THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

millions of €

	Note	Dec. 31, 2016	Dec. 31, 2015
ASSETS			
CURRENT ASSETS		**26,638**	**32,184**
Cash and cash equivalents	1	7,747	6,897
Trade and other receivables	2	9,362	9,238
Current recoverable income taxes	26	218	129
Other financial assets	8	5,713	5,805
Inventories	3	1,629	1,847
Other assets	9	1,597	1,346
Non-current assets and disposal groups held for sale	4	372	6,922
NON-CURRENT ASSETS		**121,847**	**111,736**
Intangible assets	5	60,599	57,025
Property, plant and equipment	6	46,758	44,637
Investments accounted for using the equity method	7	725	822
Other financial assets	8	7,886	3,530
Deferred tax assets	26	5,210	5,248
Other assets	9	669	474
TOTAL ASSETS		**148,485**	**143,920**

millions of €

	Note	Dec. 31, 2016	Dec. 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES		**33,126**	**33,548**
Financial liabilities	10	14,422	14,439
Trade and other payables	11	10,441	11,090
Income tax liabilities	26	222	197
Other provisions	13	3,068	3,367
Other liabilities	14	4,779	4,451
Liabilities directly associated with non-current assets and disposal groups held for sale	4	194	4
NON-CURRENT LIABILITIES		**76,514**	**72,222**
Financial liabilities	10	50,228	47,941
Provisions for pensions and other employee benefits	12	8,451	8,028
Other provisions	13	3,320	2,978
Deferred tax liabilities	26	10,007	9,205
Other liabilities	14	4,508	4,070
LIABILITIES		**109,640**	**105,770**
SHAREHOLDERS' EQUITY	15	**38,845**	**38,150**
Issued capital		11,973	11,793
Treasury shares		(50)	(51)
		11,923	**11,742**
Capital reserves		53,356	52,412
Retained earnings including carryforwards		(38,727)	(38,969)
Total other comprehensive income		78	(178)
Total other comprehensive income directly associated with non-current assets and disposal groups held for sale		–	1,139
Net profit (loss)		2,675	3,254
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT		**29,305**	**29,400**
Non-controlling interests		9,540	8,750
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**148,485**	**143,920**

CONSOLIDATED INCOME STATEMENT

millions of €

		Note	2016	2015	2014
NET REVENUE		16	**73,095**	**69,228**	**62,658**
Other operating income		17	4,180	2,008	3,231
Changes in inventories			(12)	(11)	1
Own capitalized costs		18	2,112	2,041	1,944
Goods and services purchased		19	(37,084)	(35,706)	(32,048)
Personnel costs		20	(16,463)	(15,856)	(14,683)
Other operating expenses		21	(3,284)	(3,316)	(3,282)
Depreciation, amortization and impairment losses		22	(13,380)	(11,360)	(10,574)
PROFIT FROM OPERATIONS (EBIT)			**9,164**	**7,028**	**7,247**
Finance costs		23	(2,492)	(2,363)	(2,340)
Interest income			223	246	325
Interest expense			(2,715)	(2,609)	(2,665)
Share of profit (loss) of associates and joint ventures accounted for using the equity method		24	(53)	24	(198)
Other financial income (expense)		25	(2,072)	89	(359)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES			**(4,617)**	**(2,250)**	**(2,897)**
PROFIT BEFORE INCOME TAXES			**4,547**	**4,778**	**4,350**
Income taxes		26	(1,443)	(1,276)	(1,106)
PROFIT (LOSS)			**3,104**	**3,502**	**3,244**
PROFIT (LOSS) ATTRIBUTABLE TO					
Owners of the parent (net profit (loss))			2,675	3,254	2,924
Non-controlling interests		27	429	248	320
EARNINGS PER SHARE		28			
Basic	€		0.58	0.71	0.65
Diluted	€		0.58	0.71	0.65

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

millions of €

	2016	2015	2014
PROFIT (LOSS)	**3,104**	**3,502**	**3,244**
Items not reclassified to the income statement retrospectively			
Gain (loss) from the remeasurement of defined benefit plans	(660)	230	(1,581)
Share of profit (loss) of investments accounted for using the equity method	0	0	(29)
Income taxes relating to components of other comprehensive income	205	(60)	477
	(455)	**170**	**(1,133)**
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	(948)	4	(4)
Change in other comprehensive income (not recognized in income statement)	395	2,000	1,849
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	2,282	0	(1)
Change in other comprehensive income (not recognized in income statement)	(2,323)	31	41
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	328	(255)	(267)
Change in other comprehensive income (not recognized in income statement)	(457)	653	265
Share of profit (loss) of investments accounted for using the equity method			
Recognition of other comprehensive income in income statement	7	0	0
Change in other comprehensive income (not recognized in income statement)	1	25	0
Income taxes relating to components of other comprehensive income	39	(127)	3
	(676)	**2,331**	**1,886**
OTHER COMPREHENSIVE INCOME	**(1,131)**	**2,501**	**753**
TOTAL COMPREHENSIVE INCOME	**1,973**	**6,003**	**3,997**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Owners of the parent	1,306	5,221	3,184
Non-controlling interests	667	782	813

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

millions of €

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
	thousands	Issued capital	Treasury shares	Capital reserves	Retained earnings including carryforwards	Net profit (loss)
BALANCE AT JANUARY 1, 2014	**4,451,175**	**11,395**	**(54)**	**51,428**	**(37,437)**	**930**
Changes in the composition of the Group						
Transactions with owners				(527)		
Unappropriated profit (loss) carried forward					930	(930)
Dividends					(2,215)	
Capital increase at Deutsche Telekom AG	84,396	216		807		
Capital increase from share-based payment				70		
Share buy-back/shares held in a trust deposit			1		1	
Profit (loss)						2,924
Other comprehensive income					(1,085)	
TOTAL COMPREHENSIVE INCOME						
Transfer to retained earnings					23	
BALANCE AT DECEMBER 31, 2014	**4,535,571**	**11,611**	**(53)**	**51,778**	**(39,783)**	**2,924**
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/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**

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			
(2,603)	**(39)**	**38**	**343**	**(12)**	**(110)**	**23,879**	**8,184**	**32,063**
						–	1	1
21						(506)	(324)	(830)
						0	–	0
						(2,215)	(81)	(2,296)
						1,023	2	1,025
						70	34	104
						2	–	2
						2,924	320	3,244
1,335		41	(3)	(30)	2	260	493	753
						3,184	**813**	**3,997**
	(23)					0	–	0
(1,247)	**(62)**	**79**	**340**	**(42)**	**(108)**	**25,437**	**8,629**	**34,066**
(1,247)	**(62)**	**79**	**340**	**(42)**	**(108)**	**25,437**	**8,629**	**34,066**
						–	–	–
194	(2)					(233)	(619)	(852)
						0	–	0
						(2,257)	(106)	(2,363)
						1,088	–	1,088
						127	64	191
						17	–	17
						3,254	248	3,502
1,480		31	398	25	(127)	1,967	534	2,501
						5,221	**782**	**6,003**
	2					0	–	0
427	**(62)**	**110**	**738**	**(17)**	**(235)**	**29,400**	**8,750**	**38,150**
427	**(62)**	**110**	**738**	**(17)**	**(235)**	**29,400**	**8,750**	**38,150**
						–	–	–
(6)						(93)	117	24
						0	–	0
						(2,523)	(97)	(2,620)
						1,019	–	1,019
						192	103	295
						4	–	4
						2,675	429	3,104
(792)		(41)	(129)	8	39	(1,369)	238	(1,131)
						1,306	**667**	**1,973**
	2			36		0	–	0
(371)	**(60)**	**69**	**609**	**27**	**(196)**	**29,305**	**9,540**	**38,845**

CONSOLIDATED STATEMENT OF CASH FLOWS

millions of €

	Note	2016	2015	2014
	30			
PROFIT BEFORE INCOME TAXES		**4,547**	**4,778**	**4,350**
Depreciation, amortization and impairment losses		13,380	11,360	10,574
(Profit) loss from financial activities		4,617	2,250	2,897
(Profit) loss on the disposal of fully consolidated subsidiaries		(7)	(583)	(1,674)
(Income) loss from the sale of stakes accounted for using the equity method		(2,591)	–	–
Other non-cash transactions		316	243	166
(Gain) loss from the disposal of intangible assets and property, plant and equipment		(495)	(87)	(436)
Change in assets carried as working capital		(1,000)	(1,438)	(2,275)
Change in provisions		(234)	112	382
Change in other liabilities carried as working capital		(510)	878	2,207
Income taxes received (paid)		(527)	(695)	(679)
Dividends received		331	578	344
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives		289	100	55
CASH GENERATED FROM OPERATIONS		**18,116**	**17,496**	**15,911**
Interest paid		(3,488)	(3,464)	(3,390)
Interest received		905	965	872
NET CASH FROM OPERATING ACTIVITIES		**15,533**	**14,997**	**13,393**
Cash outflows for investments in				
Intangible assets		(5,603)	(6,446)	(4,658)
Property, plant and equipment		(8,037)	(8,167)	(7,186)
Non-current financial assets		(483)	(493)	(806)
Payments to acquire control of subsidiaries and associates		(2)	(28)	(606)
Proceeds from disposal of				
Intangible assets		1	4	16
Property, plant and equipment		363	363	265
Non-current financial assets		335	446	74
Proceeds from the loss of control of subsidiaries and associates		4	(58)	1,540
Net change in short-term investments and marketable securities and receivables		(186)	(638)	591
Other		–	2	9
NET CASH USED IN INVESTING ACTIVITIES		**(13,608)**	**(15,015)**	**(10,761)**
Proceeds from issue of current financial liabilities		26,187	33,490	12,785
Repayment of current financial liabilities		(34,951)	(36,944)	(17,089)
Proceeds from issue of non-current financial liabilities		9,520	5,247	4,275
Repayment of non-current financial liabilities		(20)	(207)	(1,042)
Dividends (including to non-controlling interests)		(1,596)	(1,256)	(1,290)
Repayment of lease liabilities		(374)	(224)	(164)
Deutsche Telekom AG share buy-back		–	(15)	–
Sale of Deutsche Telekom AG treasury shares		–	31	–
Cash inflows from transactions with non-controlling entities		26	43	43
Cash outflows from transactions with non-controlling entities		(114)	(1,041)	(950)
Other		–	–	(2)
NET CASH USED IN FINANCING ACTIVITIES		**(1,322)**	**(876)**	**(3,434)**
Effect of exchange rate changes on cash and cash equivalents		250	267	323
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale		(3)	1	32
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**850**	**(626)**	**(447)**
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR		**6,897**	**7,523**	**7,970**
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR		**7,747**	**6,897**	**7,523**

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 four operating segments Germany, United States, Europe, and Systems Solutions, as well as on the Group Headquarters & Group Services segment.

The Company was entered as Deutsche Telekom AG in the commercial register of the Bonn District Court (Amtsgericht – HRB 6794) on January 2, 1995.

The Company has its registered office in Bonn, Germany. Its address is Deutsche Telekom AG, Friedrich-Ebert-Allee 140, 53113 Bonn.

The declaration of conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was 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/Corporate Governance/Declaration of Conformity.

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 Aktiengesellschaft 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) via the following path: Investor Relations/Annual Report 2016.

The consolidated financial statements of Deutsche Telekom for the 2016 financial year were released for publication by the Board of Management on February 14, 2017.

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 § 315a (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 2016 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 1	Disclosure Initiative	January 1, 2016	The amendments will allow disclosures in the financial statements to be simplified, with a focus on materiality.	No material impact.
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016	A revenue-based depreciation method for property, plant and equipment is not permissible, whereas for intangible assets there is only a refutable assumption that such a method is not appropriate.	No material impact.
Amendments to IAS 16 and IAS 41	Bearer Plants	January 1, 2016	The amendments to the standard relate to bearer plants.	No relevance for Deutsche Telekom.
Amendments to IAS 19	Defined Benefit Plans – Employee Contributions	January 1, 2016	By revising IAS 19, the IASB aims to simplify the accounting for contributions from employees or third parties to a defined benefit plan. The simplified accounting permits such contributions to be recognized as a reduction in the current service cost in the period in which the related service is rendered if the amounts of the contributions are independent of the number of years of service.	No material impact.
Amendments to IAS 27	Equity Method in Separate Financial Statements	January 1, 2016	The standard is relevant for IFRS separate financial statements.	No relevance for Deutsche Telekom.
Amendments to IFRS 10, IFRS 12, and IAS 28	Investment Entities: Applying the Consolidation Exception	January 1, 2016	Investment entities are not covered by IFRS 10 and are therefore exempt from the provisions on consolidation in this standard. The consolidation exception was substantiated in four points.	No material impact.
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016	When an interest in a joint operation in which the activity constitutes a business as defined in IFRS 3, is acquired, all of the principles on business combinations accounting in IFRS 3 and other IFRSs are to be applied, except for those principles that conflict with the guidance in IFRS 11.	Since the amendments concern only future transactions, it is not possible to make a general statement on their impact on the presentation of Deutsche Telekom's results of operations or financial position.
Annual Improvements Project	Annual Improvements to IFRSs 2010–2012 Cycle	January 1, 2016	Clarification of many published standards.	No material impact.
Annual Improvements Project	Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016	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				
IFRS 9	Financial Instruments	January 1, 2018	IFRS 9 introduces new classification and measurement requirements for financial instruments and replaces IAS 39.	Although Deutsche Telekom has not yet finalized the detailed analysis of IFRS 9, the first-time adoption of this standard is not expected to have a material impact on the financial statements. In some cases, the new provisions on the classification of financial assets depending on the business model existing for these assets will give rise to changes in measurement and presentation. The allocation of debt instruments, especially government bonds held, to the "at fair value through other comprehensive income" measurement category will have minor effects. The allocation of equity instruments held to the "at fair value through other comprehensive income" measurement category without reclassification of the cumulative gains and losses on disposal (OCI option) will reduce volatility in the income statement. The new provisions on accounting for impairment losses will lead to expected losses having to be expensed earlier in certain cases. The probable use of the simplified approach, also for financial assets that contain a significant financing component, is expected to lead to a minor increase in impairment losses. In hedge accounting, it will be possible to include more components in the hedged risk in some cases, which will slightly increase the effectiveness of the hedge. The new concept for hedging commodity price risk will marginally reduce the volatility in the income statement. The possibility to add a new risk exposure without this adversely affecting an existing hedging relationship (aggregated exposure) will further reduce the already low level of ineffectiveness. This especially concerns the hedging of interest rate risks for highly probable future issues of debt instruments in a specific currency where the hedged item will be considered to have occurred if the issue has been performed synthetically, i. e., in a different currency from the one originally planned and in a foreign currency derivative.
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 the existing standards 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 arising from IFRS 15 are detailed in the explanations following this table.

Pronouncement	Title	To be applied by Deutsche Telekom from	Changes	Expected impact on the presentation of Deutsche Telekom's results of operations and financial position
IFRSs NOT YET ENDORSED BY THE EU [a]				
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely	The amendments affect transactions between an investor and its associate or joint venture and provide for full gain or loss recognition on the loss of control of a business and partial recognition of the gain or loss resulting from the sale or contribution of assets that do not constitute a business, regardless of whether that business is housed in a subsidiary or not.	As the effective date has been postponed indefinitely, the amendments to IFRS 10 and IAS 28 are not relevant at present.
IFRS 14	Regulatory Deferral Accounts	January 1, 2016	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 7	Disclosure Initiative	January 1, 2017	This pronouncement requires that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	No material impact.
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017	Clarification of the accounting for deferred tax assets for unrealized losses on debt instruments that are classified as available-for-sale financial assets.	No material impact.
Annual Improvements Project	Annual Improvements to IFRSs 2014–2016 Cycle	January 1, 2017 (IFRS 12) January 1, 2018 (IFRS 1 and IAS 28)	Clarification of many published standards.	No material impact.
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.
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. Other entities falling within the scope of IFRS 4 may recognize, in other comprehensive income instead of in profit and loss, some of the income or expenses arising from designated financial assets.	No material impact.
Amendments to IFRS 15	Clarifications to IFRS 15	January 1, 2018	Clarifications address the following topics relating to the transition 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.
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.

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
IFRS 16	Leases	January 1, 2019	IFRS 16 principally requires lessees to recognize assets and liabilities for all leases and to present 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 directly attributable expenditure. 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.

[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." The standard 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, this leads to 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 in the Germany operating segment the sale of subsidized handsets in connection with the conclusion of service contracts in the retail business is still common, in the United States operating segment and to some extent in the Europe operating segment handsets are not sold at a discount at all or only to a limited extent; payment-by-installment models or leased models are offered to customers instead.
- Future capitalization and recognition of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period.
- Increase in total assets on first-time adoption due to the capitalization of contract assets and customer acquisition costs.
- 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.
- 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), it is unlikely that there will be any material changes.

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 restated; 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 will be analyzed as part of a Group-wide project for implementing the new standard, though a reliable estimate of the quantitative effects will only be possible once the project has been completed, probably in mid-2017.

In January 2016, the IASB issued **IFRS 16 "Leases,"** which 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:

- Whereas previously there was a requirement to disclose payment obligations for operating leases in the notes to the financial statements, from now on, the resulting rights and payment obligations must be recognized as rights of use and lease liabilities in the statement of financial position.
- Deutsche Telekom anticipates a significant increase in total assets on first-time adoption on account of the increase in lease liabilities as well as a similarly high increase in non-current assets due to the right-of-use assets to be capitalized. The increase in lease liabilities leads to a corresponding increase in net debt.
- 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 and to an increase in the net cash from operating activities reported in the statement of cash flows.
- For Deutsche Telekom as a lessor, the new definition of a lease may reduce the number of items to be accounted for as leases.

The overall effects will be 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 of business models and volumes of the transactions.

CHANGES IN ACCOUNTING POLICIES AND CHANGES IN THE REPORTING STRUCTURE

To harmonize Deutsche Telekom's internal management structure and to allow comparisons with other companies in the industry, the presentation of the consolidated income statement was changed from the cost-of-sales method to the performance-related total cost method as of January 1, 2016. The change to the total cost method is a voluntary change in accounting policy within the meaning of IAS 8.14b. To ensure comparability with prior-year periods, the corresponding figures were adjusted retrospectively.

Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been managed and reported under the Europe operating segment since January 1, 2016. Magyar Telekom's business customer operations consist of a unit in Hungary that mainly provides ICT services for business and corporate customers. Comparative figures have been adjusted retrospectively in segment reporting.

ACCOUNTING POLICIES

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

Items in the statement of financial position	Measurement principle
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Current recoverable income taxes	Amount expected to be recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Inventories	Lower of net realizable value and cost
Non-current assets and disposal groups held for sale	Lower of carrying amount or fair value less costs of disposal (including allocable liabilities)
NON-CURRENT ASSETS	
Intangible assets	
Of which: with finite useful lives	Amortized cost or lower recoverable amount
Of which: with indefinite useful lives (including goodwill)	Cost or lower recoverable amount (impairment-only approach)
Property, plant and equipment	Amortized cost or lower recoverable amount
Investments accounted for using the equity method	Pro-rata value of the investment's equity carried forward or lower recoverable amount
Other financial assets	
Other non-derivative financial assets	
Held-to-maturity investments	Amortized cost
Available-for-sale financial assets	Fair value or at cost
Originated loans and receivables	Amortized cost
Derivative financial assets	Fair value
Deferred tax assets	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

Items in the statement of financial position	Measurement principle
LIABILITIES	
CURRENT LIABILITIES	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Trade payables	Amortized cost
Income tax liabilities	Amount expected to be paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period
Other provisions	Present value of the settlement amount
NON-CURRENT LIABILITIES	
Financial liabilities	
Non-derivative interest-bearing and non-interest-bearing liabilities	Amortized cost
Derivative financial liabilities	Fair value
Provisions for pensions and other employee benefits	Actuarial projected unit credit method
Other provisions	Present value of the settlement amount
Deferred tax liabilities	Non-discounted amount measured at the tax rates that are expected to apply to the period when the asset is realized or the liability settled

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

INTANGIBLE ASSETS (EXCLUDING GOODWILL)

Intangible assets with finite useful lives, including UMTS and LTE licenses, are measured at cost and generally amortized on a straight-line basis over their useful lives. Such assets are impaired if their recoverable amount, which is measured at the higher of fair value less costs of disposal and value in use, is lower than the carrying amount. Indefinite-lived intangible assets (mobile communications licenses granted by the Federal Communications Commission in the United States (FCC licenses)) are carried at cost. While FCC licenses are issued for a fixed time, renewals of FCC licenses have occurred routinely and at negligible costs. Moreover, Deutsche Telekom has determined that there are currently no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful lives of the FCC licenses, and therefore treats the FCC licenses as an indefinite-lived intangible asset. They are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount. If the reasons for recognizing the original impairment loss no longer apply, impairment losses are reversed taking amortization into account, i. e., not exceeding the value that would have been applied if no impairment losses had been recognized in prior periods.

Intangible assets may also be acquired in connection with a frequency or spectrum exchange. The costs of intangible assets acquired in such an exchange are measured at fair value if the swap has commercial substance and the fair value of the asset received and the asset given up is reliably measurable. If the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable, the carrying amount of the asset given up is used as the fair value of the asset received.

The useful lives and the amortization methods of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8.

Amortization of mobile communications licenses begins as soon as the related network is ready for use. The useful lives of mobile communications licenses are determined based on several factors, including the term of the licenses granted by the respective regulatory body in each country, the availability and expected cost of renewing the licenses, as well as the development of future technologies.

The useful lives of Deutsche Telekom's most important mobile communications licenses are as follows:

Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	6 to 25
UMTS licenses	17 to 19
GSM licenses	7 to 27

Expenditures for internally generated intangible assets incurred during the development phase are capitalized if they meet the criteria for recognition as assets, and are amortized over their useful lives. Research expenditures are expensed as incurred. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services prior to the commencement of commercial production or use. Examples of activities typically included in development are the design, construction, and testing of pre-production or pre-use prototypes and models involving new technology. The development phase is deemed complete when the IT department has formally documented that the capitalized asset is ready for its intended use. Expenditure on research and development recognized as an expense by Deutsche Telekom amounted to EUR 84.1 million (2015: EUR 108.1 million).

GOODWILL

Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated (impairment-only approach). The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less straight-line depreciation, and impairment losses, if applicable. The depreciation period is based on the expected useful life of the assets. Items of property, plant and equipment are depreciated pro rata temporis in the year of acquisition. The residual values, useful lives, and the depreciation methods of the assets are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates in accordance with IAS 8. In addition to directly attributable costs, the costs of internally developed assets include proportionate indirect material and labor costs, as well as administrative expenses relating to production or the provision of services. In addition to the purchase price and costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, costs also include the estimated costs for dismantling and removing the asset, and restoring the site on which it is located. If an item of property, plant and equipment consists of several components with different estimated useful lives, those components that are significant are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Public investment grants reduce the cost of the assets for which the grants were made.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in the following table:

	Years
Buildings	25 to 50
Telephone facilities and other telecommunications equipment	3 to 15
Switching, transmission, IP, and radio transmission equipment	2 to 12
Outside plant networks	8 to 35
Other equipment, operating and office equipment	2 to 23

Leasehold improvements are depreciated over the shorter of their useful lives or applicable lease terms.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are capitalized as part of the cost of that asset. Deutsche Telekom defines qualifying assets as construction projects or other assets for which a period of at least twelve months is necessary in order to get them ready for their intended use or sale. Borrowing costs relating to assets measured at fair value and to inventories that are manufactured or produced in large quantities on a repetitive basis are not capitalized.

IMPAIRMENTS OF INTANGIBLE ASSETS (INCLUDING GOODWILL) AND ITEMS OF PROPERTY, PLANT AND EQUIPMENT

Impairments are identified by comparing the carrying amount with the recoverable amount. If individual assets do not generate future cash flows independently of other assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, annual impairment tests are carried out for intangible assets with indefinite useful lives (goodwill and FCC licenses) at regular intervals. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced in the amount of the difference. Impairment losses for goodwill must not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is to be distributed on a pro-rata basis to the assets allocated to the cash-generating unit. The fair values or values in use (if measurable) of the individual assets shall be considered to be the minimum values. If the reasons for previously recognized impairments no longer exist, the impairment losses on the assets concerned (with the exception of goodwill) must be reversed.

The recoverable amount of a cash-generating unit is measured at the higher of fair value less costs of disposal and the value in use. The recoverable amount is generally determined by means of a discounted cash flow (DCF) calculation, unless it can be determined on the basis of a market price. These DCF calculations use projections that are based on financial budgets approved by management covering a ten-year period and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. For the key assumptions on which management has based its calculation of the recoverable amount, please refer to the "Judgments and estimates," further on in this section.

INVENTORIES

Inventories are carried at cost on initial recognition and are subsequently measured at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Cost is measured using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the necessary estimated selling expenses. Deutsche Telekom sells handsets in connection with service contracts, and separately. In the former case, Deutsche Telekom sometimes also sells such devices at a price below cost, as the handset subsidy is part of the Company's strategy for acquiring new customers. In these cases, the loss on the sale of handsets is recognized at the time of the sale as the difference between cost and the lower revenue generated.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups held for sale are classified as such if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of the carrying amount and fair value less costs of disposal and classified as non-current assets and disposal groups held for sale. Such assets are no longer depreciated. Impairment of such assets is recognized if fair value less costs of disposal is lower than the carrying amount. If fair value less costs of disposal subsequently increases, the impairment loss previously recognized must be reversed. The reversal of impairment losses is limited to the impairment losses previously recognized for the assets concerned. If the requirements for the classification of assets as held for sale are no longer met, the assets may no longer be shown as held for sale. The assets are to be measured at the lower of the carrying amount that would have applied if the asset had not been classified as held for sale, and the recoverable amount at the date at which the requirements for the classification as held for sale are no longer met.

EMPLOYEE BENEFITS

Deutsche Telekom maintains **defined benefit pension plans** in various countries on the basis of the pensionable compensation of its employees and their length of service. Some of these pension plans are financed through external pension funds and some through incorporation in a contractual trust agreement (CTA). Provisions for pensions are actuarially measured using the projected unit credit method for defined benefit pension plans, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future salary and benefit increases. The interest rate used to determine the present value of the obligations is generally set on the basis of the yields on high-quality corporate bonds in the respective currency area. The return on plan assets and interest expenses resulting from the unwinding of the discount are reported in (net) finance costs. Service cost is classified as operating expenses. Past service cost resulting from a change in the pension plan shall immediately be recognized in the period in which the change took effect. Gains and losses arising from adjustments and changes in actuarial assumptions are recognized immediately and in full in the period in which they occur outside profit or loss within equity. Some Group entities grant defined contribution plans to their employees in accordance with statutory or contractual requirements, with the payments being made to state or private pension insurance funds. Under defined contribution plans, the employer does not assume any other obligations above and beyond the payment of contributions to an external fund. The amount of the future pension payments will exclusively depend on the contribution made by the employer (and their employees, if applicable) to the external fund, including income from the investment of such contributions. The amounts payable are expensed when the obligation to pay the amounts is established, and classified as expenses.

Up until December 31, 2012, Deutsche Telekom maintained a joint pension fund, **Bundes-Pensions-Service für Post und Telekommunikation e. V., Bonn (Federal Pension Service for Post and Telecommunications – BPS-PT)**, together with Deutsche Post AG and Deutsche Postbank AG for civil-servant pension plans. BPS-PT made pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil-servant pensions (organized within the Civil Service Pension Fund) to the German Federal Posts and Telecommunications Agency effective January 1, 2013. The level of Deutsche Telekom AG's payment obligations to the Civil Service Pension Fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). Deutsche Telekom AG has been legally obliged since 2000 to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. Deutsche Telekom is not required to fulfill any other obligations in respect of pensions for civil servants. The payment obligations can therefore be considered defined contribution plans.

In the past, Deutsche Telekom AG and its domestic subsidiaries agreed on **partial 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 partial 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 partial retirement program and ends upon entry into the passive phase (leave from work).

Obligations arising from the granting of termination benefits are recognized when Deutsche Telekom does not have a realistic possibility of withdrawal from the granting of the corresponding benefits. **Severance payments for employees and obligations arising in connection with early retirement arrangements** in Germany are mainly granted in the form of offers to the employees to leave the Company voluntarily. As a rule, such obligations are not recognized before the employees have accepted an offer from the Company, unless the Company is prevented by legal or other restrictions from withdrawing its offer at an earlier date. Obligations arising from the sole decision by the Company to shed jobs are recognized when the Company has announced a detailed formal plan to terminate employment relationships. If termination benefits are granted in connection with restructuring measures within the meaning of IAS 37, a liability under IAS 19 is recognized at the same time as a restructuring provision. Where termination benefits fall due more than twelve months after the reporting date, the expected amount to be paid is discounted to the reporting date. If the timing or the amount of the payment is still uncertain at the reporting date, the obligations are reported under other provisions.

OTHER PROVISIONS

Other provisions are recognized for current legal or constructive obligations to third parties that are uncertain with regard to their timing or their amount. Provisions are recognized for these obligations provided they relate to past transactions or events, will probably require an outflow of resources to settle, and this outflow can be reliably measured. Provisions are carried at their expected settlement amount, taking into account all identifiable risks and uncertainties. The settlement amount is calculated on the basis of a best estimate; suitable estimation methods and sources of information are used depending on the characteristics of the obligation. In case of a number of similar obligations, the group of obligations is treated as one single obligation. The expected value method is used as the estimation method. If there is a range of potential events with the same probability of occurrence, the average value is taken. Individual obligations (e.g., legal and litigation risks) are regularly evaluated based on the most probable outcome, provided an exceptional probability distribution does not mean that other estimates would lead to a more appropriate evaluation. The measurement of provisions is based on past experience, current costing and price information, as well as estimates and reports from experts. If experience or current costing or price information is used to determine the settlement amount, these values are extrapolated to the expected settlement date. Suitable price trend indicators (e.g., construction price indexes or inflation rates) are used for this purpose. Provisions are discounted when the effect of the time value of money is material. Provisions are discounted using pre-tax market interest rates that reflect the term of the obligation and the risk associated with it (insofar as not already taken into consideration in the calculation of the settlement amount). Reimbursement claims are not netted against provisions; they are recognized separately as soon as their realization is virtually certain.

Provisions for decommissioning, restoration, and similar obligations arising from the acquisition of property, plant and equipment are offset by a corresponding increase in the capitalized cost of the relevant asset. Changes at a later date in estimates of the amount or timing of payments or changes to the interest rate applied in measuring such obligations also result in retrospective increases or decreases in the carrying amount of the relevant item of property, plant and equipment. These in turn change the depreciation of the asset to be recognized in the future, which leads to the changes in estimates being recognized in profit or loss over the remaining useful life. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, held-to-maturity investments, and derivative and non-derivative financial assets held for trading. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds and other securitized liabilities, trade payables, liabilities to banks, finance lease payables, liabilities to non-banks from promissory notes, and derivative financial liabilities. Financial instruments are recognized as soon as Deutsche Telekom becomes a party to the contractual regulations of the financial instrument. However, in the case of regular way purchase or sale (purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned), the settlement date is relevant for the initial recognition and derecognition. This is the day on which the asset is delivered to or by Deutsche Telekom. In general, financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis. To the extent that contracts to buy or sell non-financial assets fall within the scope of IAS 39, they are accounted for in accordance with this standard.

Financial assets are measured at fair value on initial recognition. For all financial assets not subsequently remeasured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are taken into account. The fair values recognized in the statement of financial position are generally based on the market prices of the financial assets. If these are not available, they must be calculated using standard valuation models on the basis of current market parameters. For this calculation, the cash flows already fixed or determined by way of forward rates using the current yield curve are discounted at the measurement date using the discount factors calculated from the yield curve applicable at the reporting date. Middle rates are used.

Trade and other current receivables are measured at the carrying amount at which the item is initially recognized less any impairment losses, and, provided the receivables are due after one year or more, using the effective interest rate method. Impairments, which take the form of allowances, make adequate provision for the expected credit risk; concrete cases of default lead to the derecognition of the respective receivables. For allowances, financial assets with a potential need for a write-down are grouped together on the basis of similar credit risk characteristics, tested collectively for impairment, and written down, if necessary. The expected future cash flows of the portfolios are being calculated based on contractually agreed cash flows, taking previous cases of default into consideration. The cash flows are discounted on the basis of the weighted average of the original effective interest rates of the financial assets contained in the relevant portfolio. Impairments of trade receivables are recognized in some cases using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. As there are a variety of operating segments and regional circumstances, this decision is the responsibility of the respective portfolio managers.

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

In the consolidated statement of cash flows, Deutsche Telekom reports cash flows from interest and dividends received as cash inflows or outflows in net cash from operating activities.

Other non-current receivables are measured at amortized cost using the effective interest method.

Financial assets held for trading are measured at fair value. These mainly include derivatives that are not part of an effective hedging relationship as set out in IAS 39 and therefore shall be classified as held for trading. Any gains or losses arising from subsequent measurement are recognized in the income statement.

Certain types of investments are intended and expected to be held to maturity with reasonable economic certainty. These financial assets are measured at amortized cost using the effective interest method.

Non-derivative financial assets that do not fulfill the definition of another category of financial instruments are classified as available for sale and generally measured at fair value. The gains and losses arising from fair value measurement are recognized directly in equity, unless the impairment is permanent or significant, or the changes in the fair value of debt instruments resulting from currency fluctuations are recognized in profit or loss. The cumulative gains and losses arising from fair value measurement, which have been recognized in equity, are only recognized in profit or loss on disposal of the related financial assets. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

Deutsche Telekom has not yet made use of the option of designating financial assets upon initial recognition as financial assets at fair value through profit or loss.

The carrying amounts of the financial assets that are not measured at fair value through profit or loss are tested at each reporting date to determine whether there is objective, material evidence of impairment (e.g., a debtor is facing serious financial difficulties, it is highly probable that insolvency proceedings will be initiated against the debtor, an active market for the financial asset disappears, there is a substantial change in the technological, economic or legal environment, or the market environment of the issuer, or there is a continuous decline in the fair value of the financial asset to a level below amortized cost). When available-for-sale financial assets are being tested for impairment, the overall circumstances of the individual case are always taken into account. In addition to the factors specific to the issuer, the market environment and the macroeconomic and legal conditions are considered. Where listed companies are involved, the extent and permanency of price declines and the price volatility are also especially relevant. Any impairment losses caused by the fair value being lower than the carrying amount are recognized in profit or loss. Where changes in the fair value of available-for-sale financial assets were recognized directly in equity (other comprehensive income) in the past, these must now be reclassified from other comprehensive income in the amount of the impairment determined to the income statement. If, in a subsequent period, the fair value of the financial asset increases and this increase can be related objectively to events occurring after the impairment was recognized, the impairment loss is reversed in the appropriate amount. In the case of debt instruments, these reversed impairment losses are recognized in profit or loss. Impairment losses on unquoted equity instruments that are classified as available for sale and carried at cost may not be reversed. In case of held-to-maturity securities and loans and receivables measured at amortized cost, the fair value to be determined for impairment testing corresponds to the present value of the estimated future cash flows, discounted using the original effective interest rate. The fair value of unquoted equity instruments measured at cost is calculated as the present value of the expected future cash flows, discounted using the current interest rate that corresponds to the investment's special risk position.

Financial liabilities are measured at fair value on initial recognition. For all financial liabilities not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition are also recognized.

If the agreed credit period for liabilities to suppliers is longer than the normal credit period in the relevant procurement market at this point in time, this liability is reported under other interest-bearing liabilities in financial liabilities instead of under trade payables. A financing agreement of this nature is shown as a non-cash transaction in the statement of cash flows and the relevant repayment of the financial liability reported under net cash from/used in financing activities. This applies regardless of whether the supplier sells its receivable or not. For the effects on the consolidated statement of cash flows, please refer to Note 30 "Notes to the consolidated statement of cash flows," pages 190 and 191.

Trade payables and other non-derivative financial liabilities are measured at amortized cost using the effective interest method.

Deutsche Telekom has not yet made use of the option to designate financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss.

Derivatives that are not part of an effective hedging relationship as set out in IAS 39 must be classified as held for trading and measured at fair value through profit or loss. If the fair values are negative, the derivatives are recognized as financial liabilities.

Deutsche Telekom uses **derivatives** to hedge the interest rate and currency risks resulting from its operating, financing, and investing activities. The Company does not hold or issue derivatives for speculative trading purposes. Derivatives are carried at their fair value upon initial recognition. The fair values are also relevant for subsequent measurement. The fair value of traded derivatives is equal to their market value, which can be positive or negative. If there is no market value available, the fair value is determined using standard financial valuation models.

The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were transferred at the reporting date. This is calculated on the basis of the contracting parties' relevant exchange rates and interest rates at the reporting date. Calculations are made using middle rates. In the case of interest-bearing derivatives, a distinction is made between the clean price and the dirty price. In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

Recording the changes in the fair values – in either the income statement or directly in equity – depends on whether or not the derivative is part of an effective hedging relationship as set out in IAS 39. If **hedge accounting** pursuant to IAS 39 is not employed, the changes in the fair values of the derivatives must be recognized in profit or loss. If, on the other hand, an effective hedging relationship as set out in IAS 39 exists, the hedge will be recognized as such.

Deutsche Telekom applies hedge accounting to hedge items in the statement of financial position and future cash flows, thus reducing income statement volatility. A distinction is made between fair value hedges, cash flow hedges, and hedges of a net investment in a foreign operation depending on the nature of the hedged item.

Fair value hedges are used to hedge the fair values of assets recognized in the statement of financial position, liabilities recognized in the statement of financial position, or firm commitments not yet recognized in the statement of financial position. Any change in the fair value of the derivative designated as the hedging instrument is recognized in profit or loss; the carrying amount of the hedged item is adjusted by the profit or loss to the extent of the hedged risk (basis adjustment). The adjustments to the carrying amount are not amortized until the hedging relationship has been discontinued.

Cash flow hedges are used to hedge against fluctuations in future cash flows from assets and liabilities recognized in the statement of financial position, from firm commitments (in the case of currency risks), or from highly probable forecast transactions. To hedge the currency risk of an unrecognized firm commitment, Deutsche Telekom makes use of the option to recognize it as a cash flow hedge rather than a fair value hedge. If a cash flow hedge is employed, the effective portion of the change in the fair value of the hedging instrument is recognized in equity (hedging reserve) until the gain or loss on the hedged item is realized; the ineffective portion of the hedging instrument is recognized in profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial or non-financial asset or liability, the associated cumulative gains and losses that were recognized directly in equity are reclassified into profit or loss in the same periods during which the financial asset acquired or the financial liability assumed affects profit or loss for the period. In doing so, Deutsche Telekom has decided not to make use of the basis adjustment option for hedging forecast transactions when non-financial items in the statement of financial position arise.

If **hedges of a net investment in a foreign operation** are employed, all gains or losses on the effective portion of the hedging instrument, together with any gains or losses on the foreign-currency translation of the hedged investment, are taken directly to equity. Any gains or losses on the ineffective portion are recognized immediately in profit or loss. The cumulative remeasurement of gains and losses on the hedging instrument that had previously been recognized directly in equity and the gains and losses on the currency translation of the hedged item are recognized in profit or loss only on disposal of the investment.

IAS 39 sets out strict requirements on the use of hedge accounting. These are fulfilled at Deutsche Telekom by documenting, at the inception of a hedge, both the relationship between the financial instrument used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This involves concretely assigning the hedging instruments to the corresponding assets or liabilities or (firmly agreed/expected) future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis; ineffective hedges are discontinued immediately.

Deutsche Telekom does not use hedge accounting in accordance with IAS 39 to hedge the foreign-currency exposure of recognized monetary assets and liabilities, because the gains and losses on the hedged item from currency translation that are recognized in profit or loss in accordance with IAS 21 are shown in the income statement together with the gains and losses on the derivatives used as hedging instruments.

CONTINGENCIES (CONTINGENT LIABILITIES AND ASSETS)

Contingencies (contingent liabilities and assets) are potential liabilities or assets arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of Deutsche Telekom. Contingent liabilities are also present obligations that arise from past events for which an outflow of resources embodying economic benefits is not probable or for which the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are only recognized at their fair value if they were assumed in the course of a business combination. Contingent liabilities not assumed in the course of a business combination are not recognized. Contingent assets are not recognized. However, when the realization of income is virtually certain, then the related asset is no longer a contingent asset, but it is recognized as an asset. Information on contingent liabilities is disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. The same applies to contingent assets where an inflow of economic benefits is probable.

LEASES

Beneficial ownership of leased assets is attributed to the contracting party in the lease to which the substantial risks and rewards incidental to ownership of the asset are transferred.

If substantially all risks and rewards are attributable to the lessor (operating lease), the leased asset is recognized in the statement of financial position by the lessor. Measurement of the leased asset is then based on the accounting policies applicable to that asset. The lease payments are recognized in profit or loss by the lessor. The lessee in an operating lease recognizes the lease payments made during the term of the lease in profit or loss. Contractually defined future changes in the lease payments during the term of the lease are recognized on a straight-line basis over the entire lease term, which is defined only once at the inception date of the contract. Where extension options exist, the exercise of those extension options that are reasonably certain is initially taken into account at the time the lease is concluded. If the original assessment of the exercise of extension options changes in the course of the lease, the estimated future obligations arising from operating leases will be changed accordingly.

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the lessee (finance lease), the lessee must recognize the leased asset in the statement of financial position. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the shorter of the estimated useful life or the lease term. Depreciation is recognized as expense. The lessee recognizes a lease liability equal to the carrying amount of the leased asset at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount is adjusted accordingly. The lessor in a finance lease recognizes a receivable in the amount of the net investment in the lease. Lease income is broken down into repayments of the lease receivable and finance income. The lease receivable is reduced using the effective interest method and the carrying amount is adjusted accordingly.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

SHARE-BASED PAYMENT PROGRAMS

Equity-settled share-based payment transactions are measured at fair value on the grant date. The fair value of the obligation is recognized as personnel costs over the vesting period and offset against capital reserves. For equity-settled share-based payment transactions, the fair value is determined using internationally accepted valuation techniques, such as the Black-Scholes model or the Monte Carlo model. For cash-settled share-based payment transactions, the goods and services acquired and the liability incurred have to be recognized at the fair value of the liability. The fair value of the liability has to be newly determined at each reporting date and at the settlement date, and the changes in the fair value have to be recognized in profit and loss, until the liability is settled.

NET REVENUE

Revenues include all revenues from the ordinary business activities of Deutsche Telekom. Revenues are recorded net of value-added tax and other taxes collected from customers that are remitted to governmental authorities. They are recognized in accordance with the provision of services based on the realization principle. Customer activation fees are deferred and recognized as revenue over the estimated average period of customer retention, unless they are part of a multiple-element arrangement, in which case they are a component of the arrangement consideration to be paid by the customer.

For multiple-element arrangements, revenue recognition for each of the units of accounting (elements) identified must be determined separately. Arrangements involving the delivery or provision of multiple separable products or services must be separated into individual elements, each with its own separate revenue contribution. At Deutsche Telekom, this especially concerns the sale or lease of a mobile handset or other telecommunications equipment combined with the conclusion of a mobile or fixed-network telecommunications contract. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative standalone selling prices, i. e., based on a ratio of the standalone selling price of each element to the aggregated standalone selling prices of the bundled deliverables. The relative standalone selling price of an individual element and thus the revenue recognized for this unit of accounting, however, is limited by that proportion of the total arrangement consideration to be provided by the customer, the payment of which does not depend on the delivery of additional elements (contingent revenue cap). As a result, the revenue to be recognized for products delivered in advance (e.g., mobile handsets) that are sold at a subsidized price in combination with a long-term service contract is ultimately limited by this subsidized price. The contingent revenue cap does not apply for lease assets, such as leased devices.

Payments to customers, including payments to dealers and agents (discounts, commissions) are generally recognized as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognized as expenses.

Revenue recognition at Deutsche Telekom is as follows:

Revenue generated by the mobile communications business of the operating segments Germany, United States, and Europe 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 and Europe provides narrow and broadband access to the fixed network as well as the Internet. Revenue generated from these types of access for the use of voice and data communications as well as television via Internet is recognized upon rendering of the service. The services rendered relate to use by customers (e.g., call minutes), availability over time (e.g., monthly service charges), or other agreed rate plans. Telecommunications equipment is also sold, leased, and serviced. Revenue and expenses associated with the sale of telecommunications equipment and accessories are recognized when the products are delivered, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Revenue from the lease of telecommunications equipment is recognized monthly as the entitlement to the fees accrues. Revenues from customer activation fees are deferred over the average customer retention period. Revenues also result from charges for advertising and e-commerce. Advertising revenues are recognized in the period in which the advertisements are exhibited. Transaction revenues are recognized upon notification from the customer that qualifying transactions have occurred and collection of the resulting receivable is reasonably assured.

In the **Systems Solutions** operating segment, revenue is recognized when persuasive evidence of a sales arrangement exists, products are delivered or services are rendered, the selling price or fee is fixed or determinable, and collectability of the fees is reasonably assured.

Revenues from Computing & Desktop Services are recognized in accordance with the provision of services. Revenue is recognized ratably over the contractual service period for fixed-price contracts and on an output or consumption basis for all other service contracts. Revenue from service contracts billed on the basis of time and material used is recognized at the contractual hourly rates as labor hours are delivered and direct expenses are incurred.

Revenue from hardware sales or sales-type leases is recognized when the product is shipped to the customer, provided there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement. Any costs of these obligations are recognized when the corresponding revenue is recognized.

Telecommunications services include network services and hosting & ASP services. Contracts for network services, which consist of the installation and operation of communication networks for customers, have an average duration of approximately three years. Customer activation fees and related costs are deferred and amortized over the estimated average period of customer retention. Revenues for voice and data services are recognized under such contracts when used by the customer. When an arrangement contains a lease, the lease is accounted for separately in accordance with IFRIC 4 and IAS 17. Revenues from hosting & ASP services are recognized as the services are provided.

Revenue from construction contracts and construction-type service contracts (or elements of service contracts) (e.g., IT developments) is recognized using the percentage of completion method. The measure of progress or stage of completion of a contract is generally determined as the percentage of cost incurred up until the reporting date relative to the total estimated cost at the reporting date (cost-to-cost method). In particular for complex outsourcing contracts with corporate customers, a reliable estimate of the total cost and therefore of the stage of completion is not possible in many cases, so revenue is only recognized in the amount of the contract costs already expensed. This means that a proportionate profit is not realized until the contract has been completed (zero-profit method).

Revenue from non-sales-type rentals and leases is recognized on a straight-line basis over the lease term.

INCOME TAXES

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

Current tax assets and current tax liabilities must be recognized in the amount that Deutsche Telekom expects to settle or recover from the tax authorities. They include liabilities/receivables for the current period as well as for prior periods.

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards and tax credits. By way of derogation from this principle, a deferred tax liability is not recognized for temporary differences if the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit/tax loss. A deferred tax liability is not recognized either for temporary differences arising from the initial recognition of goodwill. A deferred tax liability is generally recognized for temporary differences associated with investments in subsidiaries, joint arrangements, and associates unless Deutsche Telekom is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

JUDGMENTS AND ESTIMATES

The presentation of the results of operations or financial position in the consolidated financial statements is dependent upon and sensitive to the accounting policies, assumptions, and estimates. The actual amounts may differ from those estimates. The following critical accounting estimates and related assumptions and uncertainties inherent in accounting policies applied are essential to understand the underlying financial reporting risks and the effects that these accounting estimates, assumptions and uncertainties may have on the consolidated financial statements.

Measurement of property, plant and equipment, and intangible assets involves the use of estimates for determining the fair value at the acquisition date, provided they were acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of the fair values of assets and liabilities, as well as of the useful lives of the assets is based on management's judgment. The measurement of intangible assets acquired in exchange transactions is based on management's judgment as to whether an exchange transaction has commercial substance. For this, an analysis is performed to determine to what extent the future cash flows (risk, timing, and amount) are expected to change as a consequence of the transaction. Information from external experts is obtained for this analysis and for the determination of the fair values of assets.

The determination of impairments of property, plant and equipment, and intangible assets involves the use of estimates that include, but are not limited to, the cause, timing, and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions, and other changes in circumstances that indicate an impairment exists. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives, and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow, and potential impairment. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future results of operations.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to calculate the recoverable amount include discounted cash flow-based methods and methods that use market prices as a basis. The measurements on the basis of discounted cash flows are founded on projections that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state is only reached based on the planning horizon selected, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal mid-term planning are extrapolated using appropriate growth rates. The key assumptions on which management has based its calculation of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience as well as internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the risks associated with the cash-generating unit. Any future changes in the aforementioned assumptions could have a significant impact on the fair values of the cash-generating units.

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer creditworthiness, and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

When available-for-sale financial assets are being tested for impairment, the overall circumstances of the individual case are always taken into account. In addition to the factors specific to the issuer, the market environment and the macroeconomic and legal conditions are considered. Where listed companies are involved, the extent and permanency of price declines and the price volatility are also especially relevant.

In each tax jurisdiction in which Deutsche Telekom operates, management must make judgments for the calculation of current and deferred taxes. This is relevant, for example, when it comes to a decision on the recognition of deferred tax assets because it must be probable that a taxable profit will be available against which the deductible temporary differences, loss carryforwards, and tax credits can be utilized. In addition to the estimate of future earnings, various factors are used to assess the probability of the future utilization of deferred tax assets, including past results of operations, the reliability of planning, and tax planning strategies. The period used for the assessment of the recoverability depends on the circumstances at the respective Group company and typically is in a range of 5 to 10 years.

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 ceases to control the subsidiary. If necessary, the subsidiaries' accounting principles are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

Upon loss of control, a gain or loss from the disposal of the subsidiary is recognized in the consolidated income statement in the amount of the difference between the (i) proceeds from the disposal of the subsidiary, the fair value of the remaining shares, the carrying amount of the non-controlling interests, and the cumulative amounts of other comprehensive income attributable to the subsidiary, and (ii) the carrying amount of the subsidiary's net assets to be disposed of.

JOINT OPERATIONS, JOINT VENTURES, AND ASSOCIATES

Joint arrangements, in which two or more parties have joint control over an activity, must be classified as either joint operations or joint ventures.

A joint operation is characterized by the fact that the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in the joint operation as well as its share of the joint assets, liabilities, revenues and expenses.

In a joint venture, on the other hand, the parties that have joint control of the arrangements (partners) have rights to the net assets of the entity. Associates are companies on which Deutsche Telekom has a significant influence, and that are neither subsidiaries nor joint ventures. As with joint ventures, associates are accounted for using the equity method.

Investments in joint ventures and associates that are included in the consolidated financial statements using the equity method are recognized at cost at the time of acquisition. The carrying amount of the investment may include goodwill as the positive difference between the cost of the investment and Deutsche Telekom's proportionate share in the fair values of the entity's identifiable net assets. If necessary, the accounting principles of joint ventures and associates are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use.

Upon loss of significant influence, a gain or loss from the disposal of the joint venture/associate is recognized in the amount of the difference between the (i) proceeds from the disposal of the shares, the fair value of the remaining shares, and the cumulative amounts of other comprehensive income attributable to the joint venture or associate, and (ii) the carrying amount of the investment to be disposed of.

The materiality assessment for jointly controlled entities and associates is generally performed using the same methods as for subsidiaries, but is limited to the criteria of profit/loss for the year, contingent assets and liabilities, and other financial obligations.

BUSINESS COMBINATIONS

A business combination exists when Deutsche Telekom obtains control of another entity. All business combinations must be accounted for using the acquisition method. The cost of an acquired subsidiary is measured at the fair value of the consideration transferred, i. e., the sum of the assets transferred, liabilities assumed, and equity instruments issued. Transaction costs are generally recognized as expense. The acquisition cost is allocated to the acquired assets, liabilities, and contingent liabilities. The identifiable assets acquired and the liabilities and contingent liabilities assumed are recognized in full at their fair values at the acquisition date, regardless of the level of the investment held by Deutsche Telekom.

Goodwill arising in a business combination is measured as the excess of the aggregate of the cost of acquisition, the amount of any non-controlling interest in the acquiree, and, in a business combination achieved in stages, the fair value of the equity interest held by Deutsche Telekom in the acquiree prior to the acquisition date over the fair value of the net assets acquired. Any difference arising on the revaluation of equity interests previously held by Deutsche Telekom is recognized in profit or loss.

For all business combinations there is an option in relation to the measurement of the non-controlling interests. These can be recognized either directly at their fair value (i. e., the non-controlling interest in the enterprise value of the acquiree) or at the non-controlling interest in the fair value of the net assets acquired. As a result, in the first case, the non-controlling interests also have a share in the goodwill arising from the business combination, while in the second case the non-controlling interest is limited to the revalued assets and liabilities and the goodwill is therefore recognized only as the amount attributable to Deutsche Telekom.

Transactions relating to the further acquisition or sale of equity interests with other shareholders that do not affect Deutsche Telekom's controlling interest do not lead to any change in goodwill. The difference between the fair value of the consideration transferred or received (i. e., the purchase price of the interests) and the carrying amount of the equity attributable to the non-controlling interests must be offset directly against consolidated shareholders' equity in capital reserves or increases the capital reserves.

CHANGES IN THE COMPOSITION OF THE GROUP AND OTHER TRANSACTIONS

In the 2016 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 the EE joint venture

After the British Competition and Markets Authority (CMA) had approved the sale of the EE joint venture to the UK company BT unconditionally and without remedies in January 2016, Deutsche Telekom AG and the French telecommunications provider Orange consummated the transaction on January 29, 2016 at a purchase price of GBP 13.2 billion. In return for its stake in the EE joint venture, Deutsche Telekom AG received a financial stake of 12.0 percent in BT and a cash payment of GBP 15.7 million. The sale generated income of approximately EUR 2.5 billion. Around EUR 0.9 billion of this amount resulted from effects recognized directly in equity in prior years. In addition, on January 25, 2016, the shareholders received a final dividend totaling GBP 0.3 billion from the former EE joint venture, in which Deutsche Telekom AG participated with its capital share at that date of 50 percent. The financial stake in BT received in connection with this transaction is disclosed as available-for-sale financial assets under other financial assets. The financial stake is generally measured at fair value directly in equity. For more information – for example on the recognition of the impairment loss on the financial stake in BT in profit or loss – please refer to Note 36 “Financial instruments and risk management,” page 200 et seq.

Acquisition of Vodafone’s consumer fixed-network business in the Netherlands

On November 4, 2016, T-Mobile Netherlands signed an agreement with Vodafone Libertel B. V. to acquire Vodafone Thuis. The transaction was completed on December 16, 2016. As a result of this transaction, T-Mobile Netherlands has become an integrated fixed-mobile provider whose new fixed-network business covering the whole of the Netherlands will be marketed under the T-Mobile Thuis brand from the first quarter of 2017. The consideration paid at the acquisition date amounted to EUR 1.6 million in cash and was determined by means of a public auction. The final purchase price has not yet been determined because the fair values as of the reporting date have not yet been finalized. The acquisition is not expected to have any significant impact on the net assets of the Deutsche Telekom Group. The purchase price allocation and the measurement of the assets and liabilities have not yet been concluded at December 31, 2016.

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 Europe operating segment resulted from the spin-off of the energy resale business in Hungary as of January 1, 2016 and from the aforementioned acquisition of Vodafone’s consumer fixed-network business in the Netherlands.

The presented effects in the Group Headquarters & Group Services segment resulted from the sale of the online platform t-online.de and the digital marketing company InteractiveMedia in the fourth quarter of 2015. The sale of t-online.de and InteractiveMedia resulted in the disposal of assets and liabilities, each in the amount of EUR 0.1 billion.

The following table shows the effects of changes in the composition of the Group on the consolidated income statement and segment reporting.

millions of €

	Total 2016	2015								Organic change 2016
		Total	Germany	United States	Europe	Systems Solutions	Group Headquarters & Group Services	Reconciliation	Pro forma[a]	
Net revenue	73,095	69,228			(159)		(83)		68,986	4,109
Other operating income	4,180	2,008			0		(285)		1,723	2,457
Changes in inventories	(12)	(11)			0		0		(11)	(1)
Own capitalized costs	2,112	2,041			0		(2)		2,039	73
Goods and services purchased	(37,084)	(35,706)			155		6		(35,545)	(1,539)
Personnel costs	(16,463)	(15,856)			1		36		(15,819)	(644)
Other operating expenses	(3,284)	(3,316)			1		23		(3,292)	8
Depreciation, amortization and impairment losses	(13,380)	(11,360)			0		3		(11,357)	(2,023)
PROFIT (LOSS) FROM OPERATIONS (EBIT)	**9,164**	**7,028**	**0**	**0**	**(2)**	**0**	**(302)**	**0**	**6,724**	**2,440**
Finance costs	(2,492)	(2,363)			0		0		(2,363)	(129)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	(53)	24			0		0		24	(77)
Other financial income (expense)	(2,072)	89			0		0		89	(2,161)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	**(4,617)**	**(2,250)**	**0**	**0**	**0**	**0**	**0**	**0**	**(2,250)**	**(2,367)**
PROFIT (LOSS) BEFORE INCOME TAXES	**4,547**	**4,778**	**0**	**0**	**(2)**	**0**	**(302)**	**0**	**4,474**	**73**
Income taxes	(1,443)	(1,276)			0		0		(1,276)	(167)
PROFIT (LOSS)	**3,104**	**3,502**	**0**	**0**	**(2)**	**0**	**(302)**	**0**	**3,198**	**(94)**

[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 2016 financial year:

	Domestic	International	Total
CONSOLIDATED SUBSIDIARIES			
January 1, 2016	64	190	254
Additions	4	7	11
Disposals (including mergers)	7	9	16
DECEMBER 31, 2016	**61**	**188**	**249**
ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2016	6	8	14
Additions	–	–	–
Disposals	–	1	1
DECEMBER 31, 2016	**6**	**7**	**13**
JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD			
January 1, 2016	3	5	8
Additions	–	–	–
Disposals	–	1	1
DECEMBER 31, 2016	**3**	**4**	**7**
TOTAL			
January 1, 2016	73	203	276
Additions	4	7	11
Disposals (including mergers)	7	11	18
DECEMBER 31, 2016	**70**	**199**	**269**

Other transactions that had no effect on the composition of the Group

In April 2016, approximately 2.6 million shares in Scout24 AG were placed at a price of EUR 30.00 per share. In another book-building process in December 2016, 1.8 million shares were brought to market at a price of EUR 32.00 per share, with gross proceeds of EUR 0.1 billion in total. Following completion of this transaction, Deutsche Telekom directly holds some 9.3 percent and indirectly via Scout Lux Management Equity Co S.à.r.l. another around 0.9 percent of the shares in Scout24 AG and is represented by two seats on the company's supervisory board. In addition, Deutsche Telekom provides one of the four members on both the general committee and the audit committee of Scout24 AG's supervisory board. Due to its membership in the supervisory board and its two central committees, Deutsche Telekom has a significant influence on the financial and operating policies of Scout24 AG. Consequently, Deutsche Telekom continues to include the investment in its consolidated financial statements as an associate using the equity method.

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, 2016/2016**	100.00	21,429	4,483	4,484	12,118	Germany
	Dec. 31, 2015/2015	100.00	21,891	4,633	4,345	12,568	
T-Mobile US, Inc., Bellevue, Washington, United States [a, b]	**Dec. 31, 2016/2016**	64.78	33,738	3,685	18,558	43,699	United States
	Dec. 31, 2015/2015	65.41	28,925	2,454	16,447	41,669	
T-Systems International GmbH, Frankfurt/Main, Germany	**Dec. 31, 2016/2016**	100.00	6,009	(662)	122	18,261	Systems Solutions
	Dec. 31, 2015/2015	100.00	6,367	(663)	1,133	20,091	
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece [a]	**Dec. 31, 2016/2016**	40.00	3,908	60	3,255	20,713	Europe
	Dec. 31, 2015/2015	40.00	3,903	226	3,497	21,216	
Magyar Telekom Public Limited Company, Budapest, Hungary [a, b]	**Dec. 31, 2016/2016**	59.23	1,935	246	2,307	9,492	Europe
	Dec. 31, 2015/2015	59.23	2,110	195	2,234	10,611	
T-Mobile Netherlands Holding B. V., The Hague, Netherlands [a, b]	**Dec. 31, 2016/2016**	100.00	1,331	(307)	2,359	1,380	Europe
	Dec. 31, 2015/2015	100.00	1,394	278	2,705	1,430	
T-Mobile Polska S. A., Warsaw, Poland [b]	**Dec. 31, 2016/2016**	100.00	1,488	201	2,729	4,079	Europe
	Dec. 31, 2015/2015	100.00	1,544	350	2,681	4,527	
T-Mobile Czech Republic a.s., Prague, Czech Republic [a, b]	**Dec. 31, 2016/2016**	100.00	959	226	1,757	3,286	Europe
	Dec. 31, 2015/2015	100.00	958	207	1,746	3,442	
Hrvatski Telekom d.d., Zagreb, Croatia [a, b]	**Dec. 31, 2016/2016**	51.00	925	155	2,107	4,499	Europe
	Dec. 31, 2015/2015	51.00	909	148	2,037	4,793	
T-Mobile Austria Holding GmbH, Vienna, Austria [a, b]	**Dec. 31, 2016/2016**	100.00	855	132	1,422	1,138	Europe
	Dec. 31, 2015/2015	100.00	829	96	1,062	1,064	
Slovak Telekom a.s., Bratislava, Slovakia [a, b]	**Dec. 31, 2016/2016**	100.00	766	92	1,423	3,327	Europe
	Dec. 31, 2015/2015	100.00	783	71	1,427	3,551	

[a] Consolidated subgroup.
[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, 2016/2016**	35.22	35.22	6,274	–
	Dec. 31, 2015/2015	34.59	34.59	5,435	–
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece [a]	**Dec. 31, 2016/2016**	60.00	50.00	1,740	29
	Dec. 31, 2015/2015	60.00	50.00	1,893	24
Magyar Telekom Public Limited Company, Budapest, Hungary [a, b]	**Dec. 31, 2016/2016**	40.77	40.77	690	29
	Dec. 31, 2015/2015	40.77	40.77	636	22
Hrvatski Telekom d.d., Zagreb, Croatia [a, b]	**Dec. 31, 2016/2016**	49.00	49.00	815	32
	Dec. 31, 2015/2015	49.00	49.00	784	37

[a] Consolidated subgroup.
[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, 2016/2016**	15,317	53,032	14,296	35,495	751	1,392
	Dec. 31, 2015/2015	15,018	47,516	9,224	36,863	354	1,149
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece[a]	**Dec. 31, 2016/2016**	2,734	5,585	2,443	2,621	(202)	(198)
	Dec. 31, 2015/2015	2,414	6,118	2,484	2,552	(79)	(74)
Magyar Telekom Public Limited Company, Budapest, Hungary[a, b]	**Dec. 31, 2016/2016**	654	3,577	892	1,032	95	120
	Dec. 31, 2015/2015	716	3,612	1,118	1,005	51	48
Hrvatski Telekom d.d., Zagreb, Croatia[a, b]	**Dec. 31, 2016/2016**	751	1,686	249	82	114	128
	Dec. 31, 2015/2015	748	1,625	252	84	139	144

[a] Consolidated subgroup.
[b] Indirect shareholding of Deutsche Telekom AG.
[c] IFRS figures of the respective subgroup.

millions of €

Name and registered office		Net cash from operating activities[c]	Net cash (used in) from investing activities[c]	Net cash (used in) from financing activities[c]
T-Mobile US, Inc., Bellevue, Washington, United States[a, b]	**2016**	5,586	(5,174)	354
	2015	5,327	(8,624)	2,935
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece[a]	**2016**	1,003	(479)	(260)
	2015	1,056	(419)	(674)
Magyar Telekom Public Limited Company, Budapest, Hungary[a, b]	**2016**	496	(285)	(315)
	2015	517	315	(235)
Hrvatski Telekom d.d., Zagreb, Croatia[a, b]	**2016**	278	(358)	(111)
	2015	330	(82)	(112)

[a] Consolidated subgroup.
[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 200 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 163 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	
	2016	2015	2014	Dec. 31, 2016	Dec. 31, 2015
100 Czech korunas (CZK)	3.69912	3.66596	3.63124	3.70104	3.70066
1 Pound sterling (GBP)	1.22003	1.37760	1.24035	1.16939	1.36181
100 Croatian kuna (HRK)	13.27380	13.13380	13.09950	13.23480	13.08730
1,000 Hungarian forints (HUF)	3.21138	3.22570	3.23940	3.22612	3.17145
100 Macedonian denars (MKD)	1.62360	1.62569	1.62380	1.62421	1.62408
100 Polish zlotys (PLN)	22.91960	23.89210	23.89430	22.65680	23.44620
1 U.S. dollar (USD)	0.90365	0.90117	0.75241	0.94872	0.91819

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 829 million (December 31, 2015: EUR 1,740 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 increased by EUR 0.9 billion to EUR 7.7 billion. For further details, please refer to the notes to the consolidated statement of cash flows in Note 30 “Notes to the consolidated statement of cash flows,” pages 190 and 191.

As of December 31, 2016, Deutsche Telekom reported cash and cash equivalents of EUR 23 million held by subsidiaries in the F.Y.R.O. Macedonia (December 31, 2015: EUR 36 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, 2016	Dec. 31, 2015
Trade receivables	9,179	8,756
Other receivables	183	482
	9,362	**9,238**

Of the total of trade and other receivables, EUR 7,861 million (December 31, 2015: EUR 8,085 million) is due within one year.

The increase in trade receivables is primarily due to the larger customer base as a result of T-Mobile US’ successful Un-carrier initiatives as well as exchange rate effects. Factoring agreements concluded or extended in the reporting period had an offsetting effect and reduced receivables (please also refer to Note 36 “Financial instruments and risk management,” page 200 et seq.).

In the prior year, other receivables included receivables of EUR 0.3 billion from the construction contract in connection with the set-up of an electronic toll collection system in Belgium. The set-up phase was completed in the first quarter of the reporting year. For further information on the toll collection system in Belgium, please refer to “Service concession arrangements” in the section “Other disclosures,” page 214.

The following table shows the maturity structure of the trade receivables that are not impaired at the reporting date:

millions of €

Trade receivables	Of which: neither impaired nor past due on the reporting date	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, 2016	**3,074**	**631**	**74**	**58**	**62**	**44**	**46**
As of Dec. 31, 2015	3,163	628	86	60	71	43	27

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 €

	2016	2015
ALLOWANCES AS OF JANUARY 1	**1,502**	**1,368**
Currency translation adjustments	10	1
Additions (allowances recognized as expense)	757	805
Use	(596)	(553)
Reversal	(106)	(119)
ALLOWANCES AS OF DECEMBER 31	**1,567**	**1,502**

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 €

	2016	2015	2014
Expenses for full write-off of receivables	126	375	352
Income from recoveries on receivables written off	67	329	254

3 INVENTORIES

millions of €

	Dec. 31, 2016	Dec. 31, 2015
Raw materials and supplies	71	62
Work in process	18	23
Finished goods and merchandise	1,540	1,762
	1,629	**1,847**

The carrying amount of inventories decreased by EUR 0.2 billion compared to December 31, 2015 to EUR 1.6 billion. This was due in particular to lower stock levels of terminal equipment (above all higher-priced smartphones) at the reporting date.

Write-downs of EUR 46 million (2015: EUR 121 million, 2014: EUR 57 million) on the net realizable value were recognized in 2016 and are shown in profit or loss.

The carrying amount of inventories expensed during the reporting period amounted to EUR 13,295 million (2015: EUR 12,367 million, 2014: EUR 8,237 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, 2016, current assets recognized in the consolidated statement of financial position included EUR 0.4 billion in non-current assets and disposal groups held for sale. Current liabilities in the consolidated statement of financial position included EUR 0.2 billion as liabilities directly associated with non-current assets and disposal groups held for sale. The decrease of EUR 6.6 billion in non-current assets and disposal groups held for sale compared with December 31, 2015 results primarily from the following effects:

After the British Competition and Markets Authority (CMA) had approved the sale of the EE joint venture to the UK company BT unconditionally and without remedies in January 2016, Deutsche Telekom AG and the French telecommunications provider Orange consummated the transaction on January 29, 2016, which reduced the carrying amount by EUR 5.8 billion. In this context, exchange rate effects totaling EUR 0.2 billion from the translation of pounds sterling to euros also lowered the net carrying amount compared with December 31, 2015. In the prior-year period, non-current assets and disposal groups held for sale had included in particular the reclassified stake in the EE joint venture. Secondly, the transaction agreed in the third quarter of 2015 for the exchange of spectrum licenses between T-Mobile US and a competitor with the aim of improving the mobile network coverage of T-Mobile US was completed in March 2016. This transaction reduced the net carrying amount by a further EUR 0.6 billion.

A transaction agreed between T-Mobile US and a competitor in the third quarter of 2016 for the exchange of spectrum licenses, also aimed at improving the mobile network coverage of T-Mobile US, had an increasing effect of EUR 0.1 billion on the carrying amount. In December 2016, Deutsche Telekom reached an agreement with United Internet AG on the sale of hosting service provider Strato (which belonged to the Group Headquarters & Group Services segment). The transaction is expected to be closed in the first half of 2017. Payment of most of the purchase price is to be made immediately after closing. The sale of Strato 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.

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, 2016						Dec. 31, 2015				
	Deutsche Telekom AG	Strato	T-Mobile US	DeTeMedien	Other	Total	EE	T-Mobile US	Deutsche Telekom AG	Other	Total
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE											
Other current assets	–	10	–	25	–	**35**	–	–	–	4	**4**
Intangible assets	14	53	96	–	–	**163**	–	629	–	4	**633**
Property, plant and equipment	115	36	–	2	5	**158**	–	–	180	32	**212**
Investments accounted for using the equity method	–	–	–	3	–	**3**	6,073	–	–	–	**6,073**
Deferred tax assets	8	–	–	5	–	**13**	–	–	–	–	**–**
Other non-current assets	–	–	–	–	–	**–**	–	–	–	–	**–**
TOTAL	**137**	**99**	**96**	**35**	**5**	**372**	**6,073**	**629**	**180**	**40**	**6,922**

millions of €

	Dec. 31, 2016						Dec. 31, 2015				
	Deutsche Telekom AG	Strato	T-Mobile US	DeTeMedien	Other	Total	EE	T-Mobile US	Deutsche Telekom AG	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**	–	–	–	2	**2**
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	–	–	–	–	–	**–**	–	–	–	2	**2**
TOTAL	**66**	**50**	**–**	**78**	**–**	**194**	**–**	**–**	**–**	**4**	**4**

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, 2016.

millions of €

	Dec. 31, 2016				Dec. 31, 2015			
	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 AG real estate	–	–	84	**84**	–	–	105	**105**

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 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, 2014	**4,785**	**58,824**	**1,138**	**3,668**
Currency translation	290	3,716	31	2
Changes in the composition of the Group	0	6	3	0
Additions	101	4,997	27	1,266
Disposals	504	1,710	42	0
Change from non-current assets and disposal groups held for sale	(12)	(1,012)	0	0
Reclassifications	756	1,318	20	165
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**
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES				
AT DECEMBER 31, 2014	**3,093**	**25,316**	**619**	**542**
Currency translation	221	1,057	7	0
Changes in the composition of the Group	0	(7)	0	0
Additions (amortization)	938	3,110	113	251
Additions (impairment)	1	17	7	0
Disposals	494	1,698	39	0
Change from non-current assets and disposal groups held for sale	(4)	(211)	0	0
Reclassifications	(28)	29	10	(1)
Reversal of impairment losses	0	0	0	0
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**
NET CARRYING AMOUNTS				
At December 31, 2015	1,689	38,526	460	4,309
AT DECEMBER 31, 2016	**1,719**	**42,042**	**432**	**4,991**

Acquired intangible assets				Goodwill	Advance payments and intangible assets under development	
UMTS licenses	GSM licenses	FCC licenses (T-Mobile US)	Other acquired intangible assets			Total
9,929	**1,291**	**27,253**	**15,545**	**28,986**	**1,688**	**94,283**
4	4	3,115	560	1,340	40	5,386
0	0	0	3	1	0	7
0	556	2,642	506	0	2,406	7,504
0	301	0	1,367	35	33	2,282
0	0	(997)	(15)	(2)	(7)	(1,033)
0	(2)	0	1,135	0	(2,057)	17
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**
6,342	**924**	**5,868**	**11,021**	**14,309**	**0**	**42,718**
2	3	674	371	1,196	0	2,474
0	0	0	(7)	0	0	(7)
581	66	0	2,099	0	0	4,048
0	0	0	10	43	0	61
0	301	0	1,358	31	0	2,223
0	0	(199)	(12)	0	0	(215)
0	0	0	20	0	0	1
0	0	0	0	0	0	0
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**
3,008	856	25,670	4,223	14,773	2,037	57,025
2,444	**810**	**29,329**	**4,036**	**14,310**	**2,528**	**60,599**

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 0.5 billion (December 31, 2015: EUR 1.1 billion) as of the reporting date. The decrease is mainly due to obligations recognized in the prior year for the purchase of spectrum licenses at T-Mobile US.

In the 2016 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

United States. The increase of EUR 38 million in goodwill compared with December 31, 2015 was the result of exchange rate effects.

Europe and Systems Solutions. Business customer operations at Magyar Telekom in Hungary, which had previously been organizationally assigned to the Systems Solutions operating segment, have been bundled and reported under the Europe operating segment since January 1, 2016. The allocation of goodwill to the corresponding segments was adjusted, thus reducing goodwill of the Systems Solutions operating segment by EUR 101 million compared with the prior year. Goodwill of the Hungary cash-generating unit in the Europe operating segment increased by the same amount. In addition, exchange rate effects contributed to the year-on-year increase in goodwill.

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, 2016. A need for impairment totaling EUR 471 million on a pro rata basis was identified in the Europe operating segment at the cash-generating units Netherlands, Romania – Mobile communications, and Montenegro as of December 31, 2016 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. The impairment test as of December 31, 2015 resulted in a need for impairment of EUR 43 million at the Hungary cash-generating unit 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 to the right.

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, as of December 31, 2016. 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 amount (prior to the deduction of net debt) for Hungary was EUR 3,004 million as of December 31, 2015. The value was calculated according to IFRS 13 using Level 3 input parameters (i. e., unobservable input parameters).

The recoverable amount at the Netherlands, Croatia, Montenegro, and F.Y.R.O. Macedonia cash-generating units was determined on the basis of the value in use, since, in these cases, it is higher than the fair value. 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 mid-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	**2016**	3,978		10	4.89	0.0	Level 3
	2015	3,978		10	5.34	0.0	Level 3
UNITED STATES	**2016**	1,185		n. a.	n. a.	n. a.	Level 1
	2015	1,147		n. a.	n. a.	n. a.	Level 1
EUROPE							
Poland	**2016**	1,530		10	6.45	2.0	Level 3
	2015	1,584		10	6.96	2.0	Level 3
Netherlands	**2016**	897	415	10	4.99	0.50	Value in use
	2015	1,312		10	5.51	0.25	Value in use
Hungary	**2016**	1,069		10	7.83	2.0	Level 3
	2015	949	43	10	7.88	2.0	Level 3
Czech Republic	**2016**	739		10	5.33	2.0	Level 3
	2015	739		10	5.58	2.0	Level 3
Croatia	**2016**	500		10	6.74	2.0	Value in use
	2015	494		10	7.13	2.0	Value in use
Slovakia	**2016**	428		10	5.61	2.0	Level 3
	2015	428		10	5.34	2.0	Level 3
Greece – Mobile communications	**2016**	422		10	7.91	2.0	Level 3
	2015	422		10	7.81	2.0	Level 3
Austria	**2016**	324		10	5.24	2.0	Level 3
	2015	324		10	5.66	2.0	Level 3
Romania – Mobile communications	**2016**	76	44	10	7.96	2.0	Level 3
	2015	121		10	8.47	2.0	Level 3
International Carrier Sales & Solutions	**2016**	101		10	4.64	2.0	Level 3
	2015	101		10	5.15	2.0	Level 3
Other [c]	**2016**	87	12	10	8.06–9.93	2.0	Level 3 and values in use
	2015	99		10	8.44–10.47	2.0	Level 3 and values in use
SYSTEMS SOLUTIONS	**2016**	2,974		10	6.15	1.5	Level 3
	2015	3,075		10	6.49	1.5	Level 3
	2016	**14,310**	**471**				
	2015	**14,773**	**43**				

[a] Discount rate consistently after taxes. The discount rate before taxes for the calculation of the value in use amounts to 5.81 percent for the Netherlands, 8.31 percent for Croatia, and 8.73 to 8.99 percent for "Other."
[b] Level of input parameters in the case of fair value less costs of disposal.
[c] The impairments under "Other" exclusively relate to the Montenegro cash-generating unit.

Sensitivity analysis of the impairment losses

millions of € [a]

	Increase (decrease) in impairment losses in 2016					
	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		85 (101/ 100 %/97.28 %)	109 (101/ 2.0 %/1.77 %)	226 (101/ 6.45 %/6.59 %)		
Netherlands	–262 (–415/ 4.99 %/4.22 %)	120 (–415/ 100 %/117.30 %)	128 (–415/ 0.50 %/1.6 %)	214 (–415/ 4.99 %/4.22 %)	–120 (–415/ 100 %/117.30 %)	–160 (–415/ 0.50 %/1.6 %)
Romania – Mobile communications	–12 (–124/ 7.96 %/6.45 %)	7 (–124/ 100 %/129.48 %)	5 (–124/ 2.0 %/4.25 %)	10 (–124/ 7.96 %/6.45 %)	–7 (–124/ 100 %/129.48 %)	–6 (–124/ 2.0 %/4.25 %)
F.Y.R.O. Macedonia		7 (5/ 100 %/98.50 %)	6 (5/ 2.0 %/1.85 %)	13 (5/ 8.06 %/8.15 %)		
Montenegro	–8 (–20/ 8.07 %/7.34 %)	5 (–20/ 100 %/112.03 %)	4 (–20/ 2.0 %/3.18 %)	7 (–20/ 8.07 %/7.34 %)	–5 (–20/ 100 %/112.03 %)	–4 (–20/ 2.0 %/3.18 %)
	(282)	**224**	**252**	**470**	**(132)**	**(170)**

[a] Where a change in the parameters results in an impairment loss, the following information is indicated in parentheses: the current amount by which the unit's recoverable amount exceeds its carrying amount, the current value of the parameter, and the value of the parameter, which makes the recoverable amount of the cash-generating unit equal to the unit's carrying amount.

The sensitivity analysis of impairment charges 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, 2014	**18,644**	**109,043**	**8,332**	**3,004**	**139,023**
Currency translation	220	2,247	176	151	2,794
Changes in the composition of the Group	(1)	(29)	(5)	(1)	(36)
Additions	164	5,945	503	5,251	11,863
Disposals	296	5,099	854	89	6,338
Change from non-current assets and disposal groups held for sale	(571)	(113)	(3)	(8)	(695)
Reclassifications	356	4,019	448	(4,840)	(17)
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**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
AT DECEMBER 31, 2014	**10,694**	**82,675**	**6,011**	**27**	**99,407**
Currency translation	152	1,341	126	0	1,619
Changes in the composition of the Group	(1)	(30)	(4)	0	(35)
Additions (depreciation)	723	5,713	714	0	7,150
Additions (impairment)	70	23	2	3	98
Disposals	201	4,825	797	1	5,824
Change from non-current assets and disposal groups held for sale	(385)	(60)	(2)	(3)	(450)
Reclassifications	37	(52)	13	1	(1)
Reversal of impairment losses	(7)	0	0	0	(7)
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**
NET CARRYING AMOUNTS					
At December 31, 2015	7,434	31,228	2,534	3,441	44,637
AT DECEMBER 31, 2016	**7,011**	**33,378**	**2,605**	**3,764**	**46,758**

For further details on depreciation, amortization and impairment losses, please refer to Note 22 "Depreciation, amortization and impairment losses," page 184, and Note 5 "Intangible assets," page 158 et seq.

The additions include EUR 1.5 billion in capitalized higher-priced mobile devices. These relate to the business model JUMP! On Demand introduced at T-Mobile US in June 2015 under which customers no longer purchase the device but lease it.

Restoration obligations of EUR 0.4 billion were recognized as of December 31, 2016 (December 31, 2015: EUR 0.3 billion). This includes restoration obligations of EUR 0.3 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 2.3 billion (December 31, 2015: EUR 1.9 billion) as of the reporting date.

For the Romania – Fixed network cash-generating unit in the Europe operating segment, an ad hoc impairment test triggered by the more pessimistic outlook for the business taken into account in the annual planning process, resulted in an impairment loss being recognized on the assets. As of the reporting date, no goodwill was recognized in the Romania – Fixed network cash-generating unit.

As in the prior year, the measurement of the cash-generating unit was founded on a projection 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 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 (2015: 2.0 percent) was set for the cash-generating unit Romania – Fixed network and is based on the real growth and inflation expected in the long term for Romania. 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 7.79 percent (2015: 8.35 percent).

The recoverable amount, calculated internally on the basis of the stated assumptions according to IFRS 13 using Level 3 input parameters (i. e., unobservable input parameters), was EUR 510 million (after deduction of net debt). The resulting need for impairment of EUR 185 million had to be allocated to non-current assets. An external expert opinion was obtained on account of the lower value limits to be observed (fair value less costs of disposal of the relevant assets). Based on the recoverable amount derived from this expert opinion of EUR 567 million, an impairment loss of EUR 128 million was recognized, EUR 100 million of which related to non-controlling interests. The impairment loss primarily related to technical infrastructure in property, plant and equipment. The need for impairment was primarily attributable to intensified competition and a difficult overall market situation.

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Deutsche Telekom publishes the following information on significant investments included in the consolidated financial statements using the equity method:

	Deutsche Telekom share		Percentage of voting rights		Assigned to segment	Fair value of the investment, if a listed market price is available	
Name and registered office	Dec. 31, 2016 %	Dec. 31, 2015 %	Dec. 31, 2016 %	Dec. 31, 2015 %		Dec. 31, 2016 millions of €	Dec. 31, 2015 millions of €
Hrvatske telekomunikacije d.d. Mostar, Mostar, Bosnia-Herzegovina [a]	39.10	39.10	39.10	39.10	Europe	31	44
Scout24 AG, Munich, Germany	9.26	13.37	9.26	13.37	Group Headquarters & Group Services	337	474
Ströer SE & Co. KGaA, Cologne, Germany	11.60	11.60	11.60	11.60	Group Headquarters & Group Services	267	361
T-Mobile USA Tower LLC, Wilmington, United States [b]	100.00	100.00	100.00	100.00	United States	–	–
T-Mobile West Tower LLC, Wilmington, United States [b]	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] Indirect shareholding via T-Mobile US, Inc., United States (Deutsche Telekom AG's share: 64.78 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.

Scout24 AG operates leading digital advertising platforms in Germany and other selected European countries. The core business under the Scout24 umbrella brand consists of the digital marketplaces ImmobilienScout24 and AutoScout24. For more information on the basis for including the investment in the consolidated financial statements of Deutsche Telekom, please refer to the section "Summary of accounting policies" under "Changes in the composition of the Group and other transactions," page 149 et seq.

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 supervisory board membership 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 USA and Crown Castle International Corp., Houston, United States, concerning the leasing and use of the cell sites. The sole right to continue to use and lease out these sites was transferred to Crown Castle. T-Mobile US continues to operate its mobile equipment on these cell towers and, to this end, leases back the required capacity from Crown Castle. Previously unused infrastructure is thus available for Crown Castle to lease to third parties. In return, the owners of the land on which the cell towers are built will no longer receive lease payments from T-Mobile US for those cell towers which were contributed to the two associates and those that were disposed of. Both entities were deconsolidated as of the date of the closing of the transaction in 2012, because Crown Castle independently operates the cell sites, generates revenues from the lease out of the sites for an average of 27 years and determines the finance and business activities of both entities that are relevant for consolidation purposes. It is expected that the leasing of tower space will allow Crown Castle to generate sufficient ongoing profits and cash flows to be able to meet its contractual obligations. Thus Deutsche Telekom has only a significant influence and includes these companies in the consolidated financial statements as associates. Under certain conditions, T-Mobile US will continue to be held liable for any default in the lease payment by Crown Castle to the owners of the underlying land of the cell sites. The agreement includes a considerably low maximum guarantee amount for Deutsche Telekom, since in the unlikely event that this case occurs, T-Mobile US could take over the further use of the relevant cell sites or alternatively terminate the contracts with the owners of the cell site land at short notice. At closing, T-Mobile US established an immaterial cash reserve in the entities sufficient to fund the payment of ongoing administrative expenses not payable by Crown Castle. Aside from the guarantee and the payment of administrative expenses there is no other funding obligation by T-Mobile US.

Toll Collect GmbH operates the highway toll system 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 significant joint ventures accounted for using the equity method

millions of €	HT Mostar d.d.		Toll Collect GmbH	
	Dec. 31, 2016/2016	Dec. 31, 2015/2015	Dec. 31, 2016/2016	Dec. 31, 2015/2015
Current assets	44	40	770	528
Of which: cash and cash equivalents	13	3	18	63
Non-current assets	163	172	150	180
Current liabilities	34	34	836	745
Of which: financial liabilities	0	0	0	0
Non-current liabilities	3	5	151	91
Of which: financial liabilities	1	1	150	90
Net revenue	42	45	530	472
Interest income	0	0	14	5
Interest expense	0	0	(6)	(3)
Income taxes	0	0	(31)	(37)
Profit (loss)	(2)	1	61	(15)
Other comprehensive income	0	0	1	0
Total comprehensive income	(2)	1	62	(15)
Depreciation and amortization	(12)	(12)	(1)	(2)
Dividends paid to Deutsche Telekom	0	0	0	0

Summarized financial information on significant associates accounted for using the equity method

millions of €

	Scout24 AG [a]		Ströer SE & Co. KGaA [b]		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	Dec. 31, 2016/2016	Dec. 31, 2015/2015	Dec. 31, 2016/2016	Dec. 31, 2015/2015	Dec. 31, 2016/2016	Dec. 31, 2015/2015	31.12.2016/2016	Dec. 31, 2015/2015
Current assets	101	123	293	178	0	0	0	0
Non-current assets	2,047	2,061	1,416	799	68	66	104	101
Current liabilities	111	108	438	276	0	0	0	0
Non-current liabilities	1,063	1,380	642	415	0	0	0	0
Net revenue	326	288	766	509	0	0	0	0
Profit (loss)	49	49	40	25	0	0	0	0
Other comprehensive income	0	1	(6)	(19)	0	0	0	0
Total comprehensive income	49	50	34	7	0	0	0	0
Dividends paid to Deutsche Telekom	0	124	4	0	0	0	0	0

[a] As financial data of Scout24 AG as of December 31, 2016 was not publicly available in its entirety to Deutsche Telekom at the date of preparation, the quarterly statement of Scout24 AG as of September 30, 2016 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.

[b] As financial data of Ströer SE & Co. KGaA as of December 31, 2016 was not publicly available to Deutsche Telekom at the date of preparation, the quarterly financial report of Ströer SE & Co. KGaA as of September 30, 2016 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	
	2016	2015	2016	2015
NET ASSETS AS OF JANUARY 1	**173**	**172**	**(128)**	**(114)**
Profit (loss)	(2)	1	61	(14)
Other comprehensive income	0	0	1	0
Dividends paid	0	0	0	0
Exchange rate effects	(1)	0	0	0
NET ASSETS AS OF DECEMBER 31	**170**	**173**	**(67)**	**(128)**
SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31	**66**	**68**	**(34)**	**(64)**
Adjustment of carrying amount	0	0	34	64
Other reconciliation effects	(16)	(15)	0	0
CARRYING AMOUNT AS OF DECEMBER 31	**50**	**53**	**0**	**0**

millions of €

	Scout24 AG [a]		Ströer SE & Co. KGaA [b]		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	2016	2015	2016	2015	2016	2015	2016	2015
NET ASSETS AS OF JANUARY 1	**696**	**1,059**	**286**	**300**	**66**	**60**	**101**	**91**
Profit (loss)	58	49	73	25	0	0	0	0
Other comprehensive income	0	1	1	(19)	0	0	0	0
Dividends paid	0	(421)	(39)	(20)	0	0	0	0
Capital increase [c]	220	8	380	0	0	0	0	0
Obligation to acquire own equity instruments	0	0	(72)	0	0	0	0	0
Exchange rate effects	0	0	0	0	2	6	3	10
NET ASSETS AS OF DECEMBER 31 [d]	**974**	**696**	**629**	**286**	**68**	**66**	**104**	**101**
SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31 [d]	**90**	**93**	**73**	**33**	**68**	**66**	**104**	**101**
Adjustment of carrying amount	0	0	0	0	0	0	0	0
Impairment	0	0	(50)	0	0	0	0	0
Other reconciliation effects	1	31	248	298	0	0	0	0
CARRYING AMOUNT AS OF DECEMBER 31	**91**	**124**	**271**	**331**	**68**	**66**	**104**	**101**

[a] As financial data of Scout24 AG as of December 31, 2016 was not publicly available in its entirety to Deutsche Telekom at the date of preparation, the quarterly statement of Scout24 AG as of September 30, 2016 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, 2016 were estimated and are included under other reconciliation effects. In addition, profit/loss after income taxes in 2016 also includes profit/loss after income taxes of the prior-year fourth quarter on a pro rata basis.

[b] As financial data of Ströer SE & Co. KGaA as of December 31, 2016 was not publicly available in its entirety to Deutsche Telekom at the date of preparation, the quarterly statement of Ströer SE & Co. KGaA as of September 30, 2016 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, 2016 were estimated and are included under other reconciliation effects. In addition, profit/loss after income taxes in 2016 also includes profit/loss after income taxes of the prior-year fourth quarter on a pro rata basis.

[c] The presentation of the development of the carrying amount of the stake in Scout24 AG as of December 31, 2016 included, among other factors, the capital increase carried out in connection with the IPO on October 1, 2015, as this information had not been available when Deutsche Telekom's consolidated financial statements as of December 31, 2015 were published.

[d] The figures for net assets and the share of the net assets of Scout24 AG and Ströer SE & Co. KGaA relate to September 30, 2016 and September 30, 2015.

Deutsche Telekom did not recognize losses in connection with investments included in the consolidated financial statements using the equity method of EUR 34 million (2015: EUR 64 million) because it 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, 2016/ 2016	Dec. 31, 2015/ 2015	Dec. 31, 2016/ 2016	Dec. 31, 2015/ 2015
Total carrying amounts	17	5	124	142
Total interests				
Profit (loss)	0	(1)	0	(3)
Other comprehensive income	0	0	0	0
TOTAL COMPREHENSIVE INCOME	**–**	**(1)**	**–**	**(3)**

8 OTHER FINANCIAL ASSETS

millions of €

	Dec. 31, 2016		Dec. 31, 2015	
	Total	Of which: current	Total	Of which: current
Originated loans and receivables	5,664	5,104	3,283	2,694
Available-for-sale financial assets	5,548	13	3,354	2,801
Derivative financial assets	2,379	594	2,686	306
Held-to-maturity investments	8	2	12	4
	13,599	**5,713**	**9,335**	**5,805**

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, 2016							
Due within one year	4,620	63	87	8	1	3	2
Due after more than one year	404	–	–	–	–	–	–
As of Dec. 31, 2015							
Due within one year	2,005	38	12	0	4	0	1
Due after more than one year	325	–	–	–	–	–	–

The increase of EUR 2.4 billion in short-term originated loans and receivables is mainly related to a refundable cash deposit of EUR 2.1 billion recorded in the second quarter of 2016 in connection with a potential asset purchase in the United States.

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 235 million (December 31, 2015: EUR 98 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 126 million were recognized at cost as of December 31, 2016, (December 31, 2015: EUR 156 million). No plans existed as of the reporting date to sell these instruments.

9 OTHER ASSETS

Other assets mainly include deferred expenses of EUR 1.2 billion (December 31, 2015: EUR 1.0 billion).

10 FINANCIAL LIABILITIES

millions of €

	Dec. 31, 2016				Dec. 31, 2015			
	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	**50,090**	**8,175**	**15,216**	**26,699**	**47,766**	**7,583**	**14,410**	**25,773**
Liabilities to banks	**4,097**	**1,293**	**2,071**	**733**	**4,190**	**1,864**	**945**	**1,381**
Of which: promissory notes	191	–	61	130	383	193	–	190
Of which: loans from the European Investment Bank	2,359	243	1,616	500	2,688	829	809	1,050
Of which: other loans	1,547	1,050	394	103	1,119	842	136	141
	54,187	**9,468**	**17,287**	**27,432**	**51,956**	**9,447**	**15,355**	**27,154**
Finance lease liabilities	2,547	585	1,275	687	1,927	311	878	738
Liabilities to non-banks from promissory notes	535	35	204	296	934	413	239	282
Liabilities with the right of creditors to priority repayment in the event of default	1,866	19	76	1,771	1,822	18	73	1,731
Other interest-bearing liabilities	1,823	1,268	381	174	3,009	2,399	465	145
Other non-interest-bearing liabilities	1,958	1,769	186	3	1,798	1,667	129	2
Derivative financial liabilities	1,734	1,278	315	141	934	184	413	337
	10,463	**4,954**	**2,437**	**3,072**	**10,424**	**4,992**	**2,197**	**3,235**
FINANCIAL LIABILITIES	**64,650**	**14,422**	**19,724**	**30,504**	**62,380**	**14,439**	**17,552**	**30,389**

Financial liabilities increased year-on-year by EUR 2.3 billion to a total of EUR 64.7 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 at December 31, 2016. None of these lines of credit had been utilized as of December 31, 2016. 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 March 2016, Deutsche Telekom International Finance B. V. placed a euro bond of EUR 4.5 billion in three tranches under a debt issuance program. An additional 5-year euro bond of EUR 0.5 billion was issued in April under the same debt issuance program. Also in April 2016, T-Mobile US issued senior notes with a total volume of USD 1.0 billion (EUR 0.9 billion). T-Mobile US expects to use the net proceeds from this offering for the purchase of 700 MHz A-block spectrum and other spectrum purchases. Further, in July 2016, a loan in the amount of EUR 0.5 billion and with a term of six years was taken out with the European Investment Bank. In addition, Deutsche Telekom International Finance B. V. issued a U. S. dollar bond of USD 2.75 billion (around EUR 2.5 billion) in four tranches in September 2016. In early October, Deutsche Telekom International Finance B. V. issued a fixed-income 7-year GBP bond with a volume of GBP 0.3 billion (around EUR 0.3 billion) as part of the aforementioned debt issuance program. All bonds issued by Deutsche Telekom International Finance B. V. are guaranteed by Deutsche Telekom AG.

In 2016, two U. S. dollar bonds were repaid in a total amount of USD 2.25 billion (around EUR 2.0 billion), as were euro bonds totaling EUR 0.9 billion, a bond in Swiss francs for CHF 0.4 billion (around EUR 0.4 billion), commercial paper in the amount of EUR 3.7 billion (net), and promissory notes in the amount of EUR 0.4 billion (net). The net decrease in liabilities to banks of EUR 0.1 billion also reduced the carrying amount of the financial liabilities.

The liabilities with the right of creditors to priority repayment in the event of default relate to liabilities issued by T-Mobile US with a nominal volume of USD 2.0 billion, a term running to 2022, and bearing variable-rate interest based on USD Libor. In the event of default by or insolvency of T-Mobile US, the creditors of these liabilities

millions of €

	Carrying amounts Dec. 31, 2016	Cash flows in 2017			Cash flows in 2018		
		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	(54,722)	(2,371)	(22)	(7,588)	(2,013)	(16)	(2,742)
Finance lease liabilities	(2,547)	(125)		(585)	(104)		(477)
Liabilities with the right of creditors to priority repayment in the event of default	(1,866)		(62)	(19)		(62)	(19)
Other interest-bearing liabilities	(1,823)	(17)		(1,268)	(16)		(200)
Other non-interest-bearing liabilities	(1,958)			(1,769)			(171)
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)	(146)	(46)	(27)	(19)	(40)	(177)
Interest rate derivatives in connection with fair value hedges	(79)	75	(86)	(15)	75	(83)	0
Interest rate derivatives in connection with cash flow hedges	(12)	3	0	0	3	0	0
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
Interest rate derivatives without a hedging relationship	832	(152)	215	207	(185)	207	185
Interest rate derivatives in connection with fair value hedges	230	226	(174)	0	226	(162)	0
Interest rate derivatives in connection with cash flow hedges	243	61	0	0	61	0	
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] There will be no payment for this item of EUR 50 million, since this relates to a purchase option granted to a third party for shares in a subsidiary of Deutsche Telekom (please also refer to Note 36 "Financial instruments and risk management," page 200 et seq.).

[b] For more detailed information, please refer to Note 36 "Financial instruments and risk management," page 200 et seq. In each case, the maximum payment at the earliest possible date of utilization is shown.

have first priority lien on certain assets of T-Mobile US. As of December 31, 2016, the entire carrying amount of these assets amounted to USD 70.9 billion (translated into euros: EUR 67.2 billion), including financial assets amounting to USD 13.2 billion (translated into euros: EUR 12.5 billion). As long as T-Mobile US neither defaults nor becomes insolvent, it shall not be subject to any restraints on disposal with regard to the assets underlying the lien. Due to the priority collateralization, these liabilities constitute a separate class of financial instruments.

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:

Cash flows in 2019–2021			Cash flows in 2022–2026			Cash flows in 2027 and thereafter		
Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
(5,266)	(12)	(15,020)	(4,777)		(18,086)	(2,844)		(9,112)
(215)		(799)	(197)		(413)	(64)		(274)
	(182)	(57)		(60)	(1,784)			
(58)		(180)	(52)		(93)	(26)		(82)
		(15)			(3)			
92	(80)	(42)	26	0	(59)	0	63	101
226	(248)	0	357	(398)	0	209	(254)	44
10	0	0	14	0	20	(3)	0	20
		1			0			0
(462)	425	157	41	(4)	59	37	72	98
402	(310)	0	507	(490)	0	886	(677)	57
176	0	18	282	0	29	155	0	433

millions of €	Carrying amounts Dec. 31, 2015	Cash flows in 2016	2017	2018–2020	2021–2025	2026 and thereafter
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(52,890)	(11,760)	(5,794)	(17,039)	(22,524)	(12,739)
Finance lease liabilities	(1,927)	(421)	(405)	(795)	(638)	(413)
Liabilities with the right of creditors to priority repayment in the event of default	(1,822)	(82)	(81)	(241)	(1,858)	
Other interest-bearing liabilities	(3,009)	(2,416)	(338)	(197)	(130)	(87)
Other non-interest-bearing liabilities	(1,798)	(1,667)	(101)	(28)	(2)	
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(147)	(158)				
Currency derivatives in connection with cash flow hedges	(33)	(34)				
Currency derivatives in connection with net investment hedges	0					
Other derivatives without a hedging relationship	(58)	(9)	(7)	(6)		
Interest rate derivatives without a hedging relationship	(314)	(108)	(144)	(40)	(50)	87
Interest rate derivatives in connection with fair value hedges	(10)	5	(12)			
Interest rate derivatives in connection with cash flow hedges	(74)	(37)	(37)			
Derivative financial assets:						
Currency derivatives without a hedging relationship	29	28				
Currency derivatives in connection with cash flow hedges	7	8				
Other derivatives without a hedging relationship	1					
Interest rate derivatives without a hedging relationship	1,106	260	236	383	141	553
Interest rate derivatives in connection with fair value hedges	290	105	103	260	355	580
Interest rate derivatives in connection with cash flow hedges	863	157	80	301	519	683
FINANCIAL GUARANTEES AND LOAN COMMITMENTS [a]	(2)	(459)	(136)			

[a] For more detailed information, please refer to Note 36 "Financial instruments and risk management," page 200 et seq. In each case, the maximum payment at the earliest possible date of utilization is shown.

All instruments held at December 31, 2016 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, 2016. 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, 2016, this figure was a nominal EUR 1.6 billion (December 31, 2015: EUR 2.1 billion). The Mandatory Convertible Preferred Stock issued by T-Mobile US in December 2014 (nominal volume of USD 1.0 billion, interest rate of 5.5 percent, term until 2017) is not included in the table above since T-Mobile US has the contractually agreed right to pay all interest in the form of shares. The repayment in the form of shares is mandatory.

11 TRADE AND OTHER PAYABLES

millions of €	Dec. 31, 2016	Dec. 31, 2015
Trade payables	10,388	11,037
Other liabilities	53	53
	10,441	**11,090**

Of the total of trade and other payables, EUR 10,441 million (December 31, 2015: EUR 11,089 million) is due within one year. The year-on-year decline in trade payables is mainly due to the reduction in liabilities at T-Mobile US. 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. In addition, there were further obligations in Germany under Article 131 of the Basic Law (Grundgesetz – GG), which ceased in the 2016 financial year.

Deutsche Telekom's pension obligations are as follows:

millions of €

	Dec. 31, 2016	Dec. 31, 2015
DEFINED BENEFIT LIABILITY	8,451	8,028
Defined benefit asset	(14)	(14)
NET DEFINED BENEFIT LIABILITY (ASSET)	8,437	8,014
Of which: provisions for direct commitments	7,944	7,568
Of which: provisions for indirect commitments	493	445
Of which: provisions for obligations in accordance with Article 131 GG	–	1

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, 2016	Dec. 31, 2015
Present value of the obligations fully or partially funded by plan assets	8,175	7,749
Plan assets at fair value	(2,990)	(2,744)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	5,185	5,005
Present value of the unfunded obligations	3,252	3,004
DEFINED BENEFIT LIABILITY (ASSET) ACCORDING TO IAS 19.63	8,437	8,009
Effect of asset ceiling (according to IAS 19.64)	0	5
NET DEFINED BENEFIT LIABILITY (ASSET)	8,437	8,014

millions of €

	2016	2015
NET DEFINED BENEFIT LIABILITY (ASSET) AS OF JANUARY 1	8,014	8,447
Service cost	230	285
Net interest expense (income) on the net defined benefit liability (asset)	166	157
Remeasurement effects	660	(230)
Pension benefits paid directly by the employer	(343)	(355)
Employer contributions to plan assets	(264)	(276)
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	(25)	(19)
Administration costs actually incurred (paid from plan assets)	0	0
Exchange rate fluctuations for plans in foreign currency	(1)	5
NET DEFINED BENEFIT LIABILITY (ASSET) AS OF DECEMBER 31	8,437	8,014

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:

%		2016	2015	2014
Discount rate	Germany	1.62	2.11	1.89
	Switzerland	0.62	0.83	1.14
	Greece (OTE S. A.)	1.62 [a]/0.92 [b]	2.13 [a]/1.39 [b]	1.83 [a]/1.09 [b]
Salary increase rate	Germany	2.40	2.50	2.50
	Switzerland	1.00	1.25	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	0.30
	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 174 et seq.).
[b] The discount rate relates to the plan for youth accounts (see the plan description, page 174 et seq.).
[c] The following assumptions were made in 2016 concerning the development of salaries in subsequent years: 2017: 0.00 percent, 2018: 0.00 percent, 2019: 0.00 percent, 2020: 0.00 percent. An increase of 1.00 percent is assumed for the years from 2021 onward.
[d] 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.
[e] The following assumptions were made in 2014 concerning the development of salaries in subsequent years: 2015: -1.00 percent, 2016: 0.00 percent, 2017: 0.00 percent, 2018: 11.00 percent. An increase of 1.00 percent was assumed for the years from 2019 onward.

years		Dec. 31, 2016	Dec. 31, 2015
Duration	Germany	14.0	13.9
	Switzerland	16.8 [a]	17.1
	Greece (OTE S. A.)	14.4 [b]/6.4 [c]	14.1 [b]/6.4 [c]

[a] Although the discount rate has declined since 2015, the duration of the Swiss obligations has decreased by approximately 0.3 years; this is attributable, among other things, to changes in the conversion rates (see plan description, page 174 et seq.).
[b] The duration relates to the plans for staff retirement indemnities and, until 2015, for phone credits (see the plan description, page 174 et seq.).
[c] The duration relates to the plan for youth accounts (see the plan description, page 174 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, 2016 when calculating the present value of defined benefit obligations, taking into account future salary increases. These discount rates were set in line with the average weighted duration of the respective obligation.

In the eurozone, the discount rate is determined based on the yields of high-quality European corporate bonds with AA rating, mapped in a yield curve showing the corresponding spot rates. In order to adapt determination of the discount rate in Switzerland so that it approximates this system, the existing method was refined with effect from August 31, 2015. Instead of the swap yields previously used (for bonds with AAA rating), Swiss government bonds were taken as the basis for deriving a yield curve. Since the yield curve derived from the government bonds comprises a credit risk that is too low for accounting purposes, a further adjustment is made in the form of a risk premium (credit spread) based on high-quality Swiss corporate bonds. Since August 2015, this risk premium, which was previously applied as a constant for all durations, has been calculated separately for three duration intervals and used to determine the interest rate. As a result of further refinements made in May 2016, risk premiums are now calculated for all durations and discount rates on the basis of spot rates in the same way as for the eurozone.

Development of defined benefit obligations in the reporting year:

millions of €

	2016	2015
DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1	**10,753**	**10,940**
Current service cost	259	287
Interest cost	223	207
Remeasurement effects	698	(312)
Of which: experience-based adjustments	(15)	3
Of which: adjusted financial assumptions	721	(310)
Of which: adjusted demographic assumptions	(8)	(5)
Total benefits actually paid	(375)	(386)
Contributions by plan participants	5	5
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	(25)	(19)
Past service cost (due to plan amendments)	(27)	(3)
Past service cost (due to curtailments)	(4)	(3)
Settlements [a]	(56)	4
Taxes to be paid as part of pensions	–	–
Exchange rate fluctuations for plans in foreign currency	(24)	33
DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31	**11,427**	**10,753**
Of which: active plan participants	5,245	4,969
Of which: plan participants with vested pension rights who left the Group	2,144	1,939
Of which: benefit recipients	4,038	3,845

[a] The settlements are mainly attributable to the closing of a plan in the Netherlands.

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, 2016 and December 31, 2015:

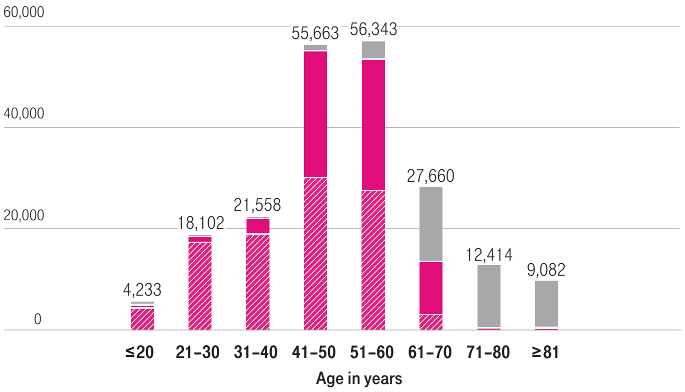
millions of €

	Dec. 31, 2016				Dec. 31, 2015			
	Germany	Switzerland	Greece (OTE S. A.)	Other plans	Germany	Switzerland	Greece (OTE S. A.)	Other plans
Defined benefit obligations	10,608	251	248	320	9,901	256	254	342
Plan assets at fair value	(2,576)	(205)	–	(209)	(2,287)	(194)	–	(263)
Effect of asset ceiling	–	–	–	–	–	–	–	5
NET DEFINED BENEFIT LIABILITY (ASSET)	**8,032**	**46**	**248**	**111**	**7,614**	**62**	**254**	**84**

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]



Benefit recipients

Plan participants with vested pension rights who left the Group

Active plan participants

[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, 2016. 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, 2016 as follows:

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

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2015		
	Germany	Switzerland	Greece (OTE S. A.)
Increase of discount rate by 100 basis points	(1,163)	(30)	(27)
Decrease of discount rate by 100 basis points	1,427	36	32
Increase of salary increase rate by 50 basis points	7	4	16
Decrease of salary increase rate by 50 basis points	(6)	(4)	(14)
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	246	7	0
Life expectancy decrease by 1 year	(251)	(7)	(1)

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.

The worldwide obligations and the existing plan assets at fair value are regularly tested for risk-reducing measures, for example by executing asset liability studies and regular benefit audits.

In Germany there are commitments for pension and disability benefits for a majority of employees as well as pension benefits for their surviving dependents. As part of a reorganization of the company pension plan, a capital account plan was introduced across Germany in 1997 for active employees. Furthermore, in subsequent years, commitments acquired through company acquisitions were also transferred to the capital account plan scheme. The capital account plan is an employer-financed, contribution-based benefit promise. The salary-linked contributions granted annually are charged interest in advance for each year of provision up to age 60, calculated using age-based factors, converting the contribution into a guaranteed insured amount. The advance interest rate currently stands at 3.50 percent p. a. (target interest rate for the capital account plan).

Under the provisions of collective wage agreements, Deutsche Telekom reduced the interest granted on future contributions in its capital account plan in Germany in the 2016 financial year from 3.75 percent p. a. to the current level of 3.50 percent p. a. as past service cost by amending the plan. The option of changing the target interest rate makes it possible to achieve a yield on the contributions to the capital account that is in line with the capital market.

The period for providing contributions is initially limited to ten future contribution years. The contribution period will be extended automatically every year by a further year, unless terminated. The insured amounts accumulated over the period of active service are paid out if an insured event arises, primarily in the form of a lump sum. Hence there is only a limited longevity risk for these commitments. Based on the payment guidelines and the structure of the capital account plan, the employer can plan for this, and there is only a small risk inherent in the plan with regard to the volatility of remuneration dynamics.

In addition, in Germany there are various closed legacy commitments, which generally provide for old-age and disability benefits as well as benefits for surviving dependents in the form of life-long pensions. The commitments predominantly comprise the overall pension of the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost – VAP) that takes into account the statutory pension. Most of the plan members of these commitments are former employees with vested rights and retirees for whom the amount of benefits has already been determined. So the VAP overall pension scheme continues to apply to former employees who were already retired or who had left with vested claims in 1997.

To the extent that defined benefit plans in Germany grant annuities, the future adjustment for these pensions, except for insignificant exceptions, is bindingly defined in the existing benefit regulations. A change in the assumptions for the general pension trend in Germany therefore only has an immaterial impact on the defined benefit obligations.

As a change in life expectancy mainly impacts on the obligations from legacy pension commitments and, since 1997, commitments have been granted in the form of capital, the significance of the risk resulting from the change in life expectancy is expected to decline for the Group over subsequent years.

To cover pension obligations over the long term, Deutsche Telekom has transferred funds to a corporate CTA and a company special pension fund (Unterstützungskasse).

As part of the company pension scheme in Switzerland for T-Systems Schweiz AG, there is a contribution-based benefit plan financed by employer and employee contributions, which is managed by the legally independent T-Systems pension fund. Following a restructuring of the Swiss companies and harmonization of the pension fund commitments as of January 1, 2014, T-Systems Data Migration Consulting AG has also since been included in the pension fund of T-Systems Schweiz AG. As is often the case in Switzerland, both companies grant higher benefits than legally required. The Swiss Federal Law on Occupational Retirement, Surviving Dependants' and Disability Pension (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge – BVG) sets out minimum requirements for the pay to be insured, the age-based contributions, and a minimum annuity factor for the obligatory portion of the accrued retirement assets to be annuitized. In addition, the Swiss Federal Council defines a minimum interest rate for the obligatory retirement assets (2016: 1.25 percent, 2017: 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. The pension fund of T-Systems Schweiz AG announced that it would lower its conversion rates as of 2017. This will reduce the future annual retirement pensions and thus result in lower pension provisions (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.

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 €

	2016	2015
PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1	2,744	2,498
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	0	0
Interest income on plan assets (calculated using the discount rate)	57	50
Amount by which the actual return exceeds (falls short of) the interest income on plan assets (remeasurement)	33	(82)
Contributions by employer	264	276
Contributions by plan participants	5	5
Benefits actually paid from plan assets	(32)	(31)
Settlements [a]	(58)	–
Administration costs	0	0
Tax payments	–	–
Exchange rate fluctuations for plans in foreign currency	(23)	28
PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31	2,990	2,744

[a] The settlements are mainly attributable to the closing of a plan in the Netherlands.

Contributions by employer as of December 31, 2016 include a payment of EUR 250 million (December 31, 2015: EUR 250 million) to a corporate CTA in Germany. 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, 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

millions of €

	Dec. 31, 2015	Of which: price in an active market	Of which: price without an active market
Equity securities	609	609	0
Debt securities	1,825	1,825	0
Real estate	54	54	0
Derivatives	0	0	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	200	200	0
Other	56	14	42
PLAN ASSETS AT FAIR VALUE	2,744	2,702	42

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 is derived from this with direct reference to the characteristics of the underlying pension obligations. This liability-driven investment (LDI) strategy aims to establish a widely diversified investment portfolio that generates a risk profile appropriate to the overall objective, by means of corresponding risk factors and diversification. The management of investments is subject to continuous monitoring to ensure active risk management. Cost-efficient investment management is effected by means of professional portfolio management involving external service providers.

At the reporting date, the plan assets at fair value included shares issued by Deutsche Telekom AG amounting to EUR 1,364 thousand (December 31, 2015: shares totaling EUR 1,116 thousand). No other own financial instruments were included in the years shown.

Development of the effect of the asset ceiling:

millions of €

	2016	2015
EFFECT OF ASSET CEILING AS OF JANUARY 1	5	5
Interest expense on asset ceiling (recognized in the income statement)	0	0
Changes in asset ceiling ((gains) losses recognized in equity)	(5)	0
Currency gain (loss)	0	0
EFFECT OF ASSET CEILING AS OF DECEMBER 31	0	5

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	2016	2015	2014
Current service cost	Personnel costs	259	287	228
Past service cost (due to plan amendments)	Personnel costs	(27)	(3)	(3)
Past service cost (due to curtailments)	Personnel costs	(4)	(3)	(8)
Settlements	Personnel costs	2	4	3
SERVICE COST		230	285	220
Interest cost	Other financial income (expense)	223	207	290
Interest income on plan assets (calculated using the discount rate)	Other financial income (expense)	(57)	(50)	(65)
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)		166	157	225
DEFINED BENEFIT COST		396	442	445
Administration costs actually incurred (paid from plan assets)	Personnel costs	0	0	0
TOTAL AMOUNTS RECOGNIZED IN PROFIT OR LOSS		396	442	445

The consolidated statement of comprehensive income contains the following amounts:

millions of €

	2016	2015	2014
REMEASUREMENT ((GAIN) LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN THE FINANCIAL YEAR)	660	(230)	1,581
Of which: remeasurement due to a change in defined benefit obligations	698	(312)	1,783
Of which: remeasurement due to a change in plan assets	(33)	82	(207)
Of which: remeasurement due to changes in the effect of asset ceiling (according to IAS 19.64)	(5)	0	5

Total benefit payments expected:

millions of €

	2017	2018	2019	2020	2021
Benefits paid from pension provisions	330	348	393	421	439
Benefits paid from plan assets	31	32	33	34	38
TOTAL BENEFITS EXPECTED	361	380	426	455	477

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 over the long term, Deutsche Telekom expects an allocation under the CTA of at least EUR 250 million in Germany in 2017. Deutsche Telekom expects a Group-wide allocation of at least EUR 262 million in 2017.

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, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Defined benefit obligations	11,427	10,753	10,940	8,965	8,973
Plan assets at fair value	(2,990)	(2,744)	(2,498)	(1,973)	(1,680)
DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS	**8,437**	**8,009**	**8,442**	**6,992**	**7,293**

%

Adjustments	2016	2015	2014	2013	2012
Experience-based increase (decrease) of defined benefit obligations	(0.1)	0.0	(0.1)	0.3	(0.2)
Experience-based increase (decrease) of plan assets	1.1	(3.0)	8.3	0.7	2.6

DEFINED CONTRIBUTION PLANS

The employer's contribution paid to the statutory pension scheme (Deutsche Rentenversicherung) in Germany in the 2016 financial year totaled EUR 0.3 billion (2015: EUR 0.3 billion, 2014: EUR 0.4 billion). Group-wide, EUR 109 million (2015: EUR 94 million, 2014: EUR 88 million) from current contributions for additional defined contribution plans was recognized in the consolidated income statement in 2016.

CIVIL-SERVANT RETIREMENT ARRANGEMENTS AT DEUTSCHE TELEKOM

An expense of EUR 516 million was recognized in the 2016 financial year (2015: EUR 538 million, 2014: EUR 552 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 3.6 billion at the reporting date (December 31, 2015: EUR 4.2 billion, December 31, 2014: EUR 5.1 billion) and is shown under other financial obligations (please refer to Note 34 "Other financial obligations," page 198).

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, 2014	**183**	**2,112**	**1,378**	**415**	**422**	**1,380**	**5,890**
Of which: current	181	1,467	175	408	422	864	3,517
Changes in the composition of the Group	0	1	0	0	0	0	1
Currency translation adjustments	0	43	35	2	15	47	142
Addition	70	1,884	365	93	384	902	3,698
Use	(62)	(1,728)	(186)	(122)	(344)	(639)	(3,081)
Reversal	(6)	(89)	(55)	(67)	(17)	(104)	(338)
Interest effect	0	97	8	0	0	0	105
Other changes	1	(57)	1	(7)	0	(10)	(72)
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

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 2016, the discount rates ranged from 0.00 to 3.38 percent (2015: from 0.01 to 4.00 percent) in the euro currency area and from 1.72 to 5.56 percent (2015: from 1.86 to 5.92 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 107.7 million (December 31, 2015: EUR 96.9 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 114.1 million (December 31, 2015: EUR 103.1 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, 2016	Addition	Use	Reversal	Other changes	Dec. 31, 2016
Severance and voluntary redundancy models	186	62	(45)	(3)	(3)	197
Partial retirement	285	400	(246)	0	(19)	420
	471	**462**	**(291)**	**(3)**	**(22)**	**617**
Of which: current	286					311

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. In the prior year, EUR 0.2 billion of the additions was attributable to the remeasurement of existing restoration obligations of T-Mobile US. New knowledge relating to the decommissioning of MetroPCS's CDMA mobile network prompted T-Mobile US to review the assumptions for the existing restoration obligations.

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 194 et seq.

Provisions for sales and procurement support are recognized for dealer commissions, subsidies for advertising expenses, and reimbursements.

Miscellaneous other provisions include a large number of low-value individual items, such as provisions related to executory contracts, the disposal of businesses and site closures, in particular in prior financial years, as well as warranty and environmental damage provisions.

14 OTHER LIABILITIES

millions of €

	Dec. 31, 2016	Of which: current	Dec. 31, 2015	Of which: current
Early retirement	1,856	573	1,451	512
Deferred revenue	2,665	2,080	2,493	1,868
Liabilities from straight-line leases	2,334	–	2,132	–
Liabilities from other taxes	1,092	1,092	1,055	1,055
Other deferred revenue	565	401	554	329
Liabilities from severance payments	96	96	193	190
Miscellaneous other liabilities	679	537	643	497
	9,287	**4,779**	**8,521**	**4,451**

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. The obligations are payable in up to seven annual installments. Civil servants working at Deutsche Telekom who have reached the age of 55 and fulfill all the criteria set out in the Act on the Staff Structure at the Residual Special Asset of the Federal Railways and the Successor Companies of the Former Deutsche Bundespost enacted in 1993 as amended on November 21, 2012 can apply for early retirement. Deutsche Telekom offsets the resulting reduced retirement pension payments for civil servants by advance payments on account to the Civil Service Pension Fund as well as other expenses. The Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse) extended the provisions for early retirement for civil servants until December 31, 2016. On January 5, 2016, the Board of Management resolved to cover the additional financial burden to a limited extent through exercise of the early retirement provision for the 2016 financial year.

15 SHAREHOLDERS' EQUITY

ISSUED CAPITAL

As of December 31, 2016, the share capital of Deutsche Telekom totaled EUR 11,973 million. The share capital is divided into 4,676,902,033 no par value registered shares.

	2016		2015	
	thousands	%	thousands	%
Federal Republic of Germany – Berlin, Germany	676,971	14.5	660,480	14.3
KfW Bankengruppe – Frankfurt/Main, Germany	818,992	17.5	803,937	17.5
Free float	3,180,939	68.0	3,142,235	68.2
Of which: BlackRock, Inc., Wilmington, DE, United States [a]	214,174		234,799	
	4,676,902	**100.0**	**4,606,652**	**100.0**

[a] According to the last notification from BlackRock published on June 3, 2016, the reporting threshold of 3 percent of the voting rights was thus exceeded. The stake in Deutsche Telekom was thus 4.65 percent of the voting rights on May 27, 2016.

Treasury shares. The shareholders' meeting resolved on May 25, 2016 to authorize the Board of Management to purchase shares in the Company by May 24, 2021, with the amount of share capital accounted for by these shares totaling up to EUR 1,179,302,878.72, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 25, 2016 under item 6 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 25, 2016, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the authorization by the shareholders' meeting on May 25, 2016 described above and corresponding authorizations by the shareholders' meeting on May 12, 2011 and May 24, 2012, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively. Further, 90 thousand shares and 860 thousand shares were acquired in September and October 2015, respectively, for an aggregate amount of EUR 14,787 thousand (excluding transaction costs); these acquisitions increased the number of treasury shares by 950 thousand.

No treasury shares were acquired in the reporting period.

As part of the Share Matching Plan, a total of 2 thousand treasury shares were transferred free of charge to the custody accounts of eligible participants in the 2012 and 2013 financial years. A further 90 thousand treasury shares were transferred free of charge in the 2014 financial year. An additional 140 thousand treasury shares were transferred in the 2015 financial year.

In addition, a total of 232 thousand shares were reallocated in January, February, March, April, May, June, September, November and December 2016 and transferred to the custody accounts of eligible participants of the Share Matching Plan. 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 are transferred at fair value to the respective Group company starting with the reporting period.

As of December 31, 2016, disposals of treasury shares resulting from the transfers in the reporting period accounted for less than 0.01 percent, or EUR 594 thousand, of share capital. Retained earnings thus increased by EUR 2,597 thousand. In the reporting year, 71 thousand treasury shares with a fair value of EUR 1,111 thousand were charged on to other Group companies, thus increasing capital reserve by EUR 251 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 fully expired in the 2013 financial year. As a result, the trustee no longer had any obligation to fulfill any claims in accordance with the purpose of the deposit. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred free of charge to a custody account of Deutsche Telekom AG. The 18,517 thousand previously deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1) a HGB. This equates to 0.4 percent, or EUR 48 million, of Deutsche Telekom's capital stock. On the basis of authorization by the shareholders' meeting on May 25, 2016, the treasury shares acquired free of charge may be used for the same purposes as the treasury shares acquired for a consideration.

Voting rights. Each share entitles the holder to one vote. These voting rights are restricted, however, in relation to treasury shares (at December 31, 2016: around 20 million in total).

Authorized capital and contingent capital. Authorized capital and contingent capital comprised the following components as of December 31, 2016:

	Amount millions of €	No par value shares thousands	Purpose
2013 Authorized capital [a]	1,598	624,273	Capital increase against cash contribution/ contribution in kind (until May 15, 2018)
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 payout of EUR 0.55 per share for the 2015 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.0 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2016 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 2016. This increased capital reserves by EUR 839 million. The number of shares increased by 70.3 million.

TRANSACTIONS WITH OWNERS

The amounts shown under transactions with owners primarily result from the acquisition of the remaining shares in Slovak Telekom in 2015. The following table shows the most significant effects included in Deutsche Telekom's consolidated statement of changes in equity (see pages 130 and 131) as of December 31, 2016 and December 31, 2015.

millions of €

	2016			2015		
	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	**–**	**–**	**–**	**–**	**–**	**–**
Other effects	–	–	–	–	–	–
Transactions with owners	**(93)**	**117**	**24**	**(233)**	**(619)**	**(852)**
Acquisition of the remaining shares in Slovak Telekom	–	–	–	(128)	(772)	(900)
Other effects	(93)	117	24	(105)	153	48

For further information, please refer to the section "Changes in the composition of the Group and other transactions," page 149 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 0.6 billion (December 31, 2015: EUR 0.7 billion) and currency translation effects of EUR 0.4 billion (December 31, 2015: EUR 0.1 billion).

NOTES TO THE CONSOLIDATED INCOME STATEMENT

For detailed information on special factors, please refer to the combined management report in the section "Development of business in the Group," page 40 et seq.

16 NET REVENUE

Net revenue breaks down into the following revenue categories:

millions of €

	2016	2015	2014
Revenue from the rendering of services	61,362	59,033	53,523
Revenue from the sale of goods and merchandise	9,901	9,460	8,726
Revenue from the use of entity assets by others	1,832	735	409
	73,095	**69,228**	**62,658**

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report, page 40 et seq.

17 OTHER OPERATING INCOME

millions of €

	2016	2015	2014
Income from the disposal of non-current assets	650	290	567
Income from insurance compensation	88	66	79
Income from reimbursements	223	272	451
Income from ancillary services	36	49	0
Income from the reversal of impairment losses on non-current assets	17	14	24
Of which: IFRS 5	8	6	2
Miscellaneous other operating income	3,166	1,317	2,110
Of which: income from divestitures and from the sale of stakes accounted for using the equity method	2,598	585	1,716
	4,180	**2,008**	**3,231**

Other operating income increased by EUR 2.2 billion year-on-year. Income from the disposal of non-current assets increased by EUR 0.4 billion. The increase in other operating income was attributable, in particular, to income of EUR 0.5 billion from transactions for the exchange of spectrum licenses between T-Mobile US and two competitors. Miscellaneous other operating income increased year-on-year by EUR 1.8 billion to a total of EUR 3.2 billion. One of the main items driving this increase was income from divestitures and from the sale of stakes accounted for using the equity method of EUR 2.5 billion resulting from the sale of the stake in the EE joint venture. Around EUR 0.9 billion of this amount resulted from effects recognized directly in equity in previous years. Income of around EUR 0.1 billion from the sale of further parts of the share package in Scout24 AG in April and December 2016 also increased this item. In the prior year, the sale of shares completed in connection with the IPO of Scout24 AG in early October 2015 had resulted in income of EUR 0.3 billion. In addition, the sale of the online platform t-online.de and of the digital content marketing company InteractiveMedia in November 2015 generated income from divestitures of EUR 0.3 billion. Also in the prior year, miscellaneous other operating income had included income of EUR 175 million from an agreement to settle a complaints procedure under anti-trust law. A large number of smaller items are also included in miscellaneous other operating income.

18 OWN CAPITALIZED COSTS

Own capitalized costs amounted to EUR 2.1 billion in the reporting year (2015: EUR 2.0 billion; 2014: EUR 1.9 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 €

	2016	2015	2014
Expenses for raw materials and supplies	2,397	2,308	1,465
Expenses for merchandise	13,516	12,479	11,588
Expenses for services purchased	21,171	20,919	18,995
	37,084	**35,706**	**32,048**

20 AVERAGE NUMBER OF EMPLOYEES AND PERSONNEL COSTS

	2016	2015	2014
GROUP (TOTAL)	**220,582**	**226,332**	**228,248**
Domestic	107,793	113,277	116,067
International	112,790	113,055	112,181
Non-civil servants	203,110	207,153	207,855
Civil servants (domestic, active service relationship)	17,472	19,179	20,393
Trainees and students on cooperative degree courses	7,510	7,942	8,098
PERSONNEL COSTS millions of €	**16,463**	**15,856**	**14,683**

The average headcount decreased by 2.5 percent compared with the prior year. This trend is largely attributable to a lower average domestic headcount, which was down by 4.8 percent. Staff restructuring measures in the Germany operating segment and the Group Headquarters & Group Services segment in particular contributed to this trend.

The average international headcount decreased by 0.2 percent, due in particular to the decline in the average headcount in the Europe operating segment as a consequence of efficiency enhancement measures in some countries. By contrast, staff levels in the United States operating segment increased as a result of the enhanced customer base.

Personnel costs increased by 3.8 percent year-on-year, more than half of which is attributable to increased restructuring expenses, especially in connection with greater take-up of early retirement arrangements for civil servants. The increase in the average salaries of employees also pushed up personnel costs, offset by the lower average headcount as described above.

21 OTHER OPERATING EXPENSES

millions of €

	2016	2015	2014
Legal and audit fees	212	230	236
Losses from asset disposals	157	187	138
Expenses from measurement of receivables	819	905	154
Other taxes	407	373	273
Miscellaneous other operating expenses	1,689	1,621	2,481
	3,284	**3,316**	**3,282**

Other operating expenses remained stable year-on-year. Miscellaneous other operating expenses primarily include regulatory levies of EUR 470 million (2015: EUR 377 million) for funding the telecommunications infrastructure in the United States. The item also comprises cash and guarantee transaction costs of EUR 305 million (2015: EUR 261 million), insurance expenses of EUR 92 million (2015: EUR 88 million), and other administrative expenses and fees of 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 €

	2016	2015	2014
AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS	**4,602**	**4,109**	**3,863**
Of which: Goodwill impairment losses	471	43	51
Amortization of mobile licenses	949	898	889
Impairment losses on mobile licenses	–	–	10
DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT	**8,778**	**7,251**	**6,711**
Of which: Impairment losses recognized on property, plant and equipment	221	101	78
	13,380	**11,360**	**10,574**

Impairment losses break down as follows:

millions of €

	2016	2015	2014
INTANGIBLE ASSETS	**472**	**61**	**65**
Of which: Goodwill from the year-end impairment test	471	43	51
FCC licenses	–	–	10
PROPERTY, PLANT AND EQUIPMENT	**221**	**101**	**78**
Of which: From the year-end impairment test	128	–	–
	693	**162**	**143**

Depreciation, amortization and impairment losses increased by EUR 2.0 billion year-on-year. This development was mainly attributable to the increase in depreciation and amortization recorded in the United States operating segment primarily as a result of the roll-out of 4G/LTE and the launch of the JUMP! On Demand terminal equipment lease model in June 2015 in the United States operating segment, under which customers no longer purchase the device but lease it.

In the reporting year, impairment losses were recognized on goodwill in the amount of EUR 0.5 billion and on property, plant and equipment in the amount of EUR 0.2 billion following scheduled and ad hoc impairment testing at the cash-generating units. Impairment losses on property, plant and equipment related mainly to the asset class of technical equipment and machinery. For further details, please refer to Note 5 “Intangible assets,” page 158 et seq., and Note 6 “Property, plant and equipment,” pages 162 and 163.

23 FINANCE COSTS

millions of €

	2016	2015	2014
Interest income	223	246	325
Interest expense	(2,715)	(2,609)	(2,665)
	(2,492)	**(2,363)**	**(2,340)**
Of which: from financial instruments relating to categories in accordance with IAS 39			
Loans and receivables (LaR)	25	34	16
Held-to-maturity investments (HtM)	–	–	–
Available-for-sale financial assets (AfS)	12	7	6
Financial liabilities measured at amortized cost (FLAC) [a]	(2,383)	(2,288)	(2,290)

[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 (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, 2014: interest income of EUR 263 million and interest expense of EUR 107 million).

The year-on-year increase in finance costs is mainly attributable to the increase in external funding of T-Mobile US.

EUR 164 million (2015: EUR 217 million, 2014: EUR 95 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 3.5 percent at the start of the year and 4.4 percent at the end of the year (2015: between 4.7 and 3.5 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 3.6 billion (2015: EUR 3.7 billion, 2014: EUR 3.5 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 €

	2016	2015	2014
Share of profit (loss) of joint ventures	(5)	(1)	(152)
Share of profit (loss) of associates	(48)	25	(46)
	(53)	**24**	**(198)**

The share of profit/loss of associates and joint ventures included in the consolidated financial statements using the equity method decreased by EUR 0.1 billion compared with the prior year. The main factor in this was 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 €

	2016	2015	2014
Income from investments	346	436	1
Gains (losses) from financial instruments	(2,136)	(75)	(14)
Interest component from measurement of provisions and liabilities	(282)	(272)	(346)
	(2,072)	**89**	**(359)**

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. It also includes a final dividend of around EUR 0.2 billion received in connection with the sale of our stake in the joint venture EE. 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 45 million (2015: EUR −295 million, 2014: EUR −387 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 −2,181 million (2015: EUR 220 million, 2014: EUR 373 million). Of the gains/losses from the measurement of equity investments recognized in the financial year, the amount of EUR 2.2 billion was attributable to the impairment of the financial stake in BT recognized in profit or loss. This impairment comprises 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 200 et seq.

26 INCOME TAXES

INCOME TAXES IN THE CONSOLIDATED INCOME STATEMENT

In the 2016 financial year, a tax expense of EUR 1.4 billion was recorded giving rise to an effective tax rate of 32 percent. A tax expense of EUR 0.2 billion from the non-deductibility of certain financing costs in the United States was offset by deferred tax income in a similar amount from the recognition of loss carryforwards in Europe, based on an updated assessment of their utilization. Tax-free income from the sale of the stake in the former EE joint venture compensated for the impairment of the stake in BT, which could not be used for tax purposes. In the prior year, the tax expense and effective tax rate were somewhat lower at EUR 1.3 billion and 27 percent respectively, due to the recognition of tax-free income from investments.

The following table provides a breakdown of income taxes in Germany and internationally:

millions of €

	2016	2015	2014
CURRENT TAXES	**468**	**249**	**599**
Germany	161	(16)	234
International	307	265	365
DEFERRED TAXES	**975**	**1,027**	**507**
Germany	91	831	587
International	884	196	(80)
	1,443	**1,276**	**1,106**

Deutsche Telekom's combined income tax rate for 2016 amounts to 31.1 percent (2015: 31.1 percent, 2014: 30.7 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 436 percent (2015: 436 percent, 2014: 425 percent).

Reconciliation of the effective tax rate. Income taxes of EUR −1,443 million (as expense) in the reporting year, 2015: EUR −1,276 million (as expense), 2014: EUR −1,106 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 €	2016	2015	2014
PROFIT BEFORE INCOME TAXES	4,547	4,778	4,350
Expected income tax expense (benefit) (income tax rate applicable to Deutsche Telekom AG: 2016: 31.1 %, 2015: 31.1 %, 2014: 30.7 %)	1,414	1,486	1,335
ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)			
Effect of changes in statutory tax rates	(49)	(3)	1
Tax effects from prior years	(58)	(112)	(78)
Tax effects from other income taxes	122	70	68
Non-taxable income	(75)	(154)	(456)
Tax effects from equity investments	(850)	(191)	(43)
Non-deductible expenses	790	98	85
Permanent differences	158	(27)	88
Goodwill impairment losses	133	(12)	3
Tax effects from loss carryforwards	(237)	34	57
Tax effects from additions to and reductions of local taxes	59	65	81
Adjustment of taxes to different foreign tax rates	26	24	(37)
Other tax effects	10	(2)	2
INCOME TAX EXPENSE (BENEFIT) ACCORDING TO THE CONSOLIDATED INCOME STATEMENT	1,443	1,276	1,106
Effective income tax rate %	32	27	25

Current income taxes in the consolidated income statement

The following table provides a breakdown of current income taxes:

millions of €	2016	2015	2014
CURRENT INCOME TAXES	468	249	599
Of which: Current tax expense	494	347	598
Prior-period tax expense	(26)	(98)	1

Deferred taxes in the consolidated income statement

Deferred taxes developed as follows:

millions of €	2016	2015	2014
DEFERRED TAX EXPENSE (BENEFIT)	975	1,027	507
Of which: From temporary differences	567	154	(252)
From loss carryforwards	339	917	780
From tax credits	69	(44)	(21)

INCOME TAXES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Current income taxes in the consolidated statement of financial position:

millions of €	Dec. 31, 2016	Dec. 31, 2015
Recoverable taxes	218	129
Tax liabilities	(222)	(197)
Current taxes recognized in other comprehensive income:		
Hedging instruments	(203)	(190)

Deferred taxes in the consolidated statement of financial position:

millions of €	Dec. 31, 2016	Dec. 31, 2015
Deferred tax assets	5,210	5,248
Deferred tax liabilities	(10,007)	(9,205)
	(4,797)	(3,957)
Of which: recognized in other comprehensive income: Gain (loss) from the remeasurement of defined benefit plans	1,300	1,095
Revaluation surplus	–	–
Hedging instruments	10	(43)
RECOGNIZED IN OTHER COMPREHENSIVE INCOME BEFORE NON-CONTROLLING INTERESTS	1,310	1,052
Non-controlling interests	(12)	(11)
	1,298	1,041

Development of deferred taxes:

millions of €	Dec. 31, 2016	Dec. 31, 2015
Deferred taxes recognized in the statement of financial position	(4,797)	(3,957)
Difference to prior year	(840)	(1,414)
Of which: Recognized in income statement	(975)	(1,027)
Recognized in other comprehensive income	257	62
Recognized in capital reserves	96	86
Acquisitions (disposals) (including assets and disposal groups held for sale)	2	(6)
Currency translation adjustments	(220)	(529)

Development of deferred taxes on loss carryforwards:

millions of €	Dec. 31, 2016	Dec. 31, 2015
Deferred taxes on loss carryforwards before allowances	2,357	2,933
Difference to prior year	(576)	(355)
Of which: Recognition (derecognition)	(538)	(612)
Acquisitions (disposals) (including assets and disposal groups held for sale)	(24)	1
Currency translation adjustments	(14)	256

Deferred taxes relate to the following key items in the statement of financial position, loss carryforwards, and tax credits:

millions of €	Dec. 31, 2016		Dec. 31, 2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
CURRENT ASSETS	1,128	(429)	1,255	(369)
Trade and other receivables	524	(130)	550	(129)
Inventories	81	(2)	185	(14)
Other assets	523	(297)	520	(226)
NON-CURRENT ASSETS	3,361	(13,992)	3,459	(13,458)
Intangible assets	651	(8,803)	632	(8,054)
Property, plant and equipment	773	(3,129)	1,053	(3,452)
Other financial assets	1,937	(2,060)	1,774	(1,952)
CURRENT LIABILITIES	1,424	(630)	1,247	(677)
Financial liabilities	424	(371)	372	(366)
Trade and other payables	67	(40)	58	(90)
Other provisions	373	(53)	278	(55)
Other liabilities	560	(166)	539	(166)
NON-CURRENT LIABILITIES	5,960	(3,172)	5,870	(3,112)
Financial liabilities	1,878	(1,669)	2,346	(1,714)
Provisions for pensions and other employee benefits	1,695	(1,292)	1,499	(1,154)
Other provisions	898	(179)	825	(186)
Other liabilities	1,489	(32)	1,200	(58)
TAX CREDITS	312	–	367	–
LOSS CARRYFORWARDS	2,355	–	2,933	–
INTEREST CARRYFORWARDS	318	–	244	–
TOTAL	14,858	(18,223)	15,375	(17,616)
Of which: non-current	12,141	(17,124)	11,708	(16,866)
Allowance	(1,432)	–	(1,716)	–
Netting	(8,216)	8,216	(8,411)	8,411
RECOGNITION	5,210	(10,007)	5,248	(9,205)

The allowances relate primarily to loss carryforwards.

The loss carryforwards amount to:

millions of €	Dec. 31, 2016	Dec. 31, 2015
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	5,275	6,839
Expiry within		
1 year	147	44
2 years	121	114
3 years	46	47
4 years	55	246
5 years	32	108
After 5 years	2,444	3,604
Unlimited carryforward period	2,430	2,676

Loss carryforwards and temporary differences for which no deferred taxes were recorded amount to:

millions of €	Dec. 31, 2016	Dec. 31, 2015
LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES	1,407	2,505
Expiry within		
1 year	147	24
2 years	121	114
3 years	32	45
4 years	48	25
5 years	20	41
After 5 years	135	152
Unlimited carryforward period	904	2,104
TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX	490	423

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 33 million (December 31, 2015: EUR 107 million) and on temporary differences for trade tax purposes in the amount of EUR 3 million (December 31, 2015: EUR 9 million). Furthermore, apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 817 million (December 31, 2015: EUR 858 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 34 million (December 31, 2015: EUR 30 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 28 million (2015: EUR 16 million, 2014: EUR 17 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 309 million (December 31, 2015: EUR 228 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 €	2016			2015			2014		
	Before tax amount	Tax (expense) benefits	Net of tax amount	Before tax amount	Tax (expense) benefits	Net of tax amount	Before tax amount	Tax (expense) benefits	Net of tax amount
Items not reclassified to the income statement retrospectively									
Gain (loss) from the remeasurement of defined benefit plans	(660)	205	(455)	230	(60)	170	(1,581)	477	(1,104)
Share of profit (loss) of investments accounted for using the equity method	0	0	0	0	0	0	(29)	0	(29)
	(660)	**205**	**(455)**	**230**	**(60)**	**170**	**(1,610)**	**477**	**(1,133)**
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	(948)	0	(948)	4	(1)	3	(4)	0	(4)
Change in other comprehensive income (not recognized in income statement)	395	0	395	2,000	0	2,000	1,849	0	1,849
Available-for-sale financial assets									
Recognition of other comprehensive income in income statement	2,282	(1)	2,281	0	0	0	(1)	0	(1)
Change in other comprehensive income (not recognized in income statement)	(2,323)	0	(2,323)	31	0	31	41	1	42
Gains (losses) from hedging instruments									
Recognition of other comprehensive income in income statement	328	(102)	226	(255)	79	(176)	(267)	82	(185)
Change in other comprehensive income (not recognized in income statement)	(457)	142	(315)	653	(205)	448	265	(80)	185
Share of profit (loss) of investments accounted for using the equity method									
Recognition of other comprehensive income in income statement	7	0	7	0	0	0	0	0	0
Change in other comprehensive income (not recognized in income statement)	1	0	1	25	0	25	0	0	0
	(715)	**39**	**(676)**	**2,458**	**(127)**	**2,331**	**1,883**	**3**	**1,886**
OTHER COMPREHENSIVE INCOME	**(1,375)**	**244**	**(1,131)**	**2,688**	**(187)**	**2,501**	**273**	**480**	**753**
Profit (loss)			3,104			3,502			3,244
TOTAL COMPREHENSIVE INCOME			**1,973**			**6,003**			**3,997**

27 PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

millions of €

	2016	2015	2014
T-Mobile US	400	186	115
Hrvatski Telekom	55	69	65
Hellenic Telecommunications Organization (OTE)	(129)	(63)	48
Magyar Telekom	84	50	47
Slovak Telekom	0	6	36
T-Mobile Czech Republic	0	0	11
Other	19	0	(2)
	429	**248**	**320**

28 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated in accordance with IAS 33 as follows:

		2016	2015	2014
Profit attributable to the owners of the parent (net profit (loss))	millions of €	2,675	3,254	2,924
Adjustment	millions of €	–	–	–
ADJUSTED BASIC/DILUTED NET PROFIT (LOSS)	millions of €	**2,675**	**3,254**	**2,924**
Number of ordinary shares issued	millions	4,645	4,574	4,497
Treasury shares	millions	(20)	(21)	(21)
ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC/DILUTED)	millions	**4,625**	**4,553**	**4,476**
BASIC/DILUTED EARNINGS PER SHARE	€	**0.58**	**0.71**	**0.65**

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. As part of the issue of new shares in the course of the acquisition of T-Mobile USA (VoiceStream/Powertel), the options and conversion rights existing in previous years were held in a trust depot for later issue and subsequent trading as registered shares and fully expired in the 2013 financial year. They have been treated in the same way as treasury shares since then. There are currently no diluting shares.

29 DIVIDEND PER SHARE

For the 2016 financial year, the Board of Management proposes a dividend of EUR 0.60 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 2,794 million would be appropriated to the no par value shares carrying dividend rights as of February 14, 2017. 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 0.55 for the 2015 financial year for each no par value share carrying dividend rights was paid out in 2016. 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). In June 2016, dividend entitlements of EUR 1.0 billion were thus substituted by shares from authorized capital and thus did not have an effect on cash flows (see Note 15 "Shareholders' equity," page 180 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 0.5 billion year-on-year to EUR 15.5 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 0.8 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 also totaled EUR 0.8 billion. Cash inflows from the cancellation of or changes in the terms of interest rate derivatives had a positive effect of EUR 0.2 billion compared with the prior-year period. A year-on-year decrease of EUR 0.2 billion in cash outflows for income taxes also had a positive impact. By contrast, the trend in net cash from operating activities was negatively affected by a EUR 0.2 billion decrease in the dividend payment from the former EE joint venture. The dividend payment received from BT of EUR 0.1 billion was matched in the prior-year period by the dividend payment of a corresponding amount received from the Scout24 group. In addition, net interest payments that were EUR 0.1 billion higher year-on-year had a negative effect on 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. 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 154 and 155, and Note 3 "Inventories," page 155. The decrease in liabilities carried as working capital is attributable to cash outflows for trade payables as a result of the sustained high procurement volume in the United States. For further explanations, please refer to Note 11 "Trade and other payables," page 170.

Net cash used in investing activities
millions of €

	2016	2015	2014
Cash capex			
Germany operating segment	(4,161)	(5,609)	(3,807)
United States operating segment	(5,855)	(6,381)	(5,072)
Europe operating segment	(2,764)	(1,667)	(2,116)
Systems Solutions operating segment	(1,058)	(1,151)	(1,156)
Group Headquarters & Group Services	(268)	(342)	(381)
Reconciliation	466	537	688
	(13,640)	**(14,613)**	**(11,844)**
Net cash flows for collateral deposited for hedging transactions	(3,015)	1,785	606
Cash inflows from the sale of the shares in Scout24 AG	135	390	–
Proceeds from the disposal of property, plant and equipment	363	363	265
Acquisition of the GTS Central Europe group	–	–	(539)
Cash flows from the loss of control of subsidiaries and associates [a]	4	(58)	1,540
Allocation under contractual trust agreement (CTA) on pension commitments	(250)	(250)	(250)
Acquisition/sale of government bonds, net	2,873	(2,759)	11
Other	(78)	127	(550)
	(13,608)	**(15,015)**	**(10,761)**

[a] In 2015, these mainly included outflows of cash and cash equivalents resulting from the sale of the online platform t-online.de and the digital marketing company InteractiveMedia to Ströer. In 2014, this item included cash inflows of EUR 1.6 billion from the sale of 70 percent of the shares in the Scout24 group.

Cash capex decreased by EUR 1.0 billion to EUR 13.6 billion. In the reporting period, mobile spectrum licenses were acquired for a total of EUR 2.7 billion, primarily in the United States and Europe operating segments. In the prior-year period, the United States and Germany operating segments in particular had acquired mobile spectrum licenses for EUR 3.8 billion in total. Cash capex (excluding spectrum investment) increased slightly year-on-year. Relevant factors were high investments in connection with the network modernization, including 4G/LTE network roll-out, in particular in the Germany, Europe, and United States operating segments.

Interest payments (including capitalized interest) of EUR 3.6 billion (2015: EUR 3.7 billion, 2014: EUR 3.5 billion) were made in the 2016 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 €

	2016	2015	2014
Repayment of bonds	(3,255)	(4,056)	(4,677)
Dividends (including to non-controlling interests)	(1,596)	(1,256)	(1,290)
Repayment of financial liabilities from financed capex and opex	(225)	(846)	(760)
Repayment of EIB loans	(830)	(412)	–
Net cash flows for collateral deposited for hedging transactions	605	(254)	170
Repayment of lease liabilities	(374)	(224)	(164)
Repayment of financial liabilities for media broadcasting rights	(215)	(192)	(40)
Cash deposits from the EE joint venture, net	(220)	(16)	3
Deutsche Telekom AG share buy-back	–	(15)	–
OTE credit line, net	–	–	(45)
Cash flows from continuing involvement factoring, net	(12)	30	31
Sale of Deutsche Telekom AG treasury shares	–	31	–
Loans taken out with the EIB	889	1,199	400
Promissory notes, net	(582)	1,655	(1,293)
Issuance of bonds	8,631	2,208	3,816
Commercial paper, net	(3,658)	2,645	1,561
Cash inflows from transactions with non-controlling entities			
T-Mobile US stock options	26	43	17
Cash inflows from the assignment of OTE stock options	–	–	26
	26	**43**	**43**
Cash outflows from transactions with non-controlling entities			
Acquisition of the remaining shares in Slovak Telekom	–	(900)	–
Acquisition of the remaining shares in T-Mobile Czech Republic	–	–	(828)
T-Mobile US share buy-back	(112)	(141)	(53)
OTE share buy-back	–	–	(69)
Other	(2)	–	–
	(114)	**(1,041)**	**(950)**
Other	(392)	(375)	(239)
	(1,322)	**(876)**	**(3,434)**

NON-CASH TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

In June 2016, dividend entitlements of Deutsche Telekom AG shareholders in the amount of EUR 1.0 billion did not have an effect on net cash used in financing activities when fulfilled; rather, they were substituted by shares from authorized capital (please refer to Note 15 "Shareholders' equity," page 180 et seq.). The dividend entitlements of Deutsche Telekom AG shareholders having an effect on cash flows totaled EUR 1.5 billion. In the previous year, dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.1 billion did not have an impact on cash flows, while dividend entitlements of EUR 1.2 billion did have an effect on cash flows.

In the 2016 financial year, Deutsche Telekom chose financing options totaling EUR 0.2 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 (2015: EUR 0.7 billion). These payables are now shown 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 financing activities.

In 2016, Deutsche Telekom leased network equipment (classified as a finance lease) for a total of EUR 0.9 billion (2015: EUR 0.6 billion) in particular in the United States operating segment. The finance lease is shown under financial liabilities in the statement of financial position. Future repayments of the liabilities will be recognized in net cash used in 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 0.3 billion were recognized in the 2016 financial year for future consideration for acquired broadcasting rights (2015: EUR 0.2 billion). As soon as the payments have been made, they are disclosed under net cash used in financing activities.

In the United States operating segment, mobile devices amounting to EUR 1.5 billion (2015: EUR 2.3 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 the previous year 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 competitor was completed in March 2016 and spectrum licenses with a value of EUR 1.1 billion were acquired in a non-cash transaction. In September 2016, another exchange of spectrum licenses was completed in the United States operating segment and spectrum licenses with a value of EUR 0.4 billion were acquired in a non-cash transaction.

From the sale of the EE joint venture to the UK company BT, which was consummated on January 29, 2016, Deutsche Telekom received the purchase price of GBP 13.2 billion for its stake in the form of a financial stake of 12.0 percent in BT and a cash payment of GBP 15.7 million.

31 SEGMENT REPORTING

Deutsche Telekom reports on four operating segments, as well as on the Group Headquarters & Group Services segment. For three operating segments, business activities are assigned by region, whereas one segment allocates its activities by product and/or customer.

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 combines all mobile activities in the U.S. market. The Europe operating segment comprises all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. 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. Comparative figures have been adjusted retrospectively in segment reporting. The units International Carrier Sales & Solutions (ICSS), Group Technology, and Global Network Factory (GNF) as well as Deutsche Telekom Pan-Net are also part of this operating segment. The Europe operating segment also offers information and communication technology (ICT) services to business customers in most of Deutsche Telekom's national companies. Drawing on a global infrastructure of data centers and networks, the Systems Solutions operating segment operates ICT systems for multinational corporations and public sector institutions. The T-Systems brand provides customers all over the world with integrated solutions for the digital age, which primarily includes services from the cloud, M2M, and security solutions, complementary, standardized mobile and fixed-network products, as well as solutions for virtual collaboration and IT platforms.

The Group Headquarters & Group Services segment comprises all Group units that cannot be allocated directly to one of the operating segments. Group Services provides services to the entire Group; in addition to services such as financial accounting, human resources services, and operational procurement, Group Services also includes the personnel service provider, Vivento. Further units are Group Supply Services for real estate management, MobilitySolutions as a one-stop provider of fleet management and mobility services, and the central innovation unit Group Innovation+. The EE joint venture was sold to the UK company BT on January 29, 2016. In the prior year, the joint venture had been

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	2016	20,704	1,337	22,041	4,081	(3,796)	(13)	4	(165)	2
	2015	21,069	1,352	22,421	4,490	(3,746)	(9)	13	(221)	3
	2014	20,903	1,354	22,257	4,663	(3,884)	(9)	6	(277)	2
United States	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)
	2014	22,405	3	22,408	1,405	(2,829)	(10)	2	(867)	(41)
Europe	2016	12,431	316	12,747	717	(2,594)	(652)	10	(300)	(2)
	2015	12,782	242	13,024	1,476	(2,584)	(48)	19	(314)	2
	2014	12,910	311	13,221	1,729	(2,582)	(29)	27	(365)	2
Systems Solutions	2016	5,678	2,229	7,907	(330)	(575)	0	12	9	2
	2015	5,827	2,367	8,194	(541)	(612)	(22)	16	12	5
	2014	5,674	2,578	8,252	(447)	(699)	(5)	14	(1)	(9)
Group Headquarters & Group Services	2016	546	1,666	2,212	1,001	(493)	(28)	837	(1,566)	(49)
	2015	626	1,649	2,275	(860)	(545)	(82)	1,035	(1,641)	26
	2014	766	1,750	2,516	(109)	(582)	(89)	906	(1,808)	(152)
TOTAL	**2016**	**73,095**	**5,550**	**78,645**	**9,154**	**(12,740)**	**(693)**	**874**	**(3,389)**	**(53)**
	2015	**69,228**	**5,611**	**74,839**	**7,019**	**(11,261)**	**(162)**	**1,088**	**(3,448)**	**24**
	2014	**62,658**	**5,996**	**68,654**	**7,241**	**(10,576)**	**(142)**	**955**	**(3,318)**	**(198)**
Reconciliation	2016	–	(5,550)	(5,550)	10	53	–	(651)	674	–
	2015	–	(5,611)	(5,611)	9	63	–	(842)	839	–
	2014	–	(5,996)	(5,996)	6	145	(1)	(630)	653	–
GROUP	**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**
	2014	**62,658**	**–**	**62,658**	**7,247**	**(10,431)**	**(143)**	**325**	**(2,665)**	**(198)**

reported under non-current assets and disposal groups held for sale (see also Note 4 “Non-current assets and disposal groups held for sale and liabilities directly associated with non-current assets and disposal groups held for sale,” pages 156 and 157).

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 earning 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 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:

Income taxes	Segment assets [a, b]	Segment liabilities [a, b]	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 [c]	Net cash (used in) from financing activities [a]	Average number of employees
(2)	33,353	26,423	5,069	20	8,524	(4,238)	(4,161)	(5,652)	67,977
0	33,552	26,270	6,340	20	8,185	(5,736)	(5,609)	(4,830)	69,440
0	29,980	23,148	4,144	19	8,810	(4,171)	(3,807)	(6,844)	68,106
(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
(203)	49,784	35,724	7,318	197	3,170	(5,417)	(5,072)	1,952	37,858
(8)	30,778	12,519	3,251	59	3,130	(2,804)	(2,764)	(317)	49,370
(310)	30,437	12,543	2,063	61	3,377	(1,994)	(1,667)	(2,287)	52,151
(371)	31,400	13,506	2,732	52	3,606	(2,209)	(2,116)	662	54,343
(60)	9,031	6,073	1,077	21	456	(686)	(1,058)	298	43,705
(39)	8,701	5,870	1,175	21	87	(803)	(1,151)	736	45,019
(31)	8,441	5,814	1,264	14	644	(827)	(1,156)	458	47,303
(259)	42,628	50,502	284	409	2,214	(465)	(268)	(571)	15,832
(566)	44,532	50,830	397	504	2,638	1,056	(342)	(1,374)	18,052
(492)	41,358	48,702	441	335	2,510	912	(381)	(4,055)	20,639
(1,438)	**184,139**	**145,308**	**19,651**	**725**	**19,910**	**(13,367)**	**(14,106)**	**(5,888)**	**220,583**
(1,275)	**179,756**	**141,600**	**20,139**	**821**	**19,614**	**(16,101)**	**(15,150)**	**(4,820)**	**226,331**
(1,097)	**160,963**	**126,894**	**15,899**	**617**	**18,740**	**(11,712)**	**(12,532)**	**(7,827)**	**228,249**
(5)	(35,654)	(35,668)	(756)	–	(4,377)	(241)	466	4,566	(1)
(1)	(35,836)	(35,830)	(772)	1	(4,617)	1,086	537	3,944	1
(9)	(31,603)	(31,600)	(818)	–	(5,347)	951	688	4,393	(1)
(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**
(1,106)	**129,360**	**95,294**	**15,081**	**617**	**13,393**	**(10,761)**	**(11,844)**	**(3,434)**	**228,248**

[a] Group Headquarters & Group Services segment: Deutsche Telekom AG shareholders made use of the option of receiving part of their dividend entitlement 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 180 et seq.).

[b] In line with internal reporting, the carrying amounts for investments have not been disclosed in segment reporting at segment level since January 1, 2015. Three holding companies were reallocated as of July 1, 2015 from the Group Headquarters & Group Services segment into the Europe operating segment in connection with the build-out of the pan-European all-IP network. The comparatives were adjusted as of December 31, 2014.

[c] 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.

millions of €

	Non-current assets			Net revenue		
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	2016	2015	2014
Germany	37,756	37,280	35,343	24,657	25,078	24,999
International	70,995	65,678	56,766	48,438	44,150	37,659
Of which: Europe (excluding Germany)	20,961	21,099	21,654	13,910	14,431	14,311
North America	49,948	44,505	35,039	33,915	29,224	22,701
Other countries	86	74	73	613	495	647
GROUP	**108,751**	**102,958**	**92,109**	**73,095**	**69,228**	**62,658**

Information on products and services. Revenue generated with external customers for groups of comparable products and services developed as follows:

millions of €

	Net revenue		
	2016	2015	2014
Telecommunications	66,048	61,769	55,946
ICT solutions	6,501	6,833	6,513
Other	546	626	199
	73,095	**69,228**	**62,658**

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, 2015: EUR 0.2 billion) and to contingent assets amounting to EUR 0.0 billion (December 31, 2015: 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. There are around 2,600 ongoing actions filed by around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 (second public offering, or DT2) and May 26, 2000 (third public offering, or DT3). The plaintiffs assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. 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. In the model proceedings (Musterverfahren) on the second public offering (DT2) on July 3, 2013, the Frankfurt/Main Higher Regional Court issued a decision and ruled that the disputed stock exchange prospectus did not contain any errors. In a decision dated November 22, 2016, the Federal Court of Justice confirmed the ruling of the Frankfurt/Main Higher Regional Court in all its key points. This brings the DT2 model proceedings to an end. On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled in the model proceedings (Musterverfahren) on the third public offering (DT3) that there were also 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 DeTeMedien GmbH, a wholly owned subsidiary of Deutsche Telekom AG, 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 refunds from DeTeMedien GmbH and, to a certain extent, from Deutsche Telekom AG as joint and several debtor alongside DeTeMedien 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, 15 actions are still pending for a remaining amount in dispute of around EUR 104 million plus interest. 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.

Likewise, on the basis of the information and estimates available, the following issues do not fulfill the requirements for recognition as liabilities in the statement of financial position. As, however, the Group is unable to estimate the amount of the contingent liabilities or the group of contingent liabilities with sufficient reliability in each case due to the uncertainties described below, they have not been included in the aforementioned total contingent liabilities.

Toll Collect arbitration proceedings. The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom AG. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. The Federal Republic is claiming some EUR 3.33 billion in lost toll revenues plus interest due to the delayed commencement of operations as well as contractual penalties in the amount of around EUR 1.65 billion plus interest. The Federal Republic's main claims – including contractual penalty claims – thus total about EUR 4.98 billion plus interest. After the hearings in spring 2014, we reassessed the proceedings, updated Deutsche Telekom's share of the amount at risk, and recognized adequate provisions for the risk in the statement of financial position. Further hearings took place in 2015 and 2016. There is no reason to adjust the provisions for risk recognized in 2014 in the statement of financial position. 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. As a result, it may become necessary for the consortium members to provide Toll Collect GmbH with further liquidity.

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 (KDG) – now Vodafone Kabel Deutschland GmbH – 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, KDG's claims amounted to around EUR 407 million along with another around EUR 34 million for the alleged benefit from additional interest, plus interest in each case. 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. For charges allegedly paid in excess between 2009 and 2012, the plaintiffs are claiming a refund for a total amount of around EUR 189 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 first-instance proceedings in this matter are scheduled for spring/summer 2017.

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, Orange Slovensko, SWAN, and Slovanet filed damage actions against Slovak Telekom with the civil court in Bratislava in 2015, claiming compensation for damages of EUR 247 million, EUR 53 million and EUR 62 million respectively, plus interest. These claims seek compensation for alleged damages due to Slovak Telekom's abuse of a dominant market position, as determined by the European Commission. Whereas Slovanet's claim has not yet been served on Slovak Telekom, the latter has submitted a detailed defense as regards Orange Slovensko and SWAN, rejecting in full the claims for damages in both cases. In parallel, Slovak Telekom is conducting negotiations with Orange Slovensko with a view to reaching an out-of-court settlement. The Company has recognized adequate provisions for this risk in the statement of financial position.

New consumer credit regulations in the Netherlands. The Supreme Court of the Netherlands (Hoge Raad der Nederlanden) found in the final instance that mobile contracts that are bundled with a free or discounted device such that the price of the device is not apparent for the customer, are to be treated as consumer credit or installment purchases. Accordingly, such contracts are subject to Dutch consumer credit law. As a consequence, contracts that do not comply with these specific consumer credit provisions can be rescinded. T-Mobile Netherlands is currently examining the consequences of this decision. At present the full financial impact of this cannot be assessed with sufficient certainty. To ensure it complies with the legal situation in future, T-Mobile Netherlands applied for a license for 2017 to issue consumer credit. The license it received is valid with effect from January 1, 2017.

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.

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, 2016	Of which: sale and leaseback transactions	Dec. 31, 2015	Of which: sale and leaseback transactions
Land and buildings	490	246	559	290
Technical equipment and machinery	1,631	0	796	0
Other	14	0	9	0
NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED	**2,135**	**246**	**1,364**	**290**

The increase in technical equipment and machinery is primarily a result of new finance leases for network upgrades at T-Mobile US totaling EUR 0.6 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	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
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**
Dec. 31, 2015						
MATURITY						
Within 1 year	425	103	114	42	311	61
In 1 to 3 years	774	198	253	69	521	129
In 3 to 5 years	422	126	65	48	357	78
After 5 years	1,052	333	314	136	738	197
	2,673	**760**	**746**	**295**	**1,927**	**465**

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 2016 financial year (2015: EUR 3.2 billion, 2014: EUR 3.3 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, 2016	Dec. 31, 2015
MATURITY		
Within 1 year	3,486	3,322
In 1 to 3 years	5,493	5,650
In 3 to 5 years	3,799	4,548
After 5 years	3,749	7,822
	16,527	**21,342**

In the fourth quarter of the 2016 financial year, the United States operating segment changed its assessment of the term of operating leases for cell sites with regard to the exercise of extension options. For new leases, the exercising of extension options is not deemed reasonably certain beyond the non-cancelable basic lease term of between five and ten years against the background of the altered market situation and new technical framework. As a result of this change in assessment, the disclosure in the notes was limited to payment obligations for non-cancelable basic lease terms that Deutsche Telekom is no longer able to elude. This change resulted in a decrease of EUR 5.3 billion in the expected future minimum lease payments from operating leases in the United States operating segment as of December 31, 2016. This was offset in particular by foreign currency translation effects.

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, 2016	Dec. 31, 2015
Minimum lease payments	190	219
Unguaranteed residual value	3	5
Gross investment	193	224
Unearned finance income	(11)	(14)
NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)	**182**	**210**

The following table presents the gross investment amounts and the present value of payable minimum lease payments:

millions of €

	Dec. 31, 2016		Dec. 31, 2015	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
MATURITY				
Within 1 year	91	87	94	86
In 1 to 3 years	86	80	116	110
In 3 to 5 years	14	13	12	12
After 5 years	2	2	2	2
	193	**182**	**224**	**210**

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 10 years. The future minimum lease payments arising from non-cancelable operating leases are as follows:

millions of €

	Dec. 31, 2016	Dec. 31, 2015
MATURITY		
Within 1 year	1,006	1,184
In 1 to 3 years	477	728
In 3 to 5 years	321	339
After 5 years	496	485
	2,300	**2,736**

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 2016, sales of mobile terminal equipment under installment plans increased again.

34 OTHER FINANCIAL OBLIGATIONS

The following table provides an overview of Deutsche Telekom's other financial obligations:

millions of €

	Dec. 31, 2016			
	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
Purchase commitments regarding property, plant and equipment	2,337	1,984	316	37
Purchase commitments regarding intangible assets	544	417	127	–
Firm purchase commitments for inventories	1,777	1,691	86	–
Other purchase commitments and similar obligations	11,742	6,366	4,395	981
Payment obligations to the Civil Service Pension Fund	3,585	428	1,389	1,768
Purchase commitments for interests in other companies	6	6	–	–
Miscellaneous other obligations	9	1	4	4
	20,000	**10,893**	**6,317**	**2,790**

35 SHARE-BASED PAYMENT

SHARE MATCHING PLAN

In the 2011 financial year, specific executives were 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.

In the 2015 financial year, executives who were not contractually obligated to participate in the Share Matching Plan were 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 2016 financial year, a total of 0.6 million (2015: 0.5 million) matching shares were allocated to beneficiaries of the plan at a weighted average fair value of EUR 12.97 (2015: EUR 14.10). The cost is to be recognized against the capital reserves pro rata temporis until the end of the service period and amounted to EUR 3.37 million in total for all tranches as of December 31, 2016 (December 31, 2015: EUR 2.91 million). The capital reserves recognized for the Share Matching Plan as of December 31, 2016 amounted to EUR 11.54 million (December 31, 2015: EUR 8.17 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 115 et seq.

LONG-TERM INCENTIVE PLAN

In the 2015 financial year, executives who had not yet made a contractual commitment to participate in the long-term incentive plan were given the first-time opportunity to participate. The participating executives receive a package of virtual shares at the inception of the plan. The number of virtual shares is contingent on the participant's management group assignment, individual performance, and annual target salary. Taking these factors into account, the value of the package of virtual shares at the inception of the plan is between 10 and 43 percent of the participant's annual target salary.

Over the term of the four-year plan, the value of the virtual shares changes in line with Deutsche Telekom AG's share price development. The number of virtual shares will change on achievement of the targets for four equally weighted performance indicators (return on capital employed, adjusted earnings per share, employee satisfaction, and customer satisfaction), to be determined at the end of each year. At the end of the four-year plan, the results of each of the four years will be added together and the virtual shares will be converted on the basis of a share price calculated in a reference period and paid out in cash.

The long-term incentive plan was measured at fair value on the grant date. The fair value of the plan is calculated by multiplying the number of virtual shares by Deutsche Telekom AG's share price discounted to the reporting date. In the 2016 financial year, a total of 3.3 million (2015: 4.4 million) virtual shares were granted at a weighted average fair value of EUR 16.50 (2015: EUR 13.16). 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, 2016, the cost of the long-term incentive plan amounted to EUR 29 million in total for all tranches (December 31, 2015: EUR 17 million). The provision totaled EUR 47 million as of December 31, 2016 (December 31, 2015: EUR 17 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, 2016, there were 22 million T-Mobile US shares of common stock (December 31, 2015: 29 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 of 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, 2016	**16,334,271**	**29.95**
Granted	8,431,980	45.07
Vested	(7,712,463)	28.33
Forfeited	(1,338,397)	34.42
Non-vested as of December 31, 2016	**15,715,391**	**37.93**

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 255 million as of December 31, 2016 (December 31, 2015: EUR 227 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, 2016	**1,824,354**	**30.50**	**2.7**
Exercised	(982,904)	29.34	
Forfeited	(7,519)	44.21	
Stock options outstanding/ exercisable at December 31, 2016	**833,931**	**31.75**	**2.3**

The exercise of stock options generated cash inflows of EUR 26 million (USD 29 million) in the 2016 financial year (2015: EUR 42 million (USD 47 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, 2016	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	7,747	7,747			
Trade receivables	LaR	9,179	9,179			
Originated loans and receivables	LaR/n. a.	5,664	5,482			
Of which: collateral paid	LaR	235	235			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	8	8			
Available-for-sale financial assets [a]	AfS	5,548		126	5,422	
Derivative financial assets [b]						
Derivatives without a hedging relationship	FAHfT	1,881				1,881
Of which: termination rights embedded in bonds issued	FAHfT	915				915
Derivatives with a hedging relationship	n. a.	498			268	230
LIABILITIES [c]						
Trade payables	FLAC	10,388	10,388			
Bonds and other securitized liabilities	FLAC	50,090	50,090			
Liabilities to banks	FLAC	4,097	4,097			
Liabilities to non-banks from promissory notes	FLAC	535	535			
Liabilities with the right of creditors to priority repayment in the event of default	FLAC	1,866	1,866			
Other interest-bearing liabilities	FLAC	1,823	1,823			
Of which: collateral received	FLAC	829	829			
Other non-interest-bearing liabilities	FLAC	1,958	1,958			
Finance lease liabilities	n. a.	2,547				
Derivative financial liabilities [b]						
Derivatives without a hedging relationship	FLHfT	1,607				1,607
Of which: conversion rights embedded in Mandatory Convertible Preferred Stock	FLHfT	837				837
Of which: options granted to third parties for the purchase of shares in subsidiaries	FLHfT	–				
Derivatives with a hedging relationship	n. a.	127			48	79
Derivative financial liabilities directly associated with non-current assets and disposal groups held for sale	FLHfT	50				50
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	22,408	22,408			
Held-to-maturity investments	HtM	8	8			
Available-for-sale financial assets [a]	AfS	5,548		126	5,422	
Financial assets held for trading	FAHfT	1,881				1,881
Financial liabilities measured at amortized cost	FLAC	70,757	70,757			
Financial liabilities held for trading	FLHfT	1,657				1,657

[a] For details, please refer to Note 8 "Other financial assets," pages 166 and 167.
[b] For details, please refer to the derivatives table in this Note, page 211.
[c] For financial guarantees and loan commitments existing at the reporting date, please refer to the additional information provided in this section, page 209.
[d] The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

Trade receivables include receivables amounting to EUR 1.5 billion (December 31, 2015: EUR 1.0 billion) due in more than one year. The fair value generally equates to the carrying amount.

Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31, 2016 [d]	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2015	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, 2015 [d]
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	–	LaR	6,897	6,897					–
	–	LaR	8,752	8,752					–
182	5,701	LaR/n. a.	3,283	3,076				207	3,318
	–	LaR	98	98					–
	–	HtM	10	10					–
	5,422	AfS	3,354		156	3,198			3,198
	1,881	FAHfT	1,526				1,526		1,526
	915	FAHfT	390				390		390
	498	n. a.	1,160			870	290		1,160
	–	FLAC	11,037	11,037					–
	55,547	FLAC	47,766	47,766					52,194
	4,186	FLAC	4,190	4,190					4,247
	662	FLAC	934	934					1,069
	1,921	FLAC	1,822	1,822					1,830
	1,859	FLAC	3,009	3,009					3,059
	–	FLAC	1,740	1,740					–
	–	FLAC	1,798	1,798					–
2,547	2,852	n. a.	1,927					1,927	2,166
	1,607	FLHfT	817				817		817
	837	FLHfT	298				298		298
	–	FLHfT	39				39		39
	127	n. a.	117			107	10		117
	50	FLHfT	–						–
	5,519	LaR	18,725	18,725					3,111
	–	HtM	10	10					–
	5,422	AfS	3,354		156	3,198			3,198
	1,881	FAHfT	1,526				1,526		1,526
	64,175	FLAC	70,556	70,556					62,399
	1,657	FLHfT	817				817		817

Financial instruments not measured at fair value, the fair values of which are disclosed nevertheless

millions of €

	Dec. 31, 2016				Dec. 31, 2015			
	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		5,701		**5,701**		3,318		**3,318**
LIABILITIES								
Financial liabilities measured at amortized cost (FLAC)	49,043	15,054	78	**64,175**	41,498	20,810	91	**62,399**
Of which: bonds and other securitized liabilities	49,043	6,426	78	**55,547**	41,498	10,605	91	**52,194**
Of which: liabilities to banks		4,186		**4,186**		4,247		**4,247**
Of which: liabilities to non-banks from promissory notes		662		**662**		1,069		**1,069**
Of which: liabilities with the right of creditors to priority repayment in the event of default		1,921		**1,921**		1,830		**1,830**
Of which: other interest-bearing liabilities		1,859		**1,859**		3,059		**3,059**
Finance lease liabilities		2,852		**2,852**		2,166		**2,166**

[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, 2016				Dec. 31, 2015			
	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)	5,212		210	**5,422**	2,931		267	**3,198**
Financial assets held for trading (FAHfT)		966	915	**1,881**		1,136	390	**1,526**
Derivative financial assets with a hedging relationship		498		**498**		1,160		**1,160**
LIABILITIES								
Financial liabilities held for trading (FLHfT)		770	887	**1,657**		480	337	**817**
Derivative financial liabilities with a hedging relationship		127		**127**		117		**117**

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 amounting to EUR 5,212 million (December 31, 2015: EUR 2,931 million) comprises a strategic financial stake of 12 percent in BT, received in the reporting period, with a carrying amount equivalent to around EUR 5.1 billion. As of December 31, 2016, an impairment of this financial stake equivalent to around EUR 2.2 billion was recognized in profit or loss, because the decline in value is assumed to reflect a permanent assessment by market players, given the circumstances of the individual case. The impairment covers the entire decline in fair value since initial recognition and includes both the share price effect and the exchange rate effect up to December 31, 2016. In future, the financial stake is to be measured at the current share value translated into euros. Future decreases in value would have to be expensed in full (i. e., share price effect and exchange rate effect) directly in the consolidated income statement. Future increases in value would have to be recognized in full directly in equity (other comprehensive income).

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 210 million measured using the best information available at the reporting date. As a rule, Deutsche Telekom considers executed transactions involving shares in those companies to have the greatest relevance. Executed 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 120 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, 2016. In the case of investments with a carrying amount of EUR 49 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 41 million, for which the last arm's length transactions relating to shares in these companies took place some time ago, measurement on the basis of transactions 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 2.7 and 3.7) 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 19 million higher (EUR 5 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 4 million higher (EUR 4 million lower). In the reporting period, net expense of EUR 37 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 on the following page 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 on the basis of the amount of the trading volume for 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 915 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 routinely and also at the reporting date for the bonds as entire instruments, but not for the options embedded therein. The termination rights are measured using an option pricing model. Historical interest rate volatilities of bonds issued by T-Mobile US and comparable issuers were 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 1.8 and 2.6 percent. 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 1.9 and 3.2 percent for the maturities of the bonds and between 1.6 and 1.7 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 71 million higher (EUR 66 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 306 million lower (EUR 387 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 14 million lower (EUR 16 million higher) when translated into euros. In the reporting period, net income of EUR 449 million when translated into euros was recognized under the Level 3 measurement in other financial income/expense for unrealized gains for the options in the portfolio at the reporting date. Please refer to the following table for the development of the carrying amounts in the reporting period. The change in value in the reporting period is mainly attributable to fluctuations in the interest rates and historical interest rate volatilities in absolute terms that are relevant for measurement. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

The financial liabilities held for trading assigned to Level 3 that are presented under financial liabilities with a carrying amount of EUR 837 million when translated into euros relate to stock options embedded in the Mandatory Convertible Preferred Stock issued by T-Mobile US. The Mandatory Convertible Preferred Stock will be converted into a variable number of shares of T-Mobile US on the maturity date in 2017 and, in accordance with IFRS, is accounted for as debt rather than equity. The entire instrument is split into a debt instrument (bond) measured at amortized cost and an embedded derivative measured at fair value through profit or loss. In addition to conversion on the maturity date, this derivative also includes the early conversion rights granted to investors. An observable market price is available regularly and at the reporting date for the Mandatory Convertible Preferred Stock as an entire instrument, but not for the options embedded therein. The conversion rights are measured using an option pricing model. The market price of the entire instrument and its individual components is largely dependent on T-Mobile US' share price performance and the market interest rates. If the share price of T-Mobile US had been 10 percent higher (lower) at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 169 million lower (EUR 176 million higher) when translated into euros. If a market interest rate 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 8 million lower (EUR 8 million higher) when translated into euros. In the reporting period, a net expense of EUR 517 million when translated into euros was recognized in other financial income/expense for unrealized losses for the options in the portfolio at the reporting date. Please refer to the following table for the development of the carrying amount in the reporting period. The change in the market price in the reporting period is largely attributable to the rise in T-Mobile US' share price. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

The financial liabilities assigned to Level 3 include 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. The term ends in 2017 and no notable fluctuations in value are expected in future. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments. In the reporting period, the derivative financial liabilities were reclassified as derivative financial liabilities directly associated with non-current assets and disposal groups held for sale.

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 liabilities held for trading (FLHfT): Conversion rights embedded in Mandatory Convertible Preferred Stock
Carrying amount as of January 1, 2016	**267**	**390**	**(298)**
Additions (including first-time categorization as Level 3)	59	34	0
Value decreases recognized in profit/loss (including losses on disposal)	(45)	(424)	(552)
Value increases recognized in profit/loss (including gains on disposal)	8	873	35
Value decreases recognized directly in equity	(54)	0	0
Value increases recognized directly in equity	11	0	0
Disposals	(36)	0	0
Currency translation effects recognized directly in equity	0	42	(22)
CARRYING AMOUNT AS OF DECEMBER 31, 2016	**210**	**915**	**(837)**

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		2016
Loans and receivables (LaR)	25		183	(687)		2	**(477)**
Held-to-maturity investments (HtM)	–						**–**
Available-for-sale financial assets (AfS)	220			(2,282)	(41)	20	**(2,083)**
Financial instruments held for trading (FAHfT and FLHfT)	n. a.	27					**27**
Financial liabilities measured at amortized cost (FLAC)	(2,449)		(149)				**(2,598)**
	(2,204)	**27**	**34**	**(2,969)**	**(41)**	**22**	**(5,131)**

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		2015
Loans and receivables (LaR)	34		1,854	(748)			**1,140**
Held-to-maturity investments (HtM)	–						**–**
Available-for-sale financial assets (AfS)	7			(4)	31	3	**37**
Financial instruments held for trading (FAHfT and FLHfT)	n. a.	258					**258**
Financial liabilities measured at amortized cost (FLAC)	(2,381)		(2,144)				**(4,525)**
	(2,340)	**258**	**(290)**	**(752)**	**31**	**3**	**(3,090)**

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to Note 23 "Finance costs," pages 184 and 185, and Note 25 "Other financial income/expense," page 185). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for allowances on trade receivables (please also refer to Note 2 "Trade and other receivables," pages 154 and 155) that are classified as loans and receivables, which are reported under other operating expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 27 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 183 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 losses on capital market liabilities of EUR 149 million. These include currency translation losses from derivatives that Deutsche Telekom used as hedges for hedge accounting in foreign currency (EUR 98 million; 2015: currency translation gains of EUR 335 million). Finance costs from financial liabilities measured at amortized cost (expense of EUR 2,449 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," pages 184 and 185).

Principles of risk management. Deutsche Telekom is exposed in particular to risks from movements in exchange rates, interest rates, and market prices that affect its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Selected derivative and non-derivative hedging instruments (hedging transactions) are used for this purpose, depending on the risk assessment. However, Deutsche Telekom only hedges the risks that affect the Group's cash flow. Derivatives are exclusively used as hedging instruments, i. e., not for trading or other speculative purposes. To reduce the credit risk, hedging instruments are generally only concluded with leading financial institutions whose credit rating is at least BBB+/Baa1. In addition, the credit risk for derivatives with a positive market value is minimized through collateral agreements with all core banks. Furthermore, the limits for deposits are also set and monitored on a daily basis depending on the rating, share price performance, and credit default swap level of the counterparty.

The fundamentals of Deutsche Telekom's financial policy are established by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management. Certain transactions require the prior approval of the Board of Management, which is also regularly briefed on the severity and amount of the current risk exposure.

Treasury regards effective management of the market risk as one of its main tasks. The main risks relate to foreign currencies and interest rates.

Currency risks. Deutsche Telekom is exposed to currency risks from its investing, financing, and operating activities. Risks from foreign currencies are hedged to the extent that they influence the Group's cash flows. Foreign-currency risks that do not influence the Group's cash flows (i. e., the risks resulting from the translation of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. Deutsche Telekom may nevertheless also hedge this foreign-currency risk under certain circumstances.

Foreign-currency risks in the area of investment result, for example, from the acquisition and disposal of investments in foreign companies. Deutsche Telekom hedges these risks. If the risk position exceeds EUR 100 million, the Board of Management must make a special decision on how the risk shall be hedged. If the risk position is below EUR 100 million, Group Treasury performs the currency hedging itself. At the reporting date, Deutsche Telekom was not exposed to any significant risks from foreign-currency transactions in the field of investments.

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. 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 Australian dollars, pounds sterling, 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, 2016, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 85 million higher (lower) (December 31, 2015: EUR 38 million higher (lower)). The hypothetical effect of EUR 85 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 97 million and EUR/GBP: EUR –11 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2016, other financial income and the fair value of the hedging instruments before taxes would have been EUR 79 million higher (lower) (December 31, 2015: EUR 42 million higher (lower)). The hypothetical effect of EUR 79 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 60 million and EUR/GBP: EUR 16 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 in euros 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/variable and average fixed interest rate) is managed by both issuing primary (non-derivative) financial instruments and, where necessary, also deploying derivative financial instruments to ensure compliance with the risk budget. This consistently resulted in a fixed-income net position in the United States. Regular reports are submitted to the Board of Management and Supervisory Board.

Including derivative hedging instruments, an average of 43 percent (2015: 53 percent) of net debt in 2016 denominated in euros had a fixed rate of interest. In U.S. dollars, the advance financing of the current spectrum auction and the high fixed-rate percentage at T-Mobile US, which is in any case standard in the market for high-yield issuers, resulted in an increase to over 100 percent, taking into account the relatively high assets. The interest rate exposure of net debt denominated in euros decreased steadily in the reporting period, whereas it increased steadily for net debt denominated in U.S. dollars.

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 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, 2016, profit or loss before taxes would have been EUR 423 million (December 31, 2015: EUR 369 million) lower. If the market interest rates had been 100 basis points lower at December 31, 2016, profit or loss before taxes would have been EUR 504 million (December 31, 2015: EUR 443 million) higher. This simulation includes the effects from the financial instruments assigned to Level 3 described above. The hypothetical effect of EUR 504 million/EUR –423 million on income primarily results from the potential effects of EUR 439 million/EUR –358 million from interest rate derivatives, and EUR 57 million/EUR –57 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, 2016, the hedging reserve in equity before taxes would have been EUR 10 million higher (lower) (December 31, 2015: EUR 24 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 higher (lower) (December 31, 2015: EUR 9 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, 2016, other financial income and the fair value of the financial stake in BT before taxes would have been EUR 513 million lower (higher) (December 31, 2015: unchanged).

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, 2016, as was also the case at December 31, 2015.

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, 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**

millions of €

	Dec. 31, 2015			
	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	701	778	2,296	597
Amounts set off in the statement of financial position in accordance with IAS 32.42	(126)	(126)	–	–
Net amounts presented in the statement of financial position	**575**	**652**	**2,296**	**597**
Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42	**(23)**	**(23)**	**(2,217)**	**(587)**
Of which: amounts related to recognized financial instruments	(23)	(23)	(492)	(492)
Of which: amounts related to financial collateral (including cash collateral)	–	–	(1,725)	(95)
NET AMOUNTS	**552**	**629**	**79**	**10**

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 154. 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 166 and 167) is offset by corresponding negative net derivative positions of EUR 209 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 accounted for separately as derivative financial assets. The conversion rights contained in Mandatory Convertible Preferred Stock issued by a subsidiary of Deutsche Telekom constitute an embedded derivative and are recognized separately as a derivative. Since these rights of termination and conversion rights are not exposed to a 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 is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 75 million had been pledged as of the reporting date (December 31, 2015: EUR 84 million), which also represent the maximum exposure to credit risk.

There were no indications as of the reporting date that Deutsche Telekom will incur a loss from a financial guarantee.

Risks from financing and loan commitments. There were no risks from financing and loan commitments as of the reporting date. Obligations recognized in the prior year to the EE joint venture, which was sold in the reporting year, ceased to apply.

Liquidity risk. Please also refer to Note 10 "Financial liabilities," page 167 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, NOK, and USD. Fixed-income bonds denominated in EUR, GBP, NOK, 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, NOK OIBOR, or USD Libor swap rate are offset against the changes in the value of these interest rate swaps. In addition, cross-currency and interest rate swaps (EUR/AUD 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 AUD Libor and USD Libor swap rate as well as the AUD 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 5.7 billion were designated for reducing the fair value risk.

As the list of the fair values of derivatives shows (see table on page 211), Deutsche Telekom had interest rate derivatives with a net fair value of EUR 0.2 billion (December 31, 2015: EUR 0.3 billion) designated as fair value hedges at December 31, 2016. The remeasurement of the hedged items resulted in gains of EUR 47 million being recorded in other financial income/expense in the 2016 financial year (2015: losses of EUR 0.1 billion); the changes in the fair values of the hedging transactions resulted in losses of EUR 25 million (2015: gains of EUR 0.1 billion) 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 2017 and 2019 and to be recognized in profit or loss.

Ineffectiveness of EUR 7 million (income) was recognized in profit or loss under other financial income/expense in the reporting year (2015: income of EUR 7 million).

As the list of the fair values of derivatives shows (see table on page 211), Deutsche Telekom had no interest rate derivatives (December 31, 2015: with a fair value of EUR –0.1 billion amounting to a nominal total of EUR 1.0 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2016.

The recognition directly in equity of the change in the fair value of the hedging instruments resulted in losses (before taxes) of EUR 1 million (2015: losses of EUR 1 million) in shareholders' equity in the 2016 financial year. Losses amounting to EUR 109 million (2015: losses of EUR 100 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2016 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 2017 through 2033. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. All designated hedging relationships were sufficiently effective as of the reporting date. No new cash flow hedges of this kind were designated in the reporting period.

In the 2016 financial year, losses (before taxes) totaling EUR 457 million (2015: gains of EUR 654 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 2016 financial year, losses totaling EUR 189 million recognized directly in equity were reclassified to other financial income/expense and losses totaling EUR 30 million were reclassified to profit/loss from operations (2015: gains of EUR 358 million were reclassified to other financial income/expense and losses of EUR 4 million to profit/loss from operations). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (see table on page 211), Deutsche Telekom had currency forwards of a net fair value of EUR –11 million (December 31, 2015: EUR –26 million), that are the result of foreign currency purchases totaling EUR 0.6 billion and foreign currency sales totaling EUR 1.3 billion (December 31, 2015: foreign currency purchases of EUR 0.5 billion and foreign currency sales of EUR 0.7 billion), as well as cross-currency swaps of a net fair value of EUR 0.2 billion (December 31, 2015: EUR 0.9 billion) and a total volume of EUR 3.2 billion (December 31, 2015: EUR 4.8 billion) designated as hedging instruments for cash flow hedges as of December 31, 2016.

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 2016. 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 carried. 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, 2016	Net carrying amounts Dec. 31, 2015
ASSETS		
Interest rate swaps		
Without a hedging relationship	116	49
In connection with fair value hedges	217	290
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Without a hedging relationship	131	29
In connection with cash flow hedges	25	7
Cross-currency swaps		
Without a hedging relationship	716	1,057
In connection with fair value hedges	13	–
In connection with cash flow hedges	243	863
Other derivatives in connection with cash flow hedges	–	–
Other derivatives without a hedging relationship	3	1
Embedded derivatives	915	390
LIABILITIES		
Interest rate swaps		
Without a hedging relationship	243	238
In connection with fair value hedges	38	–
In connection with cash flow hedges	–	74
Currency forwards/currency swaps		
Without a hedging relationship	249	147
In connection with cash flow hedges	36	33
In connection with net investment hedges	–	–
Cross-currency swaps		
Without a hedging relationship	273	76
In connection with fair value hedges	41	10
In connection with cash flow hedges	12	–
Other derivatives in connection with cash flow hedges	–	–
Other derivatives without a hedging relationship	5	58
Embedded derivatives	837	298
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 bank 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 2020, 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 bank 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, 2016 (nominal volume EUR 318 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, 2016, the carrying amount and fair value each amounted to less than EUR 1 million. Deutsche Telekom expensed EUR 57 million in total in the 2016 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 129 million since the beginning of the transaction. Deutsche Telekom recognized the purchase price payments received from the buyers under cash generated from operations. Please refer to Note 30 "Notes to consolidated statement of cash flows," pages 190 and 191. The volume of receivables sold during the financial year amounted to between EUR 167 million and EUR 318 million. As of December 31, 2016, a total provision of EUR 3 million was recognized for the receivables management to be performed by Deutsche Telekom.

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 709 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 479 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 2017 and 2019, 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 121 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 largely 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, 2016 (nominal volume EUR 403 million when translated into euros), excluding loan insurance coverage, is EUR 131 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, 2016 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2016, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 2 million and its fair value was EUR 2 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 61 million since the beginning of the transaction. Deutsche Telekom recognizes the purchase price payments received from the buyers under cash generated from operations. Please refer to Note 30 "Notes to the consolidated statement of cash flows," pages 190 and 191. 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, 2016: EUR 352 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, 2016: EUR 51 million when translated into euros). Such buy-backs would not affect the allocation of the credit risk-related losses in any way, not even in the event of buy-back at nominal amount, as such losses would be passed back to the bank in line with the agreed risk allocation. The volume of receivables sold was not subject to major fluctuations since the beginning of the transaction. The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2016 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 2017 and 2020.

In one factoring agreement, the buyers have a monthly revolving purchase obligation that covers a maximum receivables amount of EUR 1,660 million when translated into euros. The purchase price up to a maximum amount of EUR 901 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 1,318 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 1,233 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 1,662 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 90 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 150 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 50 million and thus reduces the exposure to loss.

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 4,174 million as of the reporting date when translated into euros. 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 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 almost entirely 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 691 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, 2016 amounted to EUR 691 million when translated into euros, and the carrying amount of the associated liability was EUR 692 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 refer to Note 30 "Notes to the consolidated statement of cash flows," pages 190 and 191. The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2016 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 31 et seq., in the combined management report.

An important key performance indicator for the capital market communication with investors, analysts, and rating agencies is relative debt, i. e., net debt to adjusted EBITDA. This ratio stood at 2.3 at December 31, 2016 (December 31, 2015: 2.4). 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 26.2 percent as of December 31, 2016 (December 31, 2015: 26.5 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, 2016	Dec. 31, 2015
Financial liabilities (current)	14,422	14,439
Financial liabilities (non-current)	50,228	47,941
FINANCIAL LIABILITIES	**64,650**	**62,380**
Accrued interest	(955)	(1,014)
Other	(1,029)	(857)
GROSS DEBT	**62,666**	**60,509**
Cash and cash equivalents	7,747	6,897
Available-for-sale financial assets/financial assets held for trading	10	2,877
Derivative financial assets	2,379	2,686
Other financial assets	2,571	479
NET DEBT	**49,959**	**47,570**
SHAREHOLDERS' EQUITY	**38,845**	**38,150**

38 SERVICE CONCESSION ARRANGEMENTS

Satellic NV, Machelen, Belgium, is a fully consolidated subsidiary of Deutsche Telekom and on July 25, 2014 signed a contractual arrangement with Viapass, the public agency responsible for toll collection in Belgium, for the set-up, operation, and financing of an electronic toll collection system. Following Viapass' acceptance of the system on March 30, 2016, the set-up phase was completed on March 31, 2016. The operation phase that follows will have a duration of twelve years, with the additional option for Viapass to extend the term three times by one year. Satellic has no entitlement to the toll revenue collected but will receive contractually agreed fees for setting up and operating the system. Viapass is authorized to terminate the arrangement giving notice of six months with payment of reasonable compensation. In the event of regular or premature termination of the agreement, Satellic has an obligation to hand over to Viapass, on request, material assets for the operation of the toll collection system that have not yet passed to the ownership of Viapass; in such an event, however, the software platform for toll collection would not be handed over to Viapass. The agreement was classified as a service concessions 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). In the prior year, revenue from construction contracts of EUR 239 million, which in accordance with IAS 11 was only recognized in the amount of the contract costs expensed (zero-profit method), and capitalized costs from long-term construction contracts of EUR 293 million were reported under trade receivables. 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. Total expenses of EUR 0.4 billion were associated with the construction contract for the system. With the operation phase having started on April 1, 2016, the separate fees for operation and maintenance services will in the future be recognized as revenue in the respective periods in accordance with the provisions of IAS 18. Net revenue of EUR 0.3 billion was recorded in the reporting year.

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 32.0 percent (December 31, 2015: 31.8 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 most 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. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. 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), 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 2016 financial year, Deutsche Telekom made payments in the amount of EUR 84 million (2015: EUR 85 million, 2014: EUR 58 million). Furthermore, payments are made to the Civil Service Pension Fund according to 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 171 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 2015 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, 16,491 thousand shares were transferred to the Federal Republic and 15,055 thousand shares to KfW Bankengruppe in June 2016. As of December 31, 2016, the Federal Republic held a share of 14.5 percent and KfW Bankengruppe a share of 17.5 percent in Deutsche Telekom AG. Otherwise, Deutsche Telekom did not execute any individually material transactions in the 2016 financial year at off-market terms and conditions or, as described, outside of its normal business activities.

Joint ventures. Since consummation of the sale on January 29, 2016, the former joint venture EE has no longer been a related party of Deutsche Telekom AG. At the December 31, 2015 reporting date, there were loan commitments of EUR 0.3 billion. The arrangement concerning the loan commitments allowed for unilateral termination by Deutsche Telekom with immediate effect upon consummation of the sale. At the closing date of the transaction, Deutsche Telekom AG exercised this termination right. As a result, obligations from the loan commitment no longer exist. The loan guarantees and guarantee statements of EUR 0.9 billion given to external contracting parties of the former EE joint venture that were disclosed as of December 31, 2015 are fully covered as of December 31, 2016 with contractual recourse claims vis-à-vis BT.

Net funds of EUR 0.2 billion that had been invested by the former EE joint venture were repaid to the company by Deutsche Telekom upon consummation of the sale on January 29, 2016.

Revenue generated with Toll Collect totaled EUR 52 million (2015: EUR 83 million, 2014: EUR 65 million), in particular from data processing and telecommunications services as well as consulting services. As of December 31, 2016, there were also receivables in the amount of EUR 15 million (December 31, 2015: EUR 40 million), liabilities of EUR 0 million (December 31, 2015: EUR 0 million), an equity maintenance undertaking, and loan guarantees granted to banks. For further details, please refer to Note 32 "Contingencies," page 194 et seq.

Associates. The sale of parts of the share package in Scout24 AG in 2016 resulted in total income of EUR 96 million (2015: EUR 298 million).

There are otherwise no material revenue, 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 15.9 million (2015: EUR 16.1 million) and expenses for other long-term benefits amounted to EUR 4.8 million (2015: EUR 3.2 million). Service cost of EUR 3.1 million (2015: EUR 3.2 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 1.2 million (2015: EUR 0.9 million). EUR 0.0 million (2015: EUR 0.0 million) was paid for termination benefits and recognized as an expense.

As of December 31, 2016, Deutsche Telekom recognized provisions for Board of Management compensation from short-term benefits of EUR 6.5 million (2015: EUR 5.6 million) and from other long-term benefits of EUR 9.4 million (2015: EUR 7.3 million). Furthermore, the present value of the defined benefit obligation (DBO) from the Board of Management pension amounts to EUR 25.6 million (2015: EUR 20.5 million).

The compensation of the Board of Management and the Supervisory Board totaled EUR 25.0 million in the reporting year (2015: EUR 23.5 million).

For further information, please refer to the "Compensation report" in the combined management report, page 115 et seq., and Note 40 "Compensation of the Board of Management and the Supervisory Board," page 216.

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.

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 115 et seq.

Board of Management compensation for the 2016 financial year

Total compensation of the members of the Board of Management for the 2016 financial year amounted to EUR 16.7 million (2015: EUR 17.6 million). This includes a total of 112,126 entitlements to matching shares with a fair value of EUR 1.5 million on the date granted (2015: EUR 1.4 million).

Former members of the Board of Management

A total of EUR 7.2 million (2015: EUR 7.1 million) was granted for payments to and entitlements for former members of the Board of Management and their surviving dependents. Provisions (measured in accordance with IAS 19) totaling EUR 201.6 million (2015: EUR 188.1 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, page 123.

Total compensation of the members of the Supervisory Board for 2016 amounted to EUR 2,858,916.68 (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

U. S. dollar bond issue. In January 2017, Deutsche Telekom placed a U. S. dollar bond with a volume of USD 3.5 billion with institutional investors. It comprised: a 3-year variable-interest bond with a volume of USD 400 million 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 850 million 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.

Issuance of a euro bond. Also in January 2017, Deutsche Telekom International Finance B. V. placed a euro bond with institutional investors with a volume of EUR 3.5 billion, which was in turn guaranteed by Deutsche Telekom under its debt issuance program. The bond comprised a 4 ¾-year fixed-interest bond with a volume of EUR 1.0 billion and a coupon of 0.375 percent; a 7-year fixed-interest bond with a volume of EUR 1.25 billion and a coupon of 0.875 percent; and a 10-year bond with a volume of EUR 1.25 billion and a fixed coupon of 1.375 percent.

Early repayment of senior notes by T-Mobile US. In January 2017, T-Mobile US prematurely canceled senior notes with a volume of USD 1.0 billion and an interest rate of 6.625 percent. The notes were repaid on February 10, 2017 at a price of 102.208 percent of their nominal value (plus interest accrued). In addition, in February 2017, T-Mobile US prematurely canceled senior notes with a volume of USD 500 million and an interest rate of 5.250 percent. The notes will be repaid on March 6, 2017 at a price of 101.313 percent of their nominal value (plus interest accrued).

Financing relationship with T-Mobile US. On January 25, 2017, Deutsche Telekom granted its subsidiary T-Mobile US secured loans totaling USD 4 billion. These loans included the secured loan of USD 660 million previously granted in December 2016, hence the loan volume increased by USD 3.34 billion. The secured loan was paid out to T-Mobile US on January 31, 2017 in two tranches of USD 2 billion each. At the end of January 2017, T-Mobile US used around USD 2 billion of this to repay a secured loan to third parties prematurely.

Measurement of financial stake in BT. For information on the future measurement of the financial stake in BT, please refer to Note 36 "Financial instruments and risk management," page 200 et seq.

For information on developments in the legal proceedings for the **claims relating to charges for the shared use of cable ducts,** please refer to Note 32 "Contingencies," page 194 et seq.

43 AUDITOR'S FEES AND SERVICES IN ACCORDANCE WITH § 314 HGB

PricewaterhouseCoopers Aktiengesellschaft 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 2016 financial year:

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft
millions of €

	2016
Auditing services	15
Other assurance services	4
Tax advisory services	0
Other non-audit services	2
	21

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements, the review of the interim financial statements, auditing activities in connection with the implementation of new accounting provisions, and the auditing of information systems and processes, as well as 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 14, 2017

Deutsche Telekom AG
Board of Management

Timotheus Höttges

Reinhard Clemens | Niek Jan van Damme | Thomas Dannenfeldt | Srini Gopalan

Dr. Christian P. Illek | Dr. Thomas Kremer | Claudia Nemat

INDEPENDENT AUDITOR'S REPORT

To Deutsche Telekom Aktiengesellschaft, Bonn

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion on the Consolidated Financial Statements

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, 2016, 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, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material respects, with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 1, to December 31, 2016, in accordance with these requirements.

According to § 322 Abs. 3 Satz 1 erster Halbsatz HGB, we state that our audit has not led to any reservations with respect to the propriety of the consolidated financial statements.

Basis for Audit Opinion on the Consolidated Financial Statements

We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally considered the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards, as well as supplementary standards, are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group entities in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other German ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

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, 2016. 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, and we do not provide a separate audit opinion on these matters.

In our view, the key audit matters were as follows:

1 | Recoverability of goodwill and other non-current assets

2 | Appropriateness of revenue recognition

3 | Disposal of shares in EE Ltd. to BT Group plc and subsequent measurement of the new shares in the BT Group plc

4 | Accounting treatment of the Toll Collect Legal Dispute

Our presentation of these key audit matters has been structured as follows:

1 | Matter and issue

2 | Audit approach and findings

3 | Reference to further information

1 | Recoverability of goodwill and other non-current assets

1 | An amount of EUR 14.3 billion (9.6 % of 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 AG. Goodwill is tested for impairment ("impairment test") at least once per financial year. These measurements are generally based on the present value of future cash flows of the cash-generating unit to which the respective goodwill is to be allocated. The impairment of the unit USA is determined on the basis of the listed share price of T-Mobile US, Inc. The measurements are based on budget projections of the individual cash-generating units, which in turn were based on the financial budgets approved by management. The discount rate used is the weighted average cost of capital for the relevant cash-generating unit. The impairment tests of the units Netherlands, Montenegro and Romania – Mobile communications led to impairment losses on goodwill totaling EUR 471 million.

Furthermore, because of the unit's declining profit margin in the face of high competition an impairment test was triggered for the non-current assets (excluding goodwill) of the unit Romania – Fixed network as of December 31, 2016. The resulting impairment loss was allocated to the tested assets, with their respective fair values serving as a floor. This resulted in the recognition of EUR 128 million in impairment of property, plant and equipment.

The result of these measurements depends particularly on management's assumptions of future cash inflows and the discount rate used. Therefore the assessment is subject to uncertainty.

2 | We assessed that 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 cash-generating 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. We also examined that the costs for 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 cash-generating 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 section "5 – Intangible assets" and "6 – Property, plant and equipment" of the notes to the consolidated financial statements.

2 | Appropriateness of revenue recognition

1 | Revenue of EUR 73.1 billion is recognized in the consolidated income statement in the consolidated financial statements of Deutsche Telekom AG. This material item is subject to considerable risk due to the complexity of the systems necessary for properly recording and identifying revenue and the impact of ever-changing 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.

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. Furthermore, in order to mitigate the inherent audit 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 specific audit approach included testing of the controls and substantive audit procedures, in particular:

- 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 the 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.

3 | The Company's disclosures pertaining to the particularities surrounding the recognition of revenue in the consolidated financial statements of Deutsche Telekom AG 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.

3 | Disposal of shares in EE Ltd. to BT Group plc and subsequent measurement of the new shares in the BT Group plc

1 | On February 5, 2015, Deutsche Telekom AG and Orange S. A., France, entered into a sales agreement with BT Group plc for the shares in their joint venture EE Ltd. Following approval from the responsible anti-trust authority, the transaction was closed on January 29, 2016, and, in accordance with the agreement, the Group received 12% of the shares in BT Group plc valued at EUR 7.4 billion (market value on January 29, 2016) as well as an additional GBP 15.7 million in cash in exchange for transferring its 50% stake in EE Ltd to BT Group plc. The disposal gains reported under other operating income in the consolidated income statement totaled EUR 2.5 billion (including reclassification of currency reserves amounting to EUR 0.9 billion to the consolidated income statement).

The shares in BT Group plc are reported under available-for-sale financial assets that are generally measured subsequently at fair value outside profit or loss. However, due to an observed steady decline in the fair value of the shares since their initial recognition, as of the reporting date there was objective evidence for recognizing an impairment loss of EUR 2.2 billion in profit or loss. In this connection, the currency- and price-related impairment effects recognized in equity under the reserves for available-for-sale financial assets since the initial recognition of the shares were reclassified in full to "Other financial income (expense)" in the consolidated income statement.

Due to the considerable impact on profit or loss and the judgments and estimates, taking into account the existing accounting guidelines, made in assessing the impairment loss, this matter was of particular importance for our audit.

2 | We assessed the disposal gains reported under other operating income, taking into account the sales agreement. We agreed the amount of the consideration received to deposit statements and bank confirmations. Furthermore, we assessed the level of the carrying amount of the shares in EE Ltd. (at the derecognition date) to be deducted from the agreed consideration and the cumulative currency gains recognized in profit or loss.

The shares in BT Group plc were subsequently remeasured at fair value on the basis of the listed price of the shares of BT Group plc. We determined that this share price steadily declined since the acquisition of the shares and that the fair value of the shares derived from that share price was continuously below the acquisition cost, meaning that as of December 31, 2016 there was objective evidence for recognizing an impairment loss in profit or loss. We evaluated the measurement of the shares and the recognition of the impairment loss in profit or loss on the basis of the BT Group plc's share price as of the reporting date, taking into account the exchange rate for the shares denominated in British pound sterling (GBP), and we assured ourselves of the appropriateness of the reporting in the consolidated financial statements.

From our point of view, the management's assessments underlying this accounting treatment are sufficiently documented and substantiated, and lead to an appropriate recognition in the consolidated financial statements.

3 | The Company's disclosures pertaining to the disposal of shares in EE Limited are contained in the notes to the consolidated financial statements, particularly in the "Changes in the composition of the Group and other transactions" section of the "Summary of accounting policies" chapter and in section "17 – Other operating income". The disclosures on subsequent measurement are contained in particular in sections "25 – Other financial income/expense" and "36 – Financial instruments and risk management".

4 | Accounting treatment of the Toll Collect Legal Dispute

1 | The Deutsche Telekom Group 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. In our view, the following action brought by the Federal Republic of Germany against, among others, Deutsche Telekom AG is of particular importance due primarily to the high monetary value of the asserted claims.

The Federal Republic of Germany has initiated in the year 2004 an arbitration proceedings in connection with the establishment and operation of a toll system. This arbitration is, among others, directed against Deutsche Telekom AG 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 AG 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 the Deutsche Telekom Group 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 AG'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 that upholds Deutsche Telekom AG'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 the "Other disclosures" chapter under section "32 – Contingencies" in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises

- the Corporate Governance Report according to section 3.10 of the German Corporate Governance Code,
- the Corporate Governance Statement pursuant to § 289a HGB and § 315 Abs. 5 HGB, as well as
- other parts of the annual report of Deutsche Telekom Aktiengesellschaft, Bonn, for the financial year ended on December 31, 2016, which were not subject of our audit.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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 Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements, which comply with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, management is responsible for such internal control as management determines is 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objective is 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 to issue an auditor's report that includes our audit opinion on the consolidated financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, 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 economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, 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, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 our auditor's report to the related disclosures in the consolidated financial statements or the Group management report or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease 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 represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, 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 relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and 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 report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Group Management Report

Audit Opinion on the Group Management Report

We have audited the group management report of Deutsche Telekom Aktiengesellschaft, Bonn, which is combined with the Company's management report, for the financial year from January 1, to December 31, 2016.

In our opinion, based on the findings of our audit, the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, the group management report is consistent with the consolidated financial statements, complies with legal requirements and suitably presents the opportunities and risks of future development.

Our audit has not led to any reservations with respect to the propriety of the group management report.

Basis for Audit Opinion on the Group Management Report

We conducted our audit of the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Group Management Report

Management is responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements, complies with legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for such policies and procedures (systems) as management determines are necessary to enable the preparation of a group management report in accordance with the German legal requirements applicable under § 315 Abs. 1 HGB and to provide sufficient and 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 group management report.

Auditor's Responsibilities for the Audit of the Group Management Report

Our objective is to obtain reasonable assurance about whether the group management report as a whole provides a suitable view of the Group's position as well as, in all material respects, is consistent with the consolidated financial statements as well as the findings of our audit, complies with legal requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the group management report.

As part of an audit, we examine the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the IDW. In this connection, we draw attention to the following:

- The audit of the group management report is integrated into the audit of the consolidated financial statements.
- We obtain an understanding of the policies and procedures (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 policies and procedures (systems).
- We perform audit procedures on the prospective information presented by management in the group management report. Based on appropriate and sufficient audit evidence, we hereby, in particular, evaluate the material assumptions used by management as a basis for the prospective information and assess the reasonableness of these assumptions as well as the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.
- We are also not issuing a separate audit opinion on individual disclosures in the group management report; our audit opinion covers the group management report as a whole.

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Thomas Tandetzki.

Frankfurt am Main, February 14, 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd. Harald Kayser	sgd. Thomas Tandetzki
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)