

THE CONSOLIDATED FINANCIAL STATEMENTS

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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
		120,943	121,847
NON-CURRENT ASSETS			
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

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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
		71,498	76,514
NON-CURRENT LIABILITIES			
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
		98,864	109,640
LIABILITIES			
		42,470	38,845
SHAREHOLDERS' EQUITY			
Issued capital	15	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
		141,334	148,485
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			

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

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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
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

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Issued capital and reserves attributable to owners of the parent							Total	Non-controlling interests	Total shareholders' equity
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				
(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	
						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	
						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

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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 (Aktien-gesetz – 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.

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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 from 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.

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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

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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.

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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

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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

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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

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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

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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

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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

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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.

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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:

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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 and 180 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

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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

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Acquired intangible assets				Goodwill	Advance payments and intangible assets under development		Total
UMTS licenses	GSM licenses	FCC licenses (T-Mobile US)	Other acquired intangible assets				
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.

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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	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.

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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%)		

^aWhere 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.

^bFor 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.

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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:

Name and registered office	Deutsche Telekom share		Percentage of voting rights		Assigned to segment	Fair value of the investment, if a listed market price is available	
	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

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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

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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

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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 ³/₄-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.

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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				2027 and thereafter
		2017	2018	2019-2021	2022-2026	
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).

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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.

^e An increase of 1.00 percent is assumed for the years from 2021 onward.

^f 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.

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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.

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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 Dependents' 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

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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).

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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.

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

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.

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

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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).

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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.

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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)

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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.

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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

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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))	3,461	2,675	3,254
Adjustment	-	-	-
ADJUSTED BASIC/DILUTED NET PROFIT (LOSS)	3,461	2,675	3,254
Number of ordinary shares issued	4,722	4,645	4,574
Treasury shares	(19)	(20)	(21)
ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC/DILUTED)	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)

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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			Changes in the composition of the Group
	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	
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

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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.

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	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

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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

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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.

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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.

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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	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, 2016 ^d
			Carrying amounts Dec. 31, 2016	Amortized cost	Cost	Fair value recognized in equity		
		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

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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 embed- ded in renewable energy purchase agreements	Financial liabilities held for trading (FLHfT): Conversion rights embedded in Man- datory 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

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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
Loans and receivables (LaR)	31		(3,152)	(581)			2017 (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
Loans and receivables (LaR)	25		183	(687)		2	2016 (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.

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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

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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

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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,

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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.,

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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

Satellitic 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. Satellitic 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, Satellitic 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 Satellitic 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.

146	Consolidated statement of financial position	153	Notes to the consolidated financial statements
148	Consolidated income statement	153	Summary of accounting policies
149	Consolidated statement of comprehensive income	176	Notes to the consolidated statement of financial position
150	Consolidated statement of changes in equity	209	Notes to the consolidated income statement
152	Consolidated statement of cash flows	217	Other disclosures

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 Aktiengesellschaft, Bonn, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated 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 consolidated 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 rea-

sonably 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)