(3.157)	(21,9)
= EBITDA			**894**	**877**	**913**	**959**	**870**	**(2,7)**	**3.773**	**3.619**	**(4,1)**
EBITDA margin	%		29,8	31,5	31,9	32,6	29,0	(0,8p)	32,9	31,2	(1,7p)
- Special factors affecting EBITDA			(36)	(12)	(33)	(49)	(36)	0,0	(93)	(130)	(39,8)
= EBITDA (ADJUSTED FOR SPECIAL FACTORS)			**930**	**889**	**947**	**1.007**	**906**	**(2,6)**	**3.866**	**3.749**	**(3,0)**
EBITDA margin (adjusted for special factors)	%		31,0	32,0	33,1	34,2	30,2	(0,8p)	33,8	32,3	(1,5p)

SPECIAL FACTORS

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
EFFECTS ON EBITDA		**(36)**	**(12)**	**(33)**	**(49)**	**(36)**	**0,0**	**(93)**	**(130)**	**(39,8)**
- of which personnel		(21)	(11)	(13)	(38)	(30)	(42,9)	(100)	(92)	8,0
- of which other		(15)	0	(21)	(10)	(6)	60,0	7	(37)	n.a.
EFFECTS ON PROFIT (LOSS) FROM OPERATIONS = EBIT		**(220)**	**(12)**	**(33)**	**(49)**	**(902)**	**n.a.**	**(277)**	**(995)**	**n.a.**
- of which personnel		(21)	(11)	(13)	(38)	(30)	(42,9)	(100)	(92)	8,0
- of which other		(199)	0	(21)	(10)	(871)	n.a.	(177)	(902)	n.a.

GREECE

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	**Q4 2017 millions of €**	Change %	FY 2016 millions of €	**FY 2017 millions of €**	Change %
TOTAL REVENUE			**752**	**690**	**693**	**740**	**723**	**(3,9)**	**2.883**	**2.846**	**(1,3)**
- of which Fixed network			503	471	454	472	467	(7,2)	1.890	1.865	**(1,3)**
- of which Mobile communications			307	274	293	323	313	2,0	1.194	1.202	**0,7**
EBITDA		**1**	**286**	**266**	**273**	**303**	**293**	**2,4**	**1.120**	**1.135**	**1,3**
- of which Fixed network			172	171	166	171	185	7,6	676	693	2,5
- of which Mobile communications			100	87	100	123	94	(6,0)	403	404	0,2
EBITDA MARGIN (EBITDA / TOTAL REVENUE)	**%**		**38,0**	**38,6**	**39,4**	**40,9**	**40,5**	**2,5p**	**38,8**	**39,9**	**1,1p**
- of which Fixed network	%		34,2	36,3	36,6	36,2	39,6	5,4p	35,8	37,2	1,4p
- of which Mobile communications	%		32,6	31,8	34,1	38,1	30,0	(2,6p)	33,8	33,6	(0,2p)
CASH CAPEX (AS REPORTED)			**95**	**102**	**123**	**113**	**241**	**n.a.**	**375**	**580**	**54,7**
- of which Fixed network			53	64	71	74	106	100,0	221	315	42,5
- of which Mobile communications			37	38	51	36	128	n.a.	142	253	78,2
CASH CONTRIBUTION			**191**	**164**	**150**	**190**	**52**	**(72,8)**	**745**	**555**	**(25,5)**
- of which Fixed network			119	107	95	97	79	(33,6)	455	378	(16,9)
- of which Mobile communications			63	49	49	87	(34)	n.a.	261	151	(42,1)

1 Special factors affecting EBITDA: EUR 7mn in Q4/16, EUR 2mn in Q1/17, EUR 26mn in Q3/17 and EUR -8mn in Q4/17.

GREECE

OPERATIONALS[1]

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
FIXED NETWORK (END OF PERIOD)											
Fixed network Access Lines	('000)		2.564	2.547	2.539	2.536	2.547	(0,7)	2.564	2.547	(0,7)
- IP	('000)		607	759	937	1.046	1.156	90,4	607	1.156	90,4
Broadband Access Lines Retail	('000)		1.633	1.653	1.680	1.714	1.757	7,6	1.633	1.757	7,6
TV (IPTV, SAT, Cable)	('000)		497	499	501	515	523	5,2	497	523	5,2
Wholesale Bundled Access Lines	('000)		49	56	67	76	86	75,5	49	86	75,5
ULLs/Wholesale PSTN	('000)		2.091	2.108	2.111	2.111	2.117	1,2	2.091	2.117	1,2
Wholesale Unbundled Access Lines	('000)		0	0	0	0	0	n.a.	0	0	n.a.
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€)		230	218	236	264	240	4,3	944	957	1,4
CUSTOMERS	**('000)**		**7.725**	**7.733**	**7.737**	**7.867**	**7.981**	**3,3**	**7.725**	**7.981**	**3,3**
- contract	('000)		2.218	2.226	2.224	2.222	2.231	0,6	2.218	2.231	0,6
- prepaid	('000)		5.507	5.507	5.513	5.645	5.750	4,4	5.507	5.750	4,4
NET ADDS	**('000)**		**58**	**8**	**4**	**130**	**114**	**96,6**	**326**	**256**	**(21,5)**
- contract	('000)		(6)	8	(2)	(2)	9	n.a.	(31)	13	n.a.
- prepaid	('000)		65	0	6	132	105	61,5	357	243	(31,9)
AVERAGE MONTHLY CHURN	**(%)**		**1,8**	**1,7**	**2,2**	**2,0**	**2,2**	**0,4p**	**1,7**	**2,0**	**0,3p**
- contract	(%)		1,4	1,2	1,3	1,4	1,3	(0,1p)	1,4	1,3	(0,1p)
SAC PER GROSS ADD	**€**		**11**	**15**	**11**	**7**	**8**	**(27,3)**	**11**	**10**	**(9,1)**
- contract	€		63	73	69	53	61	(3,2)	63	64	1,6
- prepaid	€		2	4	3	2	3	50,0	2	3	50,0
SRC PER RETAINED CUSTOMER	**€**		**42**	**43**	**35**	**28**	**35**	**(16,7)**	**39**	**35**	**(10,3)**
ARPU	**€**		**10**	**9**	**10**	**11**	**10**	**0,0**	**10**	**10**	**0,0**
- contract	€		24	23	25	28	25	4,2	25	26	4,0
- prepaid	€		4	4	4	4	4	0,0	4	4	0,0
NON-VOICE % OF ARPU	**(%)**		**31**	**33**	**34**	**38**	**36**	**5p**	**30**	**35**	**5p**
MOU PER CUSTOMER	**(min)**		**273**	**263**	**276**	**280**	**273**	**0,0**	**276**	**273**	**(1,1)**
- contract	(min)		441	421	441	443	434	(1,6)	442	435	(1,6)

1 The Q1/17 numbers are adjusted for 137k re-classifications due to technical problems.

ROMANIA
FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**267**	**230**	**236**	**240**	**266**	**(0,4)**	**985**	**972**	**(1,3)**
PRODUCT VIEW			**267**	**230**	**236**	**240**	**266**	**(0,4)**	**985**	**972**	**(1,3)**
- Fixed network			159	127	133	131	138	(13,2)	557	528	(5,2)
- Mobile communications			108	104	103	109	128	18,5	428	444	3,7
SEGMENT VIEW			**267**	**230**	**236**	**240**	**266**	**(0,4)**	**985**	**972**	**(1,3)**
- of which Consumer			152	144	144	141	156	2,6	608	587	(3,5)
- of which Business			81	49	41	50	67	(17,3)	240	213	(11,3)
EBITDA		1	**46**	**37**	**39**	**43**	**47**	**2,2**	**175**	**166**	**(5,1)**
EBITDA MARGIN (EBITDA / TOTAL REVENUE)	%		**17,2**	**16,1**	**16,5**	**17,9**	**17,7**	**0,5p**	**17,8**	**17,1**	**(0,7p)**
CASH CAPEX (AS REPORTED)			**24**	**48**	**36**	**37**	**40**	**66,7**	**117**	**162**	**38,5**
CASH CONTRIBUTION			**22**	**(11)**	**3**	**6**	**7**	**(68,2)**	**58**	**4**	**(93,1)**

1 Special factors affecting EBITDA: EUR 8mn in Q2/17, EUR 5mn in Q3/17 and EUR 6mn in Q4/17.

ROMANIA
OPERATIONALS

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
FIXED NETWORK (END OF PERIOD)											
Fixed network Access Lines	('000)		1.969	1.937	1.922	1.894	1.865	(5,3)	1.969	1.865	(5,3)
- IP	('000)		493	520	562	597	630	27,8	493	630	27,8
Broadband Access Lines Retail	('000)		1.194	1.186	1.191	1.187	1.182	(1,0)	1.194	1.182	(1,0)
TV (IPTV, SAT, Cable)	('000)		1.464	1.457	1.471	1.473	1.470	0,4	1.464	1.470	0,4
Wholesale Bundled Access Lines	('000)		0	0	0	0	0	n.a.	0	0	n.a.
ULLs/Wholesale PSTN	('000)		0	0	0	0	0	n.a.	0	0	n.a.
Wholesale Unbundled Access Lines	('000)		0	0	0	0	0	n.a.	0	0	n.a.
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€)		80	78	80	86	92	15,0	326	336	3,1
CUSTOMERS	**('000)**		**5.722**	**5.428**	**5.278**	**5.231**	**5.258**	**(8,1)**	**5.722**	**5.258**	**(8,1)**
- contract	('000)		2.007	2.024	2.047	2.097	2.148	7,0	2.007	2.148	7,0
- prepaid	('000)		3.715	3.403	3.231	3.133	3.109	(16,3)	3.715	3.109	(16,3)
NET ADDS	**('000)**		**(147)**	**(294)**	**(149)**	**(48)**	**27**	**n.a.**	**(270)**	**(464)**	**(71,9)**
- contract	('000)		41	17	23	50	51	24,4	114	141	23,7
- prepaid	('000)		(188)	(312)	(172)	(98)	(24)	87,2	(384)	(605)	(57,6)
AVERAGE MONTHLY CHURN	**(%)**		**3,3**	**3,7**	**3,4**	**3,2**	**3,4**	**0,1p**	**3,3**	**3,4**	**0,1p**
- contract	(%)		1,6	1,8	1,4	1,2	2,4	0,8p	1,6	1,7	0,1p
SAC PER GROSS ADD	**€**		**10**	**10**	**14**	**12**	**14**	**40,0**	**9**	**13**	**44,4**
- contract	€		34	27	58	51	59	73,5	35	50	42,9
- prepaid	€		1	1	0	(1)	(4)	n.a.	1	(1)	n.a.
SRC PER RETAINED CUSTOMER	**€**		**11**	**12**	**12**	**1**	**(6)**	**n.a.**	**16**	**4**	**(75,0)**
ARPU	**€**		**5**	**5**	**5**	**5**	**6**	**20,0**	**5**	**5**	**0,0**
- contract	€		9	8	9	9	10	11,1	9	9	0,0
- prepaid	€		2	3	3	3	3	50,0	3	3	0,0
NON-VOICE % OF ARPU	**(%)**		**31**	**31**	**32**	**38**	**35**	**5p**	**30**	**34**	**4p**
MOU PER CUSTOMER	**(min)**		**284**	**286**	**293**	**305**	**317**	**11,6**	**290**	**300**	**3,4**
- contract	(min)		415	402	401	410	413	(0,5)	421	406	(3,6)

HUNGARY

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**447**	**415**	**454**	**463**	**476**	**6,5**	**1.673**	**1.808**	**8,1**
PRODUCT VIEW			**447**	**415**	**454**	**463**	**476**	**6,5**	**1.673**	**1.808**	**8,1**
- Fixed network			217	198	222	211	233	7,4	787	865	9,9
- Mobile communications			229	217	232	252	242	5,7	885	943	6,6
SEGMENT VIEW			**447**	**415**	**454**	**463**	**476**	**6,5**	**1.673**	**1.808**	**8,1**
- of which Consumer			247	239	248	263	265	7,3	948	1.015	7,1
- of which Business			166	143	170	157	176	6,0	577	646	12,0
EBITDA		**1**	**124**	**109**	**141**	**168**	**127**	**2,4**	**539**	**545**	**1,1**
EBITDA MARGIN (EBITDA / TOTAL REVENUE)	%		**27,7**	**26,3**	**31,1**	**36,3**	**26,7**	**(1,0p)**	**32,2**	**30,1**	**(2,1p)**
CASH CAPEX (AS REPORTED)			**81**	**69**	**58**	**50**	**83**	**2,5**	**279**	**260**	**(6,8)**
CASH CONTRIBUTION			**43**	**40**	**83**	**118**	**44**	**2,3**	**260**	**285**	**9,6**

1 Special factors affecting EBITDA: EUR 3mn in Q4/16, EUR 2mn in Q1/17, EUR 2mn in Q2/17, EUR 2mn in Q3/17 and EUR 5mn in Q4/17.

HUNGARY
OPERATIONALS[1]

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
FIXED NETWORK (END OF PERIOD)											
Fixed network Access Lines	('000)		1.629	1.630	1.637	1.634	1.632	0,2	1.629	1.632	0,2
- IP	('000)		1.583	1.587	1.597	1.597	1.598	0,9	1.583	1.598	0,9
Broadband Access Lines Retail	('000)		1.011	1.026	1.047	1.059	1.071	5,9	1.011	1.071	5,9
TV (IPTV, SAT, Cable)	('000)		969	985	1.006	1.016	1.026	5,9	969	1.026	5,9
Wholesale Bundled Access Lines	('000)		14	13	13	13	12	(14,3)	14	12	(14,3)
ULLs/Wholesale PSTN	('000)		7	6	6	4	4	(42,9)	7	4	(42,9)
Wholesale Unbundled Access Lines	('000)		12	11	20	20	20	66,7	12	20	66,7
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€)		177	175	180	191	195	10,2	706	742	5,1
CUSTOMERS	**('000)**		**5.332**	**5.304**	**5.390**	**5.401**	**5.293**	**(0,7)**	**5.332**	**5.293**	**(0,7)**
- contract	('000)		3.155	3.188	3.327	3.382	3.415	8,2	3.155	3.415	8,2
- prepaid	('000)		2.177	2.116	2.063	2.019	1.878	(13,7)	2.177	1.878	(13,7)
NET ADDS	**('000)**		**31**	**(28)**	**86**	**11**	**(108)**	**n.a.**	**(172)**	**(39)**	**77,3**
- contract	('000)		33	33	139	55	33	0,0	52	260	n.a.
- prepaid	('000)		(2)	(61)	(53)	(45)	(140)	n.a.	(224)	(299)	(33,5)
AVERAGE MONTHLY CHURN	**(%)**		**1,3**	**1,3**	**1,3**	**1,5**	**2,0**	**0,7p**	**1,6**	**1,5**	**(0,1p)**
- contract	(%)		0,8	0,7	0,7	0,7	0,6	(0,2p)	0,8	0,7	(0,1p)
SAC PER GROSS ADD	**€**		**21**	**25**	**12**	**12**	**19**	**(9,5)**	**19**	**15**	**(21,1)**
- contract	€		46	44	18	25	40	(13,0)	44	26	(40,9)
- prepaid	€		6	5	3	2	4	(33,3)	5	3	(40,0)
SRC PER RETAINED CUSTOMER	**€**		**64**	**68**	**29**	**42**	**83**	**29,7**	**59**	**58**	**(1,7)**
ARPU	**€**		**11**	**11**	**11**	**12**	**12**	**9,1**	**11**	**12**	**9,1**
- contract	€		16	16	16	17	17	6,3	16	17	6,3
- prepaid	€		4	3	4	3	4	0,0	4	3	(25,0)
NON-VOICE % OF ARPU	**(%)**		**35**	**36**	**37**	**40**	**43**	**8p**	**34**	**39**	**5p**
MOU PER CUSTOMER	**(min)**		**200**	**201**	**212**	**209**	**203**	**1,5**	**197**	**206**	**4,6**
- contract	(min)		304	300	307	298	280	(7,9)	300	296	(1,3)

1 The Q4/16 numbers are including 19k disconnections in BB and 22k disconnections in TV.

POLAND

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)[1]

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**394**	**364**	**378**	**376**	**392**	**(0,5)**	**1.488**	**1.509**	**1,4**
PRODUCT VIEW			**394**	**364**	**378**	**376**	**392**	**(0,5)**	**1.488**	**1.509**	**1,4**
- Fixed network			25	25	25	27	29	16,0	99	105	6,1
- Mobile communications			368	339	352	349	363	(1,4)	1.388	1.403	1,1
SEGMENT VIEW			**394**	**364**	**378**	**376**	**392**	**(0,5)**	**1.488**	**1.509**	**1,4**
- of which Consumer			217	206	207	208	213	(1,8)	812	834	2,7
- of which Business			138	122	129	124	133	(3,6)	516	508	(1,6)
EBITDA		2	**136**	**100**	**125**	**88**	**106**	**(22,1)**	**482**	**419**	**(13,1)**
EBITDA MARGIN (EBITDA / TOTAL REVENUE)	%		**34,5**	**27,5**	**33,1**	**23,4**	**27,0**	**(7,5p)**	**32,4**	**27,8**	**(4,6p)**
CASH CAPEX (AS REPORTED)			**70**	**76**	**34**	**45**	**48**	**(31,4)**	**1.143**	**203**	**(82,2)**
CASH CONTRIBUTION			**66**	**24**	**91**	**43**	**58**	**(12,1)**	**(661)**	**216**	**n.a.**

1 The business of T-Systems Polska Sp. z o.o., which was previously organizationally assigned to the Systems Solutions operating segment, is disclosed under the Europe operating segment as of September 1, 2017. Figures for prior periods were not adjusted.
2 Special factors affecting EBITDA: EUR 4mn in Q4/16, EUR 1mn in Q1/17, EUR 1mn in Q2/17, EUR 1mn in Q3/17 and EUR 1mn in Q4/17.

POLAND

OPERATIONALS[1, 2]

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
FIXED NETWORK (END OF PERIOD)											
Fixed network Access Lines	('000)		20	33	31	29	32	60,0	20	32	60,0
- IP	('000)		2	2	1	1	2	0,0	2	2	0,0
Broadband Access Lines Retail	('000)		10	20	18	17	15	50,0	10	15	50,0
TV (IPTV, SAT, Cable)	('000)		0	0	0	0	0	n.a.	0	0	n.a.
Wholesale Bundled Access Lines	('000)		0	0	0	0	0	n.a.	0	0	n.a.
ULLs/Wholesale PSTN	('000)		0	0	0	0	0	n.a.	0	0	n.a.
Wholesale Unbundled Access Lines	('000)		5	0	0	0	0	n.a.	5	0	n.a.
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€)		246	217	227	224	230	(6,5)	945	899	(4,9)
CUSTOMERS	**('000)**		**10.634**	**10.229**	**10.251**	**10.297**	**10.454**	**(1,7)**	**10.634**	**10.454**	**(1,7)**
- contract	('000)		6.612	6.696	6.741	6.797	6.921	4,7	6.612	6.921	4,7
- prepaid	('000)		4.022	3.533	3.510	3.500	3.533	(12,2)	4.022	3.533	(12,2)
NET ADDS	**('000)**		**(587)**	**(405)**	**21**	**46**	**156**	**n.a.**	**(1.422)**	**(180)**	**87,3**
- contract	('000)		70	84	45	56	124	77,1	43	309	n.a.
- prepaid	('000)		(657)	(489)	(24)	(10)	33	n.a.	(1.465)	(490)	66,6
AVERAGE MONTHLY CHURN	**(%)**		**3,4**	**3,2**	**2,0**	**1,8**	**1,5**	**(1,9p)**	**3,3**	**2,1**	**(1,2p)**
- contract	(%)		1,4	1,3	1,1	1,0	1,0	(0,4p)	1,2	1,1	(0,1p)
SAC PER GROSS ADD	**€**		**10**	**7**	**2**	**5**	**3**	**(70,0)**	**7**	**4**	**(42,9)**
- contract	€		15	12	3	9	3	(80,0)	21	7	(66,7)
- prepaid	€		4	2	2	3	3	(25,0)	2	3	50,0
SRC PER RETAINED CUSTOMER	**€**		**13**	**(3)**	**(5)**	**(6)**	**(12)**	**n.a.**	**4**	**(6)**	**n.a.**
ARPU	**€**		**8**	**7**	**7**	**7**	**7**	**(12,5)**	**7**	**7**	**0,0**
- contract	€		11	10	10	9	10	(9,1)	10	10	0,0
- prepaid	€		2	2	3	3	3	50,0	2	3	50,0
NON-VOICE % OF ARPU	**(%)**		**42**	**47**	**48**	**48**	**50**	**8p**	**42**	**48**	**6p**
MOU PER CUSTOMER	**(min)**		**232**	**246**	**248**	**258**	**269**	**15,9**	**216**	**255**	**18,1**
- contract	(min)		338	340	330	340	356	5,3	331	342	3,3

1 In Q1/17 the number of prepaid customers has been influenced by the Prepaid Registration which ended in January 2017.
2 From Q1/17 reporting has been amended to cover additional local GTS accesses.

CZECH REPUBLIC

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE		**258**	**237**	**248**	**255**	**271**	**5,0**	**959**	**1.011**	**5,4**
PRODUCT VIEW		**258**	**237**	**248**	**255**	**271**	**5,0**	**959**	**1.011**	**5,4**
- Fixed network		66	54	59	61	68	3,0	220	241	9,5
- Mobile communications		192	182	189	195	203	5,7	739	770	4,2
SEGMENT VIEW		**258**	**237**	**248**	**255**	**271**	**5,0**	**959**	**1.011**	**5,4**
- of which Consumer		124	117	121	127	134	8,1	474	499	5,3
- of which Business		119	104	111	112	122	2,5	433	449	3,7
EBITDA	**1**	**98**	**100**	**100**	**101**	**105**	**7,1**	**400**	**406**	**1,5**
EBITDA MARGIN (EBITDA / TOTAL REVENUE) %		**38,0**	**42,2**	**40,3**	**39,6**	**38,7**	**0,7p**	**41,7**	**40,2**	**(1,5p)**
CASH CAPEX (AS REPORTED)		**26**	**37**	**28**	**25**	**32**	**23,1**	**160**	**121**	**(24,4)**
CASH CONTRIBUTION		**72**	**63**	**72**	**76**	**73**	**1,4**	**240**	**285**	**18,8**

1 Special factors affecting EBITDA: EUR 2mn in Q4/16, EUR 1mn in Q1/17, EUR 1mn in Q2/17, EUR 1mn in Q3/17 and EUR 19mn in Q4/17.

CZECH REPUBLIC
OPERATIONALS

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
FIXED NETWORK (END OF PERIOD)											
Fixed network Access Lines	('000)		140	143	146	153	197	40,7	140	197	40,7
- IP	('000)		126	130	133	141	185	46,8	126	185	46,8
Broadband Access Lines Retail	('000)	1	132	133	133	133	166	25,8	132	166	25,8
TV (IPTV, SAT, Cable)	('000)		12	15	19	25	37	n.a.	12	37	n.a.
Wholesale Bundled Access Lines	('000)		0	0	0	0	0	n.a.	0	0	n.a.
ULLs/Wholesale PSTN	('000)		6	6	6	6	6	0,0	6	6	0,0
Wholesale Unbundled Access Lines	('000)		2	2	2	2	2	0,0	2	2	0,0
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€)		171	169	177	183	185	8,2	678	715	5,5
CUSTOMERS	**('000)**		**6.049**	**6.097**	**6.155**	**6.176**	**6.176**	**2,1**	**6.049**	**6.176**	**2,1**
- contract	('000)		3.687	3.736	3.790	3.819	3.854	4,5	3.687	3.854	4,5
- prepaid	('000)		2.362	2.361	2.365	2.358	2.323	(1,7)	2.362	2.323	(1,7)
NET ADDS	**('000)**		**46**	**48**	**58**	**21**	**0**	**(100,0)**	**30**	**128**	**n.a.**
- contract	('000)		40	49	55	29	35	(12,5)	90	167	85,6
- prepaid	('000)		6	(1)	4	(8)	(35)	n.a.	(60)	(39)	35,0
AVERAGE MONTHLY CHURN	**(%)**		**1,3**	**1,2**	**1,2**	**1,3**	**1,4**	**0,1p**	**1,4**	**1,3**	**(0,1p)**
- contract	(%)		0,5	0,5	0,5	0,6	0,5	0,0p	0,5	0,5	0,0p
SAC PER GROSS ADD	**€**		**25**	**21**	**24**	**21**	**30**	**20,0**	**22**	**24**	**9,1**
- contract	€		58	49	55	54	74	27,6	52	58	11,5
- prepaid	€		5	2	2	1	2	(60,0)	4	2	(50,0)
SRC PER RETAINED CUSTOMER	**€**		**17**	**19**	**21**	**21**	**25**	**47,1**	**14**	**22**	**57,1**
ARPU	**€**		**9**	**9**	**10**	**10**	**10**	**11,1**	**9**	**10**	**11,1**
- contract	€		13	13	13	14	14	7,7	13	13	0,0
- prepaid	€		4	3	4	4	4	0,0	3	4	33,3
NON-VOICE % OF ARPU	**(%)**		**49**	**50**	**50**	**50**	**50**	**1p**	**48**	**50**	**2p**
MOU PER CUSTOMER	**(min)**		**158**	**158**	**159**	**155**	**162**	**2,5**	**157**	**158**	**0,6**
- contract	(min)		230	230	230	221	231	0,4	231	228	(1,3)

1 The Q2/17 and Q3/17 numbers have been influenced by technical issues which have been resolved in Q4/17.

CROATIA

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**237**	**224**	**231**	**259**	**241**	**1,7**	**925**	**955**	**3,2**
PRODUCT VIEW			**237**	**224**	**231**	**259**	**241**	**1,7**	**925**	**955**	**3,2**
- Fixed network			144	133	134	144	141	(2,1)	551	554	0,5
- Mobile communications			93	90	97	114	99	6,5	374	400	7,0
SEGMENT VIEW			**237**	**224**	**231**	**259**	**241**	**1,7**	**925**	**955**	**3,2**
- of which Consumer			126	120	124	125	123	(2,4)	488	493	1,0
- of which Business			88	70	73	81	82	(6,8)	297	306	3,0
EBITDA		**1**	**94**	**84**	**96**	**108**	**98**	**4,3**	**374**	**386**	**3,2**
EBITDA MARGIN (EBITDA / TOTAL REVENUE)	%		**39,7**	**37,5**	**41,6**	**41,7**	**40,7**	**1,0p**	**40,4**	**40,4**	**0,0p**
CASH CAPEX (AS REPORTED)			**28**	**34**	**48**	**50**	**41**	**46,4**	**155**	**173**	**11,6**
CASH CONTRIBUTION			**66**	**50**	**48**	**58**	**57**	**(13,6)**	**219**	**213**	**(2,7)**

1 Special factors affecting EBITDA: EUR 3mn in Q4/16, EUR 4mn in Q1/17, EUR 2mn in Q2/17, EUR 7mn in Q3/17 and EUR 6mn in Q4/17.

CROATIA

OPERATIONALS

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
FIXED NETWORK (END OF PERIOD)											
Fixed network Access Lines	('000)		1.001	992	986	974	967	(3,4)	1.001	967	(3,4)
- IP	('000)		1.000	991	985	974	967	(3,3)	1.000	967	(3,3)
Broadband Access Lines Retail	('000)		649	653	655	654	652	0,5	649	652	0,5
TV (IPTV, SAT, Cable)	('000)		401	408	411	413	417	4,0	401	417	4,0
Wholesale Bundled Access Lines	('000)		21	17	15	13	11	(47,6)	21	11	(47,6)
ULLs/Wholesale PSTN	('000)		148	144	140	135	135	(8,8)	148	135	(8,8)
Wholesale Unbundled Access Lines	('000)		113	124	127	123	120	6,2	113	120	6,2
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€)		71	69	75	91	71	0,%	292	306	4,8
CUSTOMERS	**('000)**		**2.234**	**2.210**	**2.237**	**2.297**	**2.244**	**0,4**	**2.234**	**2.244**	**0,4**
- contract	('000)		1.159	1.165	1.206	1.222	1.260	8,7	1.159	1.260	8,7
- prepaid	('000)		1.075	1.045	1.030	1.075	985	(8,4)	1.075	985	(8,4)
NET ADDS	**('000)**		**(98)**	**(24)**	**27**	**60**	**(52)**	**46,9**	**2**	**10**	**n.a.**
- contract	('000)		29	6	41	16	38	31,0	40	101	n.a.
- prepaid	('000)		(127)	(30)	(15)	44	(90)	29,1	(38)	(91)	n.a.
AVERAGE MONTHLY CHURN	**(%)**		**3,9**	**2,6**	**2,2**	**2,1**	**3,1**	**(0,8p)**	**2,8**	**2,5**	**(0,3p)**
- contract	(%)		1,1	1,2	1,0	0,9	0,9	(0,2p)	1,1	1,0	(0,1p)
SAC PER GROSS ADD	**€**		**19**	**20**	**16**	**13**	**11**	**(42,1)**	**14**	**15**	**7,1**
- contract	€		56	66	49	57	27	(51,8)	56	48	(14,3)
- prepaid	€		2	2	2	2	2	0,0	2	2	0,0
SRC PER RETAINED CUSTOMER	**€**		**51**	**53**	**51**	**54**	**32**	**(37,3)**	**56**	**47**	**(16,1)**
ARPU	**€**		**10**	**10**	**11**	**13**	**11**	**10,0**	**11**	**11**	**0,0**
- contract	€		15	15	16	20	15	0,0	16	16	0,0
- prepaid	€		5	5	6	6	6	20,0	6	6	0,0
NON-VOICE % OF ARPU	**(%)**		**50**	**50**	**51**	**57**	**54**	**4p**	**49**	**54**	**5p**
MOU PER CUSTOMER	**(min)**		**207**	**209**	**219**	**221**	**216**	**4,3**	**206**	**216**	**4,9**
- contract	(min)		276	270	282	282	270	(2,2)	276	276	0,0

SLOVAKIA

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**202**	**183**	**185**	**186**	**194**	**(4,0)**	**766**	**748**	**(2,3)**
PRODUCT VIEW			**202**	**183**	**185**	**186**	**194**	**(4,0)**	**766**	**748**	**(2,3)**
- Fixed network			108	90	94	93	101	(6,5)	398	379	(4,8)
- Mobile communications			93	93	92	93	92	(1,1)	368	369	0,3
SEGMENT VIEW			**202**	**183**	**185**	**186**	**194**	**(4,0)**	**766**	**748**	**(2,3)**
- of which Consumer			122	98	99	101	103	(15,6)	480	401	(16,5)
- of which Business			59	69	70	69	78	32,2	195	286	46,7
EBITDA		**1**	**62**	**77**	**81**	**86**	**71**	**14,5**	**302**	**315**	**4,3**
EBITDA MARGIN (EBITDA / TOTAL REVENUE)	%		**30,7**	**42,1**	**43,8**	**46,2**	**36,6**	**5,9p**	**39,4**	**42,1**	**2,7p**
CASH CAPEX (AS REPORTED)			**25**	**37**	**32**	**26**	**32**	**28,0**	**119**	**127**	**6,7**
CASH CONTRIBUTION			**37**	**40**	**49**	**60**	**39**	**5,4**	**183**	**188**	**2,7**

1 Special factors affecting EBITDA: EUR 28mn in Q4/16, EUR 18mn in Q2/17 and EUR 1mn in Q4/17.

SLOVAKIA
OPERATIONALS

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
FIXED NETWORK (END OF PERIOD)											
Fixed network Access Lines	('000)		850	854	855	855	858	0,9	850	858	0,9
- IP	('000)		850	854	855	855	858	0,9	850	858	0,9
Broadband Access Lines Retail	('000)		509	523	532	541	552	8,4	509	552	8,4
TV (IPTV, SAT, Cable)	('000)		538	564	574	581	592	10,0	538	592	10,0
Wholesale Bundled Access Lines	('000)		15	15	14	14	13	(13,3)	15	13	(13,3)
Wholesale Unbundled Access Lines	('000)		113	111	109	107	104	(8,0)	113	104	(8,0)
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€)		82	83	82	85	84	2,4	327	334	2,1
CUSTOMERS	**('000)**		**2.225**	**2.230**	**2.235**	**2.245**	**2.243**	**0,8**	**2.225**	**2.243**	**0,8**
- contract	('000)		1.478	1.398	1.410	1.428	1.445	(2,2)	1.478	1.445	(2,2)
- prepaid	('000)		747	832	825	817	799	7,0	747	799	7,0
NET ADDS	**('000)**		**(1)**	**5**	**5**	**10**	**(2)**	**(100,0)**	**(10)**	**18**	**n.a.**
- contract	('000)		11	(80)	12	18	16	45,5	24	(33)	n.a.
- prepaid	('000)		(12)	85	(7)	(8)	(18)	(50,0)	(35)	52	n.a.
AVERAGE MONTHLY CHURN	**(%)**		**1,4**	**1,4**	**1,1**	**1,1**	**1,4**	**0,0p**	**1,3**	**1,2**	**(0,1p)**
- contract	(%)		1,0	2,8	0,7	0,7	0,9	(0,1p)	0,9	1,3	0,4p
SAC PER GROSS ADD	**€**		**66**	**45**	**44**	**42**	**68**	**3,0**	**51**	**50**	**(2,0)**
- contract	€		113	98	86	81	124	9,7	95	99	4,2
- prepaid	€		3	2	3	2	2	(33,3)	3	2	(33,3)
SRC PER RETAINED CUSTOMER	**€**		**174**	**133**	**114**	**114**	**165**	**(5,2)**	**143**	**133**	**(7,0)**
ARPU	**€**		**12**	**12**	**12**	**13**	**13**	**8,3**	**12**	**12**	**0,0**
- contract	€		17	17	18	18	18	5,9	17	18	5,9
- prepaid	€		3	3	3	3	3	0,0	3	3	0,0
NON-VOICE % OF ARPU	**(%)**		**41**	**42**	**42**	**44**	**44**	**5p**	**40**	**43**	**3p**
MOU PER CUSTOMER	**(min)**	**1**	**180**	**178**	**179**	**171**	**139**	**(22,8)**	**175**	**167**	**(4,6)**
- contract	(min)	1	247	243	251	240	203	(17,8)	242	234	(3,3)

1 The Q1/17 numbers are retrospectively adjusted due to technical problems.

AUSTRIA

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			220	228	215	222	234	6,4	855	900	5,3
- of which Consumer			163	161	151	155	164	0,6	630	631	0,2
- of which Business			50	39	39	40	40	(20,0)	184	158	(14,1)
EBITDA		1	41	89	69	73	35	(14,6)	258	266	3,1
EBITDA MARGIN (EBITDA / TOTAL REVENUE)	%		18,6	39,0	32,1	32,9	15,0	(3,6p)	30,2	29,6	(0,6p)
CASH CAPEX (AS REPORTED)			43	45	30	34	48	11,6	139	157	12,9
CASH CONTRIBUTION			(2)	44	39	39	(13)	n.a.	119	109	(8,4)

OPERATIONALS

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€)		186	200	185	196	195	4,8	732	777	6,1
CUSTOMERS	('000)		4.594	4.713	4.984	5.201	5.702	24,1	4.594	5.702	24,1
- contract	('000)		3.175	3.195	3.240	3.271	3.308	4,2	3.175	3.308	4,2
- prepaid	('000)		1.418	1.518	1.744	1.930	2.394	68,8	1.418	2.394	68,8
NET ADDS	('000)		229	102	271	217	501	n.a.	386	1.092	n.a.
- contract	('000)		55	2	46	30	37	(32,7)	216	115	(46,8)
- prepaid	('000)		174	100	226	187	464	n.a.	169	976	n.a.
AVERAGE MONTHLY CHURN	(%)		2,5	2,4	2,2	2,7	2,1	(0,4p)	2,7	2,4	(0,3p)
- contract	(%)		2,2	2,7	2,5	3,0	2,7	0,5p	2,4	2,7	0,3p
SAC PER GROSS ADD	€		35	21	19	17	20	(42,9)	28	19	(32,1)
- contract	€		71	33	36	32	52	(26,8)	42	38	(9,5)
- prepaid	€		2	3	2	1	2	0,0	3	2	(33,3)
SRC PER RETAINED CUSTOMER	€		156	113	128	123	145	(7,1)	122	129	5,7
ARPU	€		14	14	13	13	12	(14,3)	14	13	(7,1)
- contract	€		18	20	18	19	18	0,0	18	19	5,6
- prepaid	€		4	3	3	3	2	(50,0)	4	3	(25,0)
NON-VOICE % OF ARPU	(%)		46	42	47	50	45	(1p)	46	46	0p
MOU PER CUSTOMER	(min)		181	174	166	161	156	(13,8)	186	164	(11,8)
- contract	(min)		211	205	199	190	199	(5,7)	214	198	(7,5)

1 Special factors affecting EBITDA: EUR -15mn in Q4/16.

NOTES

CONTENT

SYSTEMS SOLUTIONS

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)[1]

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**1.741**	**1.704**	**1.688**	**1.707**	**1.819**	**4,5**	**6.993**	**6.918**	**(1,1)**
International Revenue			499	482	477	455	475	(4,8)	2.143	1.889	(11,9)
NET REVENUE			**1.382**	**1.369**	**1.349**	**1.352**	**1.435**	**3,8**	**5.678**	**5.504**	**(3,1)**
EBITDA			**84**	**96**	**136**	**131**	**147**	**75,0**	**530**	**509**	**(4,0)**
EBITDA margin (EBITDA / total revenue)	%		4,8	5,6	8,1	7,7	8,1	3,3p	7,6	7,4	(0,2p)
Depreciation, amortization and impairment losses			(110)	(98)	(95)	(93)	(102)	7,3	(404)	(387)	4,2
Profit (loss) from operations = EBIT			(26)	(2)	41	38	45	n.a.	126	121	(4,0)
EBIT MARGIN	%		**(1,5)**	**(0,1)**	**2,4**	**2,2**	**2,5**	**4,0p**	**1,8**	**1,7**	**(0,1p)**
CASH CAPEX			**143**	**86**	**91**	**87**	120	**(16,1)**	**402**	383	**(4,7)**
CASH CONTRIBUTION			**(59)**	**10**	**45**	**44**	27	**n.a.**	**128**	126	**(1,6)**
ORDER ENTRY			**2.495**	**1.274**	**1.295**	**1.366**	**1.305**	**(47,7)**	**6.851**	**5.241**	**(23,5)**

FINANCIALS (AS REPORTED)

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**1.741**	**1.704**	**1.688**	**1.707**	**1.819**	**4,5**	**6.993**	**6.918**	**(1,1)**
NET REVENUE			**1.382**	**1.369**	**1.349**	**1.352**	**1.435**	**3,8**	**5.678**	**5.504**	**(3,1)**
EBITDA			**11**	**61**	**97**	**56**	**66**	**n.a.**	**278**	**280**	**0,7**
EBITDA margin (EBITDA / total revenue)	%		0,6	3,6	5,7	3,3	3,6	3,0p	4,0	4,0	0,0p
Depreciation, amortization and impairment losses		2	(119)	(98)	(97)	(1.338)	(103)	13,4	(428)	(1.636)	n.a.
Profit (loss) from operations = EBIT		2	(108)	(37)	0	(1.282)	(37)	65,7	(150)	(1.356)	n.a.
CASH CAPEX			**143**	**86**	**91**	**87**	**120**	**(16,1)**	**402**	**383**	**(4,7)**
CASH CONTRIBUTION			**(132)**	**(25)**	**6**	**(31)**	**(54)**	**59,1**	**(124)**	**(103)**	**16,9**

1 The business of T-Systems Polska Sp. z o.o., which was previously organizationally assigned to the Systems Solutions operating segment, is disclosed under the Europe operating segment as of September 1, 2017. Figures for prior periods were not adjusted.
2 Q3/2017: Impairment Goodwill T-Systems Market Unit (1.2 bn. €)

SYSTEMS SOLUTIONS

EBITDA RECONCILIATION [1]

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**1.741**	**1.704**	**1.688**	**1.707**	**1.819**	**4,5**	**6.993**	**6.918**	**(1,1)**
Profit (loss) from operations = EBIT		2	(108)	(37)	0	(1.282)	(37)	65,7	(150)	(1.356)	n.a.
- Depreciation, amortization and impairment losses		2	(119)	(98)	(97)	(1.338)	(103)	13,4	(428)	(1.636)	n.a.
= EBITDA			**11**	**61**	**97**	**56**	**66**	**n.a.**	**278**	**280**	**0,7**
EBITDA margin	%		0,6	3,6	5,7	3,3	3,6	3,0p	4,0	4,0	0,0p
- Special factors affecting EBITDA			(73)	(35)	(39)	(74)	(80)	(9,6)	(252)	(229)	9,1
= EBITDA (ADJUSTED FOR SPECIAL FACTORS)			**84**	**96**	**136**	**131**	**147**	**75,0**	**530**	**509**	**(4,0)**
EBITDA margin (adjusted for special factors)	%		4,8	5,6	8,1	7,7	8,1	3,3p	7,6	7,4	(0,2p)

SPECIAL FACTORS

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
EFFECTS ON EBITDA		**(73)**	**(35)**	**(39)**	**(74)**	**(80)**	**(9,6)**	**(252)**	**(229)**	**9,1**
- of which personnel		(37)	(14)	(18)	(54)	(46)	(24,3)	(136)	(132)	2,9
- of which other		(36)	(21)	(21)	(20)	(34)	5,6	(116)	(97)	16,4
EFFECTS ON PROFIT (LOSS) FROM OPERATIONS = EBIT	**2**	**(82)**	**(35)**	**(42)**	**(1.319)**	**(82)**	**0,0**	**(276)**	**(1.477)**	**n.a.**
- of which personnel		(37)	(14)	(18)	(54)	(46)	(24,3)	(136)	(132)	2,9
- of which other	2	(45)	(21)	(23)	(1.265)	(36)	20,0	(140)	(1.345)	n.a.

1 The business of T-Systems Polska Sp. z o.o., which was previously organizationally assigned to the Systems Solutions operating segment, is disclosed under the Europe operating segment as of September 1, 2017. Figures for prior periods were not adjusted.
2 Q3/2017: Impairment Goodwill T-Systems Market Unit (1.2 bn. €)

NOTES

CONTENT

GROUP DEVELOPMENT

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE		**610**	**595**	**562**	**545**	**561**	**(8,0)**	**2.347**	**2.263**	**(3,6)**
Netherlands		356	341	345	327	342	(3,9)	1.331	1.355	1,8
DFMG		218	217	213	217	217	(0,5)	876	864	(1,4)
Other		36	37	4	1	2	(94,4)	140	44	(68,6)
EBITDA		**213**	**238**	**236**	**220**	**220**	**3,3**	**943**	**915**	**(3,0)**
Netherlands		77	110	119	98	94	22,1	358	421	17,6
DFMG		133	124	126	126	133	0,0	563	510	(9,4)
Other		3	4	(9)	(4)	(7)	n.a.	22	(16)	n.a.
EBITDA margin (EBITDA / total revenue) %		34,9	40,0	42,0	40,4	39,2	4,3p	40,2	40,4	0,2p
Depreciation, amortization and impairment losses		(83)	(71)	(71)	(72)	(89)	(7,2)	(345)	(304)	11,9
Profit (loss) from operations = EBIT		130	167	165	148	131	0,8	598	611	2,2
CASH CAPEX		**69**	**81**	**57**	**76**	**76**	**10,1**	**247**	**290**	**17,4**
CASH CONTRIBUTION		**144**	**157**	**179**	**144**	**144**	**0,0**	**696**	**625**	**(10,2)**

FINANCIALS (AS REPORTED)

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE		**610**	**595**	**562**	**545**	**561**	**(8,0)**	**2.347**	**2.263**	**(3,6)**
NET REVENUE		**458**	**444**	**415**	**394**	**408**	**(10,9)**	**1.744**	**1.660**	**(4,8)**
EBITDA	**1,2,3**	**217**	**758**	**460**	**415**	**176**	**(18,9)**	**3.490**	**1.808**	**(48,2)**
Depreciation, amortization and impairment losses		(498)	(71)	(71)	(72)	(89)	82,1	(760)	(304)	60,0
Profit (loss) from operations = EBIT		(281)	686	388	343	87	n.a.	2.730	1.504	(44,9)
CASH CAPEX		**69**	**81**	**57**	**76**	**76**	**10,1**	**271**	**290**	**7,0**
CASH CONTRIBUTION		**148**	**677**	**403**	**339**	**100**	**(32,4)**	**3.219**	**1.518**	**(52,8)**

1 Q1/17: Income from the sale of stake in Strato AG.
2 Q2/17: Income from the sale of stake in Scout24.
3 Q3/17: Income from settlement agreement with BT.

GROUP DEVELOPMENT
EBITDA RECONCILIATION

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**610**	**595**	**562**	**545**	**561**	**(8,0)**	**2.347**	**2.263**	**(3,6)**
Profit (loss) from operations = EBIT			(281)	686	388	343	87	n.a.	2.730	1.504	(44,9)
- Depreciation, amortization and impairment losses			(498)	(71)	(71)	(72)	(89)	82,1	(760)	(304)	60,0
= EBITDA			**217**	**758**	**460**	**415**	**176**	**(18,9)**	**3.490**	**1.808**	**(48,2)**
EBITDA margin	%		35,6	n.a.	81,9	76,1	31,4	(4,2p)	n.a.	79,9	n.a.
- Special factors affecting EBITDA			4	519	223	195	(44)	n.a.	2.547	893	(64,9)
= EBITDA (ADJUSTED FOR SPECIAL FACTORS)			**213**	**238**	**236**	**220**	**220**	**3,3**	**943**	**915**	**(3,0)**
EBITDA margin (adjusted for special factors)	%		34,9	40,0	42,0	40,4	39,2	4,3p	40,2	40,4	0,2p

SPECIAL FACTORS[1, 2, 3]

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
EFFECTS ON EBITDA		**4**	**519**	**223**	**195**	**(44)**	**n.a.**	**2.547**	**893**	**(64,9)**
- of which personnel		(28)	5	(1)	(1)	(3)	89,3	(35)	1	n.a.
- of which other		32	514	224	196	(41)	n.a.	2.582	892	(65,5)
EFFECTS ON PROFIT (LOSS) FROM OPERATIONS = EBIT		**(411)**	**519**	**223**	**195**	**(44)**	**89,3**	**2.132**	**893**	**(58,1)**
- of which personnel		(28)	5	(1)	(1)	(3)	89,3	(35)	1	n.a.
- of which other		(383)	514	224	196	(41)	89,3	2.167	892	(58,8)

1 Q1/17: Income from the sale of stake in Strato AG.
2 Q2/17: Income from the sale of stake in Scout24.
3 Q3/17: Income from settlement agreement with BT.

NETHERLANDS
FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE		**356**	**341**	**345**	**327**	**342**	**(3,9)**	**1.331**	**1.355**	**1,8**
PRODUCT VIEW		**356**	**341**	**345**	**327**	**342**	**(3,9)**	**1.331**	**1.355**	**1,8**
- Fixed network		4	21	22	23	23	n.a.	4	89	n.a.
- Mobile communications		353	320	323	304	319	(9,6)	1.327	1.266	(4,6)
SEGMENT VIEW		**356**	**341**	**345**	**327**	**342**	**(3,9)**	**1.331**	**1.355**	**1,8**
- of which Consumer		247	228	229	210	223	(9,7)	929	786	(15,4)
- of which Business		66	63	64	59	65	(1,5)	247	252	2,0
EBITDA		**77**	**110**	**119**	**98**	**94**	**22,1**	**358**	**421**	**17,6**
EBITDA MARGIN (EBITDA / TOTAL REVENUE) %		**21,6**	**32,3**	**34,5**	**30,0**	**27,5**	**5,9p**	**26,9**	**31,1**	**4,2p**
CASH CAPEX (AS REPORTED)		**29**	**41**	**36**	**48**	**47**	**62,1**	**123**	**172**	**39,8**
CASH CONTRIBUTION		**48**	**69**	**83**	**50**	**47**	**(2,1)**	**235**	**249**	**6,0**

NETHERLANDS
OPERATIONALS

		Note	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change %	FY 2016	FY 2017	Change %
FIXED NETWORK (END OF PERIOD)											
Fixed network Access Lines	('000)		164	176	184	188	191	16,5	164	191	16,5
- IP	('000)		164	176	184	188	191	16,5	164	191	16,5
Broadband Access Lines Retail	('000)		164	176	184	188	191	16,5	164	191	16,5
TV (IPTV, SAT, Cable)	('000)		0	0	0	0	0	n.a.	0	0	n.a.
Wholesale Bundled Access Lines	('000)		0	0	0	0	0	n.a.	0	0	n.a.
ULLs/Wholesale PSTN	('000)		0	0	0	0	0	n.a.	0	0	n.a.
Wholesale Unbundled Access Lines	('000)		0	0	0	0	0	n.a.	0	0	n.a.
MOBILE COMMUNICATIONS (END OF PERIOD)											
Service revenue	(€ million)		230	226	228	220	213	(7,4)	916	888	(3,1)
CUSTOMERS	**('000)**		3.746	**3.789**	**3.830**	**3.876**	**3.850**	**2,8**	**3.746**	**3.850**	**2,8**
- contract	('000)		2.982	3.051	3.112	3.178	3.254	9,1	2.982	3.254	9,1
- prepaid	('000)		764	738	719	698	596	(22,0)	764	596	(22,0)
NET ADDS	**('000)**		**44**	**43**	**41**	**45**	**(26)**	**n.a.**	**69**	**104**	**50,7**
- contract	('000)		71	69	61	66	77	8,5	183	272	48,6
- prepaid	('000)		(27)	(26)	(19)	(20)	(102)	n.a.	(114)	(168)	(47,4)
AVERAGE MONTHLY CHURN	**(%)**		**1,3**	**1,3**	**1,2**	**1,2**	**2,0**	**0,7p**	**1,4**	**1,4**	**0,0p**
- contract	(%)		1,1	**1,0**	**0,9**	**1,0**	**1,0**	(0,1p)	**1,1**	**1,0**	(0,1p)
SAC PER GROSS ADD	**€**	**1**	**175**	**79**	**77**	**71**	**87**	**(50,3)**	**126**	**82**	**(34,9)**
- contract	€		196	92	89	83	97	(50,5)	148	94	(36,5)
- prepaid	€		16	(1)	1	(1)	0	(100,0)	15	0	(100,0)
SRC PER RETAINED CUSTOMER	**€**	**1**	**181**	**56**	**39**	**43**	**43**	**(76,2)**	**126**	**45**	**(64,3)**
ARPU	**€**		**21**	**20**	**20**	**19**	**18**	**(14,3)**	**21**	**19**	**(9,5)**
- contract	€		25	24	23	22	20	(20,0)	25	22	(12,0)
- prepaid	€		4	4	3	3	4	0,0	4	4	0,0
NON-VOICE % OF ARPU	**(%)**		**60**	**56**	**59**	**61**	**60**	**0p**	**61**	**59**	**(2p)**
MOU PER CUSTOMER	**(min)**		191	**181**	**189**	**192**	**216**	**13,1**	**184**	**263**	**42,8**
- contract	(min)		233	217	226	228	251	7,7	228	309	35,7

1 The Subscriber Acquisition Costs per Gross Add and Subscriber Retention Cost per Retained Subscriber show a sharp decline. This reflects the changes in customer protection law from Jan 17.

NOTES

CONTENT

GROUP HEADQUARTERS & GROUP SERVICES

FINANCIALS (ADJUSTED FOR SPECIAL FACTORS)

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE		**929**	**737**	**787**	**743**	**675**	**(27,3)**	**3.467**	**2.943**	**(15,1)**
NET REVENUE		**150**	**88**	**83**	**52**	**55**	**(63,3)**	**421**	**278**	**(34,0)**
EBITDA		**(293)**	**(128)**	**(90)**	**(115)**	**(383)**	**(30,7)**	**(670)**	**(716)**	**(6,9)**
EBITDA margin (EBITDA / total revenue) %		(31,5)	(17,4)	(11,4)	(15,5)	(56,7)	(25,2p)	(19,3)	(24,3)	(5,0p)
Depreciation, amortization and impairment losses		(176)	(148)	(192)	(159)	(158)	10,2	(676)	(657)	2,8
Profit (loss) from operations = EBIT		(469)	(276)	(282)	(274)	(541)	(15,4)	(1.346)	(1.373)	(2,0)
CASH CAPEX		**279**	**242**	**239**	**231**	**294**	**5,4**	**936**	**1.005**	**7,4**
CASH CONTRIBUTION		**(572)**	**(370)**	**(329)**	**(346)**	**(677)**	**(18,4)**	**(1.606)**	**(1.721)**	**(7,2)**

FINANCIALS (AS REPORTED)

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE		**929**	**737**	**787**	**743**	**675**	**(27,3)**	**3.467**	**2.943**	**(15,1)**
NET REVENUE		**150**	**88**	**83**	**52**	**55**	**(63,3)**	**421**	**278**	**(34,0)**
EBITDA		**(365)**	**(144)**	**(90)**	**(162)**	**(442)**	**(21,1)**	**(1.243)**	**(837)**	**32,7**
EBITDA margin (EBITDA / total revenue) %		(39,3)	(19,5)	(11,4)	(21,8)	(65,5)	(26,2p)	(35,9)	(28,4)	7,5p
Depreciation, amortization and impairment losses		(176)	(148)	(192)	(159)	(158)	10,2	(676)	(657)	2,8
Profit (loss) from operations = EBIT		(542)	(292)	(282)	(321)	(600)	(10,7)	(1.919)	(1.495)	22,1
CASH CAPEX		**279**	**242**	**239**	**231**	**294**	**5,4**	**936**	**1.005**	**7,4**
CASH CONTRIBUTION		**(644)**	**(386)**	**(329)**	**(393)**	**(736)**	**(14,3)**	**(2.179)**	**(1.842)**	**15,5**

GROUP HEADQUARTERS & GROUP SERVICES

EBITDA RECONCILIATION

		Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
TOTAL REVENUE			**929**	**737**	**787**	**743**	**675**	**(27,3)**	**3.467**	**2.943**	**(15,1)**
Profit (loss) from operations = EBIT			(542)	(292)	(282)	(321)	(600)	(10,7)	(1.919)	(1.495)	22,1
- Depreciation, amortization and impairment losses			(176)	(148)	(192)	(159)	(158)	10,2	(676)	(657)	2,8
= EBITDA			**(365)**	**(144)**	**(90)**	**(162)**	**(442)**	**(21,1)**	**(1.243)**	**(837)**	**32,7**
EBITDA margin	%		(39,3)	(19,5)	(11,4)	(21,8)	(65,5)	(26,2p)	(35,9)	(28,4)	7,5p
- Special factors affecting EBITDA			(72)	(16)	1	(47)	(59)	18,1	(574)	(121)	78,9
= EBITDA (ADJUSTED FOR SPECIAL FACTORS)			**(293)**	**(128)**	**(90)**	**(115)**	**(383)**	**(30,7)**	**(670)**	**(716)**	**(6,9)**
EBITDA margin (adjusted for special factors)	%		(31,5)	(17,4)	(11,4)	(15,5)	(56,7)	(25,2p)	(19,3)	(24,3)	(5,0p)

SPECIAL FACTORS

	Note	Q4 2016 millions of €	Q1 2017 millions of €	Q2 2017 millions of €	Q3 2017 millions of €	Q4 2017 millions of €	Change %	FY 2016 millions of €	FY 2017 millions of €	Change %
EFFECTS ON EBITDA		**(72)**	**(16)**	**1**	**(47)**	**(59)**	**18,1**	**(574)**	**(121)**	**78,9**
- of which personnel		(144)	(19)	(25)	(33)	(32)	77,8	(502)	(109)	78,3
- of which other		71	3	26	(14)	(27)	n.a.	(71)	(12)	83,1
EFFECTS ON PROFIT (LOSS) FROM OPERATIONS = EBIT		**(72)**	**(16)**	**1**	**(47)**	**(59)**	**18,1**	**(574)**	**(121)**	**78,9**
- of which personnel		(144)	(19)	(25)	(33)	(32)	77,8	(502)	(109)	78,3
- of which other		71	3	26	(14)	(27)	n.a.	(71)	(12)	83,1

NOTES

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GLOSSARY AND DISCLAIMER

In addition to financial information presented in accordance with IFRS, this presentation contains non-GAAP financial measures,	
such as ...	which is defined as ...
EBIT	Abbreviation for EARNINGS BEFORE INTEREST AND TAXES. EBIT is equivalent to the P&L-line "Profit from operations".
Adj. EBIT	EBIT adjusted for special factors.
EBT	Abbreviation for EARNINGS BEFORE TAXES. EBT is equivalent to the P&L-line "Profit before income taxes".
Adj. EBT	EBT adjusted for special factors.
EBITDA	Abbreviation for EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION. EBITDA is equivalent to EBIT before Depreciation and Amortization. Depreciation and Amortization is not a line in the P&L but provided in the notes as "Other disclosures".
Adj. EBITDA	EBITDA adjusted for special factors.
	Net profit/loss adjusted for special factors.
Special factors	Special factors impair the comparability of the results with previous periods. Details on the special factors are given for the group and each operating segment.
Cash capex	Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment.
Cash contribution	EBITDA minus capex.
Free cash flow	Net cash from operating activities minus net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment.
Gross debt	Gross debt includes not only bonds and liabilities to banks, but also liabilities to non-banks from promissory notes, lease liabilities, liabilities arising from ABS transactions (capital market liabilities), liabilities from derivatives and cash collateral.
Net debt	Net debt is calculated by deducting cash and cash equivalents as well as financial assets classified as held for trading and available for sale (due ≤ 1 year). In addition, receivables from derivatives and other financial assets are deducted from gross debt.
n.a.	not applicable
n.m.	not meaningful
ARPU	Abbreviation for AVERAGE REVENUE PER USER. Calculation: Service fee, as well as voice, non voice, roaming and visitor revenues, divided by the average number of customers in the period. Visitor revenues are allocated exclusively to contract customers.
SAC	Abbreviation for SUBSCRIBER ACQUISITION COSTS. Calculation: Customer acquisition costs divided by the number of gross customers added during the respective period.

The figures in this presentation are unaudited. These and the other non-GAAP financial measures used by Deutsche Telekom are derived from our IFRS financial information but do not comply with IFRS and should not be viewed as a substitute for our IFRS figures.