

DEUTSCHE TELEKOM
INTERIM GROUP REPORT
JANUARY 1 TO SEPTEMBER 30, 2018



LIFE IS FOR SHARING.

SELECTED FINANCIAL DATA OF THE GROUP

millions of €

	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
REVENUE AND EARNINGS							
Net revenue	19,104	18,251	4.7	55,395	55,787	(0.7)	74,947
Of which: domestic	31.9	33.6		32.5	32.7		32.8
Of which: international	68.1	66.4		67.5	67.3		67.2
Profit from operations (EBIT)	2,530	3,098	(18.3)	7,053	8,699	(18.9)	9,383
Net profit (loss)	1,110	507	n.a.	2,597	2,129	22.0	3,461
Net profit (loss) (adjusted for special factors)	1,321	1,244	6.2	3,749	3,382	10.9	6,039
EBITDA	5,874	7,318	(19.7)	16,699	19,267	(13.3)	23,969
EBITDA (adjusted for special factors)	6,207	5,720	8.5	17,684	17,215	2.7	22,230
EBITDA margin (adjusted for special factors)	32.5	31.3		31.9	30.9		29.7
Earnings per share basic/diluted	€ 0.23	0.11	n.a.	0.55	0.45	22.2	0.74
STATEMENT OF FINANCIAL POSITION							
Total assets				142,260	139,841	1.7	141,334
Shareholders' equity				43,481	39,055	11.3	42,470
Equity ratio				30.6	27.9		30.0
Net debt				55,473	52,635	5.4	50,791
CASH FLOWS							
Net cash from operating activities	4,853	4,808	0.9	13,542	13,367	1.3	17,196
Cash capex	(3,117)	(3,021)	(3.2)	(9,351)	(16,541)	43.5	(19,494)
Free cash flow (before dividend payments and spectrum investment)	1,883	1,873	0.5	4,779	4,403	8.5	5,497
Net cash used in investing activities	(5,422)	(3,056)	(77.4)	(11,655)	(13,759)	15.3	(16,814)
Net cash used in financing activities	(145)	(1,312)	88.9	(2,939)	(4,282)	31.4	(4,594)

millions

	Sept. 30, 2018	Dec. 31, 2017	Change Sept. 30, 2018/ Dec. 31, 2017 %	Sept. 30, 2017	Change Sept. 30, 2018/ Sept. 30, 2017 %
NUMBER OF FIXED-NETWORK AND MOBILE CUSTOMERS					
Mobile customers	175.3	168.4	4.1	165.3	6.0
Fixed-network lines	28.1	27.9	0.7	28.0	0.4
Broadband customers ^{a, b}	20.0	18.9	5.8	18.7	7.0

^a Excluding wholesale.

^b Starting in Q2 2018, we no longer report the number of retail broadband lines from a technical perspective. Instead we report the number of broadband customers. Prior-year comparatives have been adjusted.

The key parameters used by Deutsche Telekom are defined in the section "Management of the Group" of the 2017 Annual Report, page 38 et seq.

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

The new accounting standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" took effect as of January 1, 2018. Prior-year comparatives were not adjusted. For more information, please refer to section "Accounting policies" in the interim consolidated financial statements, page 37 et seq.

CONTENTS

TO OUR SHAREHOLDERS

- 4 Deutsche Telekom at a glance
- 6 Highlights in the third quarter of 2018

INTERIM GROUP MANAGEMENT REPORT

- 9 Group organization, strategy, and management
- 10 The economic environment
- 11 Development of business in the Group
- 17 Development of business in the operating segments
- 29 Events after the reporting period
- 29 Forecast
- 29 Risks and opportunities

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

- 31 Consolidated statement of financial position
- 32 Consolidated income statement
- 33 Consolidated statement of comprehensive income
- 34 Consolidated statement of changes in equity
- 36 Consolidated statement of cash flows
- 37 Significant events and transactions
- 50 Other disclosures
- 62 Events after the reporting period

63 RESPONSIBILITY STATEMENT

64 REVIEW REPORT

ADDITIONAL INFORMATION

- 65 Reconciliation of alternative performance measures
- 68 Glossary
- 68 Disclaimer
- 69 Financial calendar

TO OUR SHAREHOLDERS

DEUTSCHE TELEKOM AT A GLANCE

NET REVENUE

- Net revenue decreased by EUR 0.4 billion to EUR 55.4 billion. Adjusted for exchange rate effects and the slightly negative effects of changes in the composition of the Group, net revenue rose by EUR 1.5 billion or 2.8 percent.
- Our United States operating segment posted a decline in revenue of 0.7 percent; in U.S. dollars, the continuing success of our U.S. operations was evident in revenue growth of 6.7 percent.
- Revenue increased by 1.9 percent at our Europe operating segment.
- The business trend was stable in our Germany operating segment, with revenue down 1.0 percent due to the first-time application of the IFRS 15 accounting standard.
- Revenue remained on a par with the prior year in our Systems Solutions operating segment, while in our Group Development operating segment revenue declined.

ADJUSTED EBITDA

- Adjusted EBITDA grew by EUR 0.5 billion to EUR 17.7 billion. Adjusted for exchange rate effects and the slightly negative effects of changes in the composition of the Group, adjusted EBITDA rose by EUR 1.0 billion or 6.2 percent.
- Adjusted EBITDA for our United States operating segment increased by 3.3 percent; in U.S. dollars, this growth reached as much as 11.0 percent.
- Our Europe and Germany operating segments also posted increases in adjusted EBITDA of 2.9 percent and 1.8 percent respectively, while adjusted EBITDA declined in our Systems Solutions and Group Development operating segments.
- At 31.9 percent, the Group's adjusted EBITDA margin increased against the prior-year level of 30.9 percent. The EBITDA margin was 40.0 percent in Germany, 33.4 percent in Europe, and 28.5 percent in the United States.

EBIT

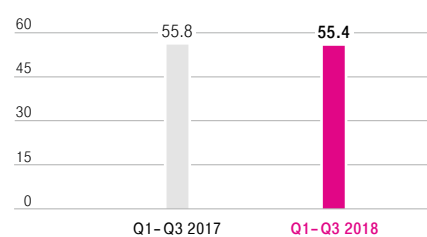
- EBIT decreased by EUR 1.6 billion to EUR 7.1 billion.
- EBITDA was negatively affected by special factors of EUR 1.0 billion in contrast to positive net special factors of EUR 2.1 billion in the previous year. Negative special factors in connection with staff-related measures were EUR 0.5 billion higher than in the same period of last year. The prior-year period had also benefited from positive special factors of EUR 1.7 billion from the reversal of impairment losses previously recognized for spectrum licenses at T-Mobile US, the sale of Strato (EUR 0.5 billion) and of further shares in Scout24 AG (EUR 0.2 billion), and a settlement agreement concluded with BT (EUR 0.2 billion).
- At EUR 9.6 billion, depreciation, amortization and impairment losses were down EUR 0.9 billion on the prior-year period, which had included a special factor of EUR 1.2 billion for the impairment of goodwill in our Systems Solutions operating segment.

NET PROFIT

- Net profit increased by EUR 0.5 billion to EUR 2.6 billion.
- At EUR 2.1 billion, the loss from financial activities was EUR 1.6 billion smaller than a year earlier, offsetting the effects of the reduction in EBIT. The loss in the prior-year period was attributable to the EUR 1.3 billion impairment of our financial stake in BT recognized in profit or loss, as well as to higher negative effects from the exercise and remeasurement of derivatives at T-Mobile US. While the settlement amount of EUR 0.6 billion agreed in the Toll Collect arbitration proceedings had a negative impact in the reporting period, finance costs improved by EUR 0.3 billion year-on-year.
- The tax expense of EUR 1.4 billion was EUR 0.5 billion lower than in the prior-year period.
- Profit attributable to non-controlling interests decreased marginally year-on-year to EUR 0.9 billion.

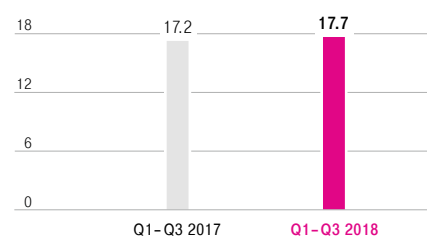
Net revenue

billions of €



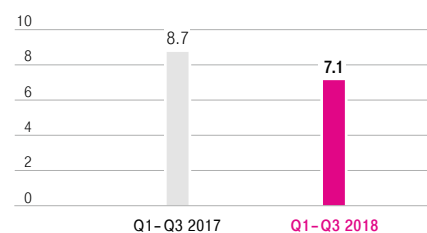
Adjusted EBITDA

billions of €



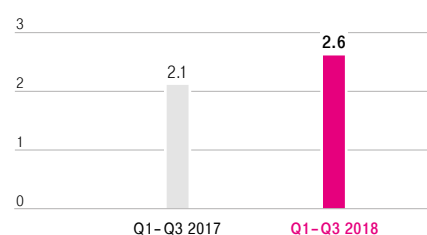
EBIT

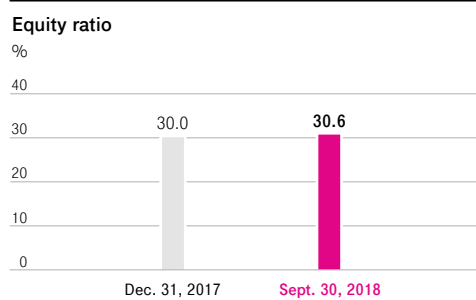
billions of €



Net profit

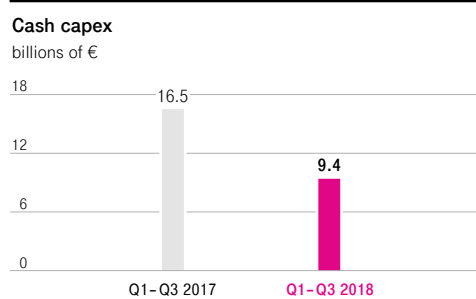
billions of €





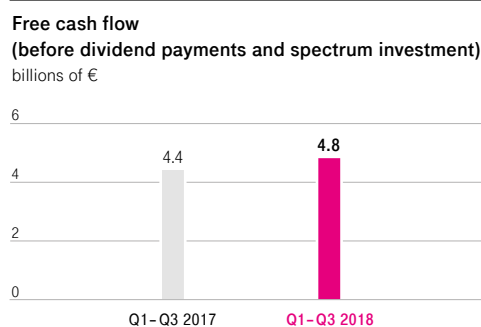
EQUITY RATIO

- The equity ratio increased by 0.6 percentage points to 30.6 percent.
- Total assets increased by EUR 0.9 billion compared with the end of 2017.
- Shareholders' equity increased from EUR 42.5 billion as of December 31, 2017 to EUR 43.5 billion. By contrast, profit of EUR 3.5 billion, and an effect of EUR 1.5 billion recognized directly in equity, and attributable to the transition to IFRS 9 and IFRS 15, had an increasing effect. Currency translation effects recognized directly in equity increased shareholders' equity by EUR 0.7 billion. Shareholders' equity was reduced in particular by the dividend payment to Deutsche Telekom AG shareholders in the amount of EUR 3.1 billion, by EUR 0.9 billion for T-Mobile US' share buy-back program, and by an impairment loss of EUR 0.7 billion on the financial stake in BT recognized directly in equity.



CASH CAPEX

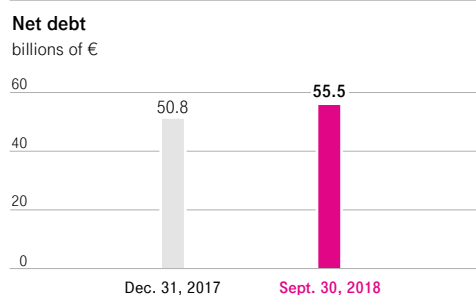
- Cash capex (including spectrum investment) decreased from EUR 16.5 billion to EUR 9.4 billion.
- In the prior-year period, mobile spectrum licenses had been acquired for EUR 7.3 billion, mainly in the United States operating segment, compared with cash outflows in the reporting period of EUR 0.2 billion, primarily in the United States.
- Excluding the effects of spectrum acquisitions, cash capex declined by EUR 0.1 billion; adjusted for currency translation effects, cash capex was up year-on-year. Capital expenditures were focused primarily on the United States, Germany, and Europe operating segments and went toward the build-out and upgrade of our networks.



FREE CASH FLOW

(BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)

- Free cash flow was up by EUR 0.4 billion to EUR 4.8 billion.
- Net cash from operating activities increased by EUR 0.2 billion year-on-year. Lower net interest payments had a positive effect. The positive business development in our United States operating segment was adversely affected by currency translation effects.
- The year-on-year decrease of EUR 0.1 billion in cash capex (before spectrum investment) enhanced free cash flow.



NET DEBT

- Net debt increased from EUR 50.8 billion at the end of 2017 to EUR 55.5 billion.
- Factors in this increase included, in particular, the dividend payment (including to non-controlling interests) of EUR 3.3 billion, the acquisition of UPC Austria (EUR 1.8 billion), T-Mobile US' share buy-back program (EUR 0.9 billion), exchange rate effects (EUR 0.8 billion), payment obligations arising out of the Toll Collect settlement (EUR 0.6 billion), additions to liabilities in connection with finance leases (EUR 0.6 billion), and further acquisitions of shares in T-Mobile US and OTE (EUR 0.4 billion).
- The main factor reducing net debt was free cash flow of EUR 4.8 billion.

HIGHLIGHTS IN THE THIRD QUARTER OF 2018

FORECAST FOR 2018 REVISED AGAIN

In view of strong business performance in our United States operating segment, we are again revising upward our forecast for adjusted Group EBITDA – having already adjusted it in the first and second quarters of 2018 – and are also raising our guidance for the Group's free cash flow for the 2018 financial year. Instead of the most recent forecast figure of around EUR 23.4 billion, we now expect to post adjusted EBITDA of around EUR 23.6 billion. We are raising our forecast for free cash flow from the previous figure of around EUR 6.2 billion to around EUR 6.3 billion.

BOARD OF MANAGEMENT

Birgit Bohle has been appointed as the new Board of Management member responsible for Human Resources (CHRO) and as Labor Director of Deutsche Telekom AG, and will succeed Christian P. Illek effective January 1, 2019. Christian P. Illek will move to his new position as Deutsche Telekom AG's Chief Financial Officer on the same date.

Thorsten Langheim will become a member of the Board of Management at Deutsche Telekom AG as of January 1, 2019. He will take up the role of head of the newly created "USA and Corporate Development" Board department. The Supervisory Board intends the new Board department to better reflect the importance of U.S. business to the Group, in addition to placing a stronger emphasis on evolving the portfolio. Deutsche Telekom AG will thus have nine Board departments as of this date.

ACQUISITION OF UPC AUSTRIA

In December 2017, T-Mobile Austria agreed to acquire Austria's leading cable operator, UPC Austria. The European Commission approved the deal on July 9, 2018 and the transaction was consummated on July 31, 2018. A purchase price of EUR 1.8 billion was paid in cash. The UPC Austria group has been fully included in our consolidated financial statements since the acquisition date. In line with our strategy, this acquisition will allow us to offer convergent product bundles to our customers on the European market.

INVESTMENTS IN NETWORKS

5G network for Germany. At our Network Day in Berlin in October, we presented an eight-point plan for a fast, successful 5G rollout. By 2025, we plan to cover 99 percent of the population nationwide and 90 percent of the country with 5G. We intend to invest an additional EUR 20 billion in Germany by 2021. To ensure that business, industry, and the general public get the most powerful 5G network, we will also team up with partners. With over 500,000 kilometers of cable now laid, our fiber-optic network forms the basis for high-performance fixed and mobile infrastructure. It currently serves 24.4 million households with surfing speeds of up to 100 Mbit/s and more over the fixed network. Following the market launch of supervectoring in August 2018, maximum speeds of up to 250 Mbit/s became available to 6 million households. As of the end of September, 8.5 million households were benefiting from such transmission rates. Our aim is to offer speeds of up to 250 Mbit/s to 28 million households in 2019.

Mobile communications pact in Bavaria: 1,000 new cell sites. We have reasserted our extensive build-out plans to further improve the mobile communications network in Bavaria. We intend to build 1,000 new cell sites here by the end of 2020. In addition, we will upgrade 1,200 existing sites with extra services. We will also continue to modernize our network in Bavaria, equipping the majority of cell sites with state-of-the-art Single RAN and LTE 900 technology by the end of 2018. Additionally, the state of Hesse will benefit from 530 new cell sites by the end of 2020. We plan to increase the total number of sites across Germany to 36,000 by 2021. This build-out will help fill mobile coverage gaps and increase bandwidths. Nationwide, some 97.6 percent of the population can currently use our LTE network. This percentage is set to increase to 98 percent by 2019.

German data fortress continues to grow: New cloud data center opens. The next phase of our expansion activities at the high-performance data center in Biere, near Magdeburg, went live in September 2018. Biere now has a capacity of 150 petabytes for processing and storing cloud data. Since the commissioning of this high-tech Fort Knox in 2014, global demand for cloud services has continued to increase substantially. In response, T-Systems has systematically developed into a multi-cloud provider that collaborates with leading international providers of cloud solutions. The Open Telekom Cloud, our public cloud offering, is the only cloud available in Germany that has received the Trusted Cloud certificate issued by the Federal Ministry for Economic Affairs and Energy.

T-Mobile Polska signs wholesale FTTH agreement with Orange. In July 2018 an agreement was signed under which T-Mobile Polska will provide services on Orange's fiber-optic lines. Under the agreement, T-Mobile Polska will gain access to the partner's fiber-optic infrastructure and will use it to provide services based on data transmissions in non-regulated areas. The contract will guarantee T-Mobile Polska access to 1.7 million households. Together with the partner's plans to invest in the deregulated area by the end of 2020 and in the fiber-optic network in regulated areas, this will enable T-Mobile Polska to potentially reach over 4 million households. T-Mobile Polska aims to provide initial individual customers and small and medium-sized enterprises with the full range of fixed-network services based on fiber-optic infrastructure in the first quarter of 2019 at the latest. The agreement is to run for 20 years. In addition to the agreement with Orange, T-Mobile Polska signed another wholesale FTTH agreement with network operator Nexera, covering more than 450 thousand further households, which will be connected by the end of 2020.

INNOVATIONS AND PARTNERSHIPS

“Magenta connects.” This was the motto at our booth at IFA 2018 in Berlin, where we brought our entire world of Magenta products to life for trade fair visitors. The main focus was on Magenta Entertainment, “In the best network,” Magenta Connected Life, MagentaEINS, and MagentaSERVICE. Selected highlights: An interactive multi-player drone race on a 5G LED big screen demonstrated the capabilities of the network of the future. The booth also featured an e-sport arena where experts from SK Gaming invited visitors to try out e-sport games including League of Legends and FIFA, as well as mobile gaming. In the MagentaSERVICE zone, the new SprachID service took center stage. In the future, customers won’t need to remember account numbers and passwords – when they phone up they’ll be recognized by their voice alone thanks to a unique digital system.

Global initiative for sustainable cities. In September 2018, we announced a far-reaching collaboration with United Smart Cities (USC) to help cities become smarter and more sustainable. The United Smart Cities program is a global initiative established and coordinated by the United Nations Economic Commission for Europe (UNECE) in cooperation with the Organization for International Economic Relations (OiER). As part of the partnership, we have also taken on a board position in USC’s Global Industry Advisory Board (GIAB). The GIAB consists of 12 members who provide strategic counsel to all UN organizations on smart city issues across the globe.

5G for connected mobility. In just a few years, cars, traffic signals, and street lights will all share information via the 5G communication standard. And these are just three examples for traffic in the future. The systems involved will have to be secure. Together with DEKRA, we are working to equip the Lausitzring test and race track with 5G technology to create an intelligent mobility test site. Multiple scenarios will be played out at the site: Connected cars and autonomous vehicles will communicate in real time with each other, with road infrastructure, and with cyclists and pedestrians. This creates the perfect environment for car manufacturers, suppliers, and telecommunications component manufacturers to test intelligent mobility in a real-world environment.

Digital Cities and Regions initiative. In July 2018, we joined forces with the German Association of Towns and Municipalities (DStGB) to launch a new initiative called the Executive Program Digital Cities and Regions. The partners develop intelligent, tailor-made solutions with the aim of promoting digitalization in cities and communities and preparing the regions for the digital future. Improving citizens’ quality of life takes top priority. The defined success factors are common platforms, a good digital infrastructure, and courage for cultural change. As a digital partner, we provide the necessary expertise and help the towns and municipalities to launch initial projects. 23 cities from across Germany with very different expectations of the program have now joined the initiative. Towards the end of the year, cities and municipalities will implement their first pilot projects.

Strategic partnership for better road safety. In August 2018, we launched a strategic partnership with the automobile association ADAC, with plans to offer products and attractive benefits to our customers and ADAC members. To this end, we intend to leverage the opportunities of traffic digitalization and are working with ADAC, for example, to expand our CarConnect offerings. In the future, drivers will be able to report a breakdown to ADAC with just a few clicks in the CarConnect app. The location of the damaged vehicle is transmitted automatically, allowing CarConnect customers to quickly and easily benefit from ADAC’s breakdown service.

Cyber-security for banks. The number of cyber-attacks on banks worldwide is on the rise. Industry regulators are continually tightening up IT security requirements for banks. That is why Fiducia & GAD IT AG (the IT service provider for all 900 Volksbank and Raiffeisenbank branches in Germany) and the German DZ Bank Group have joined forces with Telekom Security to improve cyber-security for the credit unions over the long term. In the first phase, the partners established a Security Operation Center (SOC) to handle specific IT security incidents for DZ Bank. The SOC, which is managed jointly by Telekom Security and Fiducia & GAD IT AG, is already operating 24/7.

NEW PRODUCTS

“Hallo Magenta” – the magic words to make sure your home obeys your every command. In August 2018, we presented our very own Smart Speaker featuring intelligent voice assistance. The voice assistant allows customers to operate Deutsche Telekom’s Magenta SmartHome, MagentaTV, and audio control services using simple spoken commands. The Smart Speaker will comprise a wide range of offers from renowned partners.

New IoT solutions for consumers and business customers. We have further extended our Smart Connect portfolio of IoT services for consumers. **Combi Protect** lets users keep track of pets, purses, luggage, and more on their smartphone using a GPS tracker and app. Customers can choose to track movements in real time and set digital boundaries that trigger an alarm on the smartphone if crossed. We also plan to expand our range of IoT solutions for business customers to include our **Building Monitoring & Analytics** IoT bundle. The building management solution could be used to optimize building services, energy efficiency, and much more.

In August 2018, T-Mobile US introduced “Un-carrier Next,” a new initiative that changes the structure of their customer service department and solves several significant pain points for customers: Postpaid customers will get directly through to a human when they call customer support, and that human will be one member of a team of experts devoted to that customer and other customers in their geographic region.

In September 2018, T-Mobile US announced that **MetroPCS is becoming Metro™ by T-Mobile** (Metro) and Metro introduced new unlimited rate plans with tiers that include added benefits. Metro will offer Amazon Prime, expanded cloud storage, and mobile backup through Google One, as well as the latest smartphones.

AWARDS

The illustration below shows the main awards received in the third quarter of 2018. For details on more awards, please go to www.telekom.com/media.

Major awards in the third quarter of 2018



INTERIM GROUP MANAGEMENT REPORT

GROUP ORGANIZATION, STRATEGY, AND MANAGEMENT

With regard to our **Group organization, strategy, and management**, please refer to the explanations in the 2017 combined management report (2017 Annual Report, page 31 et seq.). From the Group's perspective, the following changes and/or additions were made to the Group structure and the finance strategy:

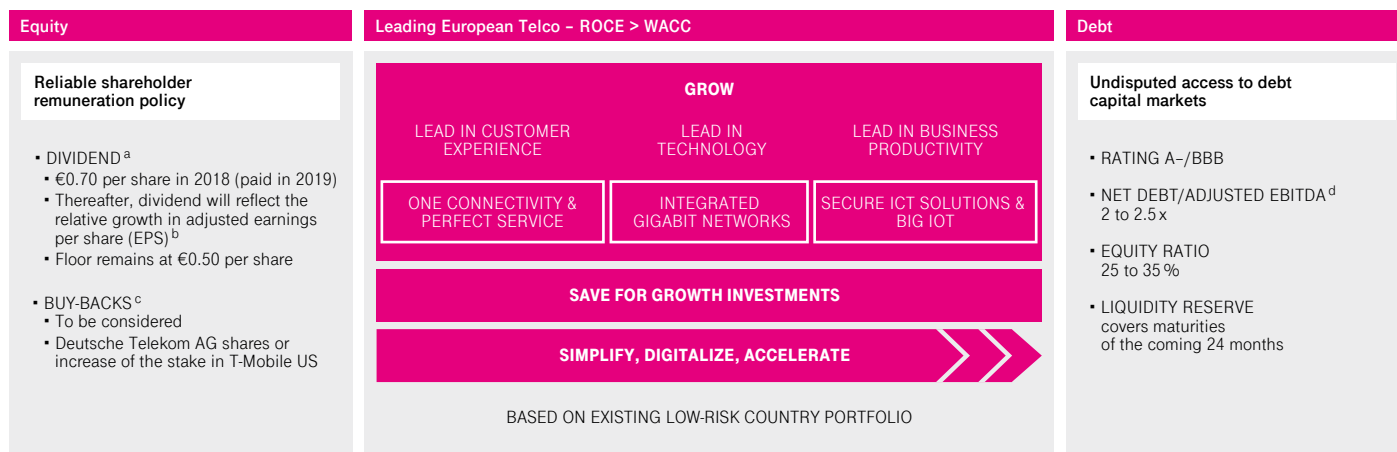
We assigned **Vivento Customer Services GmbH**, a provider of call center services, to our Germany operating segment as of January 1, 2018; previously it was part of our Group Headquarters & Group Services segment. Comparative figures have been adjusted retrospectively. For more information, please refer to the disclosures under segment reporting in the interim consolidated financial statements, pages 51 and 52.

The agreement signed by T-Mobile US on November 9, 2017 to acquire 100 percent of the shares in online TV provider **Layer3 TV** was consummated on January 22, 2018. Layer3 TV has been included in Deutsche Telekom's consolidated financial statements as a fully consolidated subsidiary since the acquisition date. T-Mobile US expects the acquisition to further strengthen its TV and video portfolio, and its plans include rolling out its own TV service.

On December 22, 2017, T-Mobile Austria Holding GmbH agreed to take over a 100 percent stake in **UPC Austria GmbH**. The transaction was consummated on July 31, 2018. UPC Austria has been included in Deutsche Telekom's consolidated financial statements as a fully consolidated subsidiary since the acquisition date. In line with our strategy, this acquisition will allow us to offer convergent product bundles to our customers on the European market.

We presented our updated **finance strategy** for the years 2018 through 2021 at the Capital Markets Day in late May 2018.

Our finance strategy until 2021



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

^b Adjusted earnings per share (EPS) in 2018 as starting point.

^c Not relevant for the first three years after the successful closing of the business combination of T-Mobile US and Sprint.

^d Deviation from the target range for a short period after the successful closing of the business combination of T-Mobile US and Sprint.

Part of our finance strategy is to achieve our target financial ratios – relative debt (ratio of net debt to adjusted EBITDA) and equity ratio – along with a liquidity reserve that covers our maturities of the coming 24 months at least. With these clear statements we intend to maintain our rating in a corridor from A- to BBB and safeguard undisputed access to the capital market.

Through 2021, we expect growth to remain at the same consistently high level as forecast at our Capital Markets Day in 2015: Revenue is set to continue growing at a rate of 1 to 2 percent a year, adjusted EBITDA at a rate of 2 to 4 percent, and free cash flow at a rate of around 10 percent.

There is a reliable dividend policy for shareholders, which is subject to approval by the relevant bodies and the fulfillment of other legal requirements. For the 2018 financial year, we will propose a dividend of EUR 0.70 for each dividend-bearing share. A dividend of at least EUR 0.50 per dividend-bearing share is to be paid for each of the financial years from 2019 through 2021. Relative growth in adjusted earnings per share is to serve as a basis for measuring the amount of the dividend for the financial years starting 2019. For 2018, we continue to expect a figure of around EUR 1.00 per share as announced at the Capital Markets Day in 2015 and expect this to rise to around EUR 1.20 per share through 2021. We thus offer our shareholders both an attractive return and planning reliability.

We will also take share buy-backs into consideration, both of Deutsche Telekom AG shares and shares in T-Mobile US. However, no shares will be bought back in the first three years after the successful closing of the business combination of T-Mobile US and Sprint.

Total capital expenditure is also to remain high in the next few years. The scope for investment is to be used to further roll out our broadband infrastructure and to accelerate the transformation of the Company to an IP-based production model. In mobile communications, the infrastructure build-out will focus on the LTE and 5G standards and, in the fixed network, on optical fiber and vectoring. The finance strategy supports the transformation of our Group into the Leading European Telco. In order to generate a sustainable increase in value, we intend to earn our cost of capital in the medium term. We aim to achieve this goal in part by optimizing the utilization of our non-current assets. We also intend to achieve our target of earning our cost of capital through strict cost discipline and improved cross-functional collaboration. Additionally, we focus our performance management on unadjusted EBIT. By taking capital expenditure into consideration, we can align EBIT more closely with the ROCE concept and support our rigorous focus on the efficient allocation of capital at the Deutsche Telekom Group.

THE ECONOMIC ENVIRONMENT

This section provides additional information on, and explains recent changes to, the economic situation as described in the combined management report for the 2017 financial year, focusing on macro-economic developments in the first nine months of 2018, the outlook, the currently prevailing economic risks, and the regulatory environment. The overall economic outlook presupposes there are no major unexpected occurrences in the forecast period.

MACROECONOMIC DEVELOPMENT

The global economy continued on its growth course in the first nine months of 2018. In its updated September 2018 forecast, the OECD expects global gross domestic product (GDP) to grow by 3.7 percent in 2018, compared with 3.6 percent in 2017. The national economies in our core markets continue to expand. While the upswing in Europe is weakening, GDP in the United States is stronger than in the prior year.

OUTLOOK

Under the current conditions, we expect to see continued positive economic trends in the economies of our core markets. However, uncertainties over the future of global trade are negatively affecting current forecasts, which now show that economic growth may be slower overall than previously expected for 2018 and 2019.

OVERALL ECONOMIC RISKS

At present, global economic growth continues to withstand the negative effects of economic policy in recent months. The economic risks have increased. Trade conflicts and political tensions in Europe could jeopardize sustained expansion. Furthermore, geopolitical crises could also have a negative impact on the economies of the countries in which we operate.

REGULATION

Federal Network Agency decision on StreamOn. On December 15, 2017, the Federal Network Agency prohibited elements of the MagentaMobil StreamOn add-on option. According to the Federal Network Agency, two aspects of this option breached the EU Regulation on net neutrality and roaming. The ruling stipulates that we must transmit all StreamOn data traffic at the maximum available bandwidth and that this also cannot be deducted from the included data volume contingent when roaming within the EU. However, we believe that our service complies with EU law. We sought a preliminary injunction with the Cologne Administrative Court against the Federal Network Agency's ruling. We will continue to offer StreamOn in unchanged form during the summary proceedings.

Federal Network Agency decisions on bitstream charges. On March 8, 2018, we received the Federal Network Agency's final decision on our rate application dated September 21, 2017. The application relates to the rates we can charge to wholesale customers for access to our broadband lines for "layer 2 bitstream access." In its final decision, the Federal Network Agency confirmed its preliminary decision from December of last year and approved the majority of rates at the current levels. We had requested an increase in the monthly rate as part of contingent models. As per the preliminary decision, this application was not approved in the final decision. On September 18, 2018, the Agency published a draft consultation on bitstream charges for supervectoring, which is used to make bandwidths of up to 250 Mbit/s available. According to the draft, the approved rates are higher than those for lower speeds. The Agency thus consistently acknowledges investments in higher bandwidths. The Agency will set the final rates once the consultation process is concluded.

AWARDING OF SPECTRUM

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

Main spectrum awards

	Expected start of award procedure	Expected end of award procedure	Frequency ranges (MHz)	Award process	Acquired spectrum (MHz)	Spectrum investment
Albania	Q4 2018	Q4 2018	800	Sealed bid ^a or auction	tbd	tbd
Germany	Q2 2019	Q2 2019	2,100 / 3,400 – 3,800	Auction (SMRA ^b), expected	tbd	tbd
Greece	Q3 2019	Q4 2019	3,400 – 3,800	tbd	tbd	tbd
Croatia	Q3 2018	Q4 2018	2,100	tbd	tbd	tbd
Macedonia	Q2 2018	Q4 2018	900 / 2,100	License extension	2x12.5 MHz, 2x15 MHz	No extension fee
Netherlands	Q3 2019	Q4 2019	700 / 1,500 / 2,100	Auction, details tbd	tbd	tbd
Austria	Q1 2019	Q1 2019	3,400 – 3,800	Regional auction (CCA ^c), expected	tbd	tbd
Austria	Q3 2019	Q4 2019	700 / 1,500 / 2,100	Auction (CCA ^c), expected	tbd	tbd
Poland	Q2 2019	Q4 2019	3,700 – 3,800	tbd	tbd	tbd
Romania	Q4 2019	Q4 2019	700 / 800 / 1,500 / 2,600 / 3,400 – 3,600	Auction, details tbd	tbd	tbd
Slovakia	Q3 2019	Q3 2019	700	Auction (SMRA ^b), expected	tbd	tbd
Czech Republic	Q3 2019	Q4 2019	700 / 3,400 – 3,600	Auction, details tbd	tbd	tbd
Hungary	Q4 2018	Q4 2018	2,100	License extension	2x15 MHz	HUF 14.3 billion (approx. € 44 million)
Hungary	Q3 2019	Q3 2019	700 / 1,500 / 2,100 / 2,300 / 2,600 / 26,000	Auction, expected	tbd	tbd
United States	Q4 2018	Q2 2019	24,000 / 28,000	tbd	tbd	tbd

^a Submission of an individual bid in a sealed envelope, in some cases sequential, in several awards.

^b Simultaneous electronic multi-round auction with ascending, parallel bids for all ranges.

^c Combinatorial Clock Auction, three-stage, multi-round auction for spectrum from all frequency ranges.

DEVELOPMENT OF BUSINESS IN THE GROUP

The new accounting standards IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” took effect as of January 1, 2018. Prior-year comparatives were not adjusted. Application of these standards did not have any material effect on the Group’s results of operations.

IFRS 15 introduces an amended model for determining and recognizing revenue. The effects of the new regulations on our operating segments differ depending on the underlying business model and, for the most part, neutralize each other. For example, in our Germany operating segment – where the sale of subsidized handsets in combination with service contracts is still customary – the amortization of capitalized contract assets reduces revenue to a minor extent. In our United States operating segment – where customers are predominantly offered payment-by-installment models or leased models – there is a slightly positive impact on revenue and EBITDA, mainly from the capitalization of customer acquisition costs and their distribution over the average customer retention period.

IFRS 15 has a material impact on the presentation of the Group’s results of operations and its financial position. The main effects are explained where the changes in the relevant items of the statement of financial position are discussed.

For a more detailed explanation of these remeasurement and reclassification effects, please refer to the section “Accounting policies” of the interim consolidated financial statements, page 37 et seq.

RESULTS OF OPERATIONS OF THE GROUP NET REVENUE

In the first three quarters of 2018, we generated net revenue of EUR 55.4 billion, which was down 0.7 percent or EUR 0.4 billion year-on-year. The main factor in this decline was effects from the translation of U.S. dollars into euros. Adjusted for these negative exchange rate effects totaling EUR 1.9 billion, and for the slightly negative effect of changes in the composition of the Group, revenue actually increased by EUR 1.5 billion or 2.8 percent.

In our United States operating segment, revenue – adjusted for exchange rate effects – increased by a very positive 6.7 percent. This increase was due primarily to higher service revenues from the rise in the average branded customer base, triggered in particular by the continued growth in existing and greenfield markets, the growing success in new customer segments, along with lower customer churn. In our home market of Germany, revenue declined by 1.0 percent. Adjusted for the effects of IFRS 15, total revenue was at a comparable level with the previous year, with revenue from mobile business rising. Higher IT and broadband revenues almost compensated for the decrease in fixed-network revenue. In our Europe operating segment, revenue was up by 1.9 percent year-on-year; adjusted for exchange rate effects and without the inclusion of UPC Austria as of July 31, 2018, it increased by 1.3 percent. Revenue growth in business customer operations and in mobile business had a positive effect. Fixed-network revenue also increased slightly year-on-year in the core business, mainly due to the positive revenue effect from TV and broadband business. These

increases were partially offset by a decline in wholesale business. In the Systems Solutions operating segment, revenue remained on a par with the prior-year period. Revenues developed positively in our growth business, while declining as expected in our traditional IT business, notably in the international corporate customer segment and due to the general market contraction in the core market of Western Europe. Revenue generated by our Group Development operating segment decreased by 5.6 percent year-on-year, a decline attributable in part to forgone revenue following the deconsolidation of Strato as of March 31, 2017. This was contrasted by positive effects at T-Mobile Netherlands due to rising revenue from mobile handsets and customer growth.

For detailed information on revenue development in our segments, please refer to the section "Development of business in the operating segments," page 17 et seq.

Contribution of the segments to net revenue

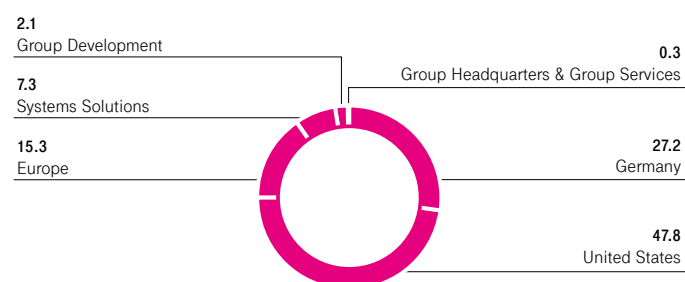
millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
NET REVENUE	17,924	18,367	19,104	18,251	4.7	55,395	55,787	(0.7)	74,947
Germany ^a	5,325	5,322	5,441	5,488	(0.9)	16,088	16,256	(1.0)	21,931
United States	8,455	8,821	9,227	8,466	9.0	26,504	26,684	(0.7)	35,736
Europe	2,811	2,896	3,045	2,945	3.4	8,752	8,587	1.9	11,589
Systems Solutions	1,665	1,674	1,754	1,707	2.8	5,094	5,099	(0.1)	6,918
Group Development	528	535	544	545	(0.2)	1,607	1,702	(5.6)	2,263
Group Headquarters & Group Services ^a	651	767	677	741	(8.6)	2,096	2,262	(7.3)	2,935
Intersegment revenue	(1,511)	(1,649)	(1,585)	(1,641)	3.4	(4,746)	(4,801)	1.1	(6,425)

^a We assigned Vivento Customer Services GmbH, a provider of call center services, to our Germany operating segment as of January 1, 2018; previously it was part of our Group Headquarters & Group Services segment. Comparative figures have been adjusted retrospectively. For more information, please refer to the section "Group organization, strategy, and management," pages 9 and 10, and the disclosures under segment reporting in the interim consolidated financial statements, pages 51 and 52.

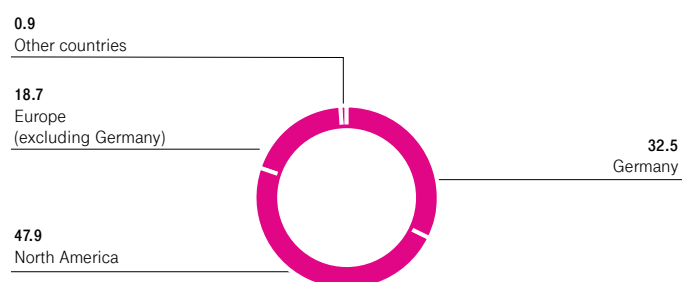
Contribution of the segments to net revenue^a

%



Breakdown of revenue by region

%



^a For more information on net revenue, please refer to the disclosures under segment reporting in the interim consolidated financial statements, pages 51 and 52.

At 47.8 percent, our United States operating segment again provided the largest contribution to net revenue of the Group and was more or less on a par with the prior-year period. The proportion of net revenue generated internationally increased slightly from 67.3 percent to 67.5 percent.

EBITDA, ADJUSTED EBITDA

Excluding special factors, adjusted EBITDA for the first three quarters of 2018 was up by 2.7 percent year-on-year, coming in at EUR 17.7 billion; negative exchange rate effects of EUR 0.5 billion, particularly from the translation of U.S. dollars into euros, and slightly negative net effects of changes in the composition of the Group were the main negative factors in this result. Excluding these effects, adjusted EBITDA increased by as much as EUR 1.0 billion or 6.2 percent. Adjusted for exchange rate effects, EBITDA in our United States operating segment developed very positively, due primarily to higher revenues. Positive trends were also recorded by our Germany and Europe operating segments – even without taking into account the acquisition of UPC Austria as of July 31, 2018 in the Europe operating segment. The decrease in adjusted EBITDA at our Systems Solutions operating segment was mainly attributable to the higher costs involved in establishing operations in growth areas and to higher expenses resulting from the ongoing migration to all IP. In our Group Development operating segment, adjusted EBITDA declined, mainly due to forgone earnings from the deconsolidation of Strato in the first quarter of 2017.

Our EBITDA decreased by EUR 2.6 billion year-on-year to EUR 16.7 billion, with special factors decreasing by EUR 3.0 billion to EUR -1.0 billion. The decline was attributable to a EUR 0.5 billion rise in expenses for staff-related measures and expenses for non-staff-related restructuring totaling EUR 0.9 billion. In addition, the prior-year period included a partial reversal of impairment losses on spectrum licenses at T-Mobile US, increasing the carrying amount by EUR 1.7 billion. Other positive factors in the prior-year period were income of EUR 0.5 billion from the divestiture of Strato, EUR 0.2 billion from the sale of further shares in Scout24 AG, and EUR 0.2 billion from the settlement agreement with BT.

For detailed information on the development of EBITDA/adjusted EBITDA in our segments, please refer to the section “Development of business in the operating segments,” page 17 et seq.

Contribution of the segments to adjusted Group EBITDA

millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP	5,549	5,928	6,207	5,720	8.5	17,684	17,215	2.7	22,230
Germany ^a	2,082	2,126	2,222	2,177	2.1	6,430	6,318	1.8	8,412
United States	2,332	2,553	2,665	2,288	16.5	7,551	7,313	3.3	9,316
Europe	911	953	1,062	1,007	5.5	2,926	2,843	2.9	3,749
Systems Solutions	57	121	139	131	6.1	318	362	(12.2)	509
Group Development	231	233	227	220	3.2	691	695	(0.6)	915
Group Headquarters & Group Services ^a	(70)	41	(114)	(102)	(11.8)	(143)	(291)	50.9	(661)
Reconciliation	5	(101)	6	(1)	n. a.	(90)	(25)	n. a.	(11)

^a We assigned Vivento Customer Services GmbH, a provider of call center services, to our Germany operating segment as of January 1, 2018; previously it was part of our Group Headquarters & Group Services segment. Comparative figures have been adjusted retrospectively. For more information, please refer to the section “Group organization, strategy, and management,” pages 9 and 10, and the disclosures under segment reporting in the interim consolidated financial statements, pages 51 and 52.

EBIT

Group EBIT stood at EUR 7.1 billion, down EUR 1.6 billion against the prior-year period. This decrease was due to the effects described under EBITDA. At EUR 9.6 billion, depreciation, amortization and impairment losses were down EUR 0.9 billion year-on-year, mainly due to the impairment of goodwill in the amount of EUR 1.2 billion recognized in our Systems Solutions operating segment. Depreciation and amortization was EUR 0.3 billion higher than in the prior-year period.

PROFIT/LOSS BEFORE INCOME TAXES

At EUR 5.0 billion, profit before income taxes was at the same level as in the first three quarters of 2017. At EUR 2.1 billion, the loss from financial activities was EUR 1.6 billion smaller than a year earlier, offsetting the effects of the reduction in EBIT. The high loss in the previous year was due in particular to the EUR 1.3 billion impairment of our financial stake in BT that was recognized in profit or loss. In March 2018, we transferred our financial stake in BT to Deutsche Telekom Trust e.V., where it will be used as plan assets to cover our pension obligations. With effect from the first quarter of 2018, changes in the value of our stake are recognized directly in equity (other comprehensive income)

and no longer as profit/loss from investing activities in the income statement. Nor will future dividend income from the stake in BT be recognized in profit/loss from financial activities. Finance costs decreased by EUR 0.3 billion. This was essentially due to the fact that T-Mobile US has increasingly been financed internally since 2017. The share of profit/loss of associates and joint ventures accounted for using the equity method decreased to EUR -0.5 billion. This was mainly attributable to the settlement agreement reached to end the Toll Collect arbitration proceedings, which had a negative effect of EUR 0.6 billion. By contrast, the profit distribution resolved in March 2018 by the shareholders of the Toll Collect GmbH joint venture – EUR 0.1 billion of which is attributable to Deutsche Telekom – had a positive effect. In the first three quarters of 2018, negative effects from the exercise and measurement of embedded derivatives at T-Mobile US increased the loss from financial activities by EUR 0.2 billion. In the prior-year period, this negative effect on the loss from financial activities totaled EUR 0.5 billion.

NET PROFIT

Net profit increased year-on-year by EUR 0.5 billion to EUR 2.6 billion. Tax expense came to EUR 1.4 billion in the first three quarters of 2018, down EUR 0.5 billion year-on-year. For further information, please refer to the interim consolidated financial statements, page 50. Profit attributable to non-controlling interests decreased slightly compared with the prior-year period to EUR 0.9 billion.

EMPLOYEES

Number of employees (at the reporting date)

	Sept. 30, 2018	Dec. 31, 2017	Change %
NUMBER OF EMPLOYEES IN THE GROUP	216,606	217,349	(0.3)
Of which: civil servants (in Germany, with an active service relationship)	13,876	15,482	(10.4)
Germany ^a	63,433	64,798	(2.1)
United States	46,172	45,888	0.6
Europe	48,572	47,421	2.4
Systems Solutions	37,751	37,924	(0.5)
Group Development	1,963	1,967	(0.2)
Group Headquarters & Group Services ^a	18,716	19,351	(3.3)

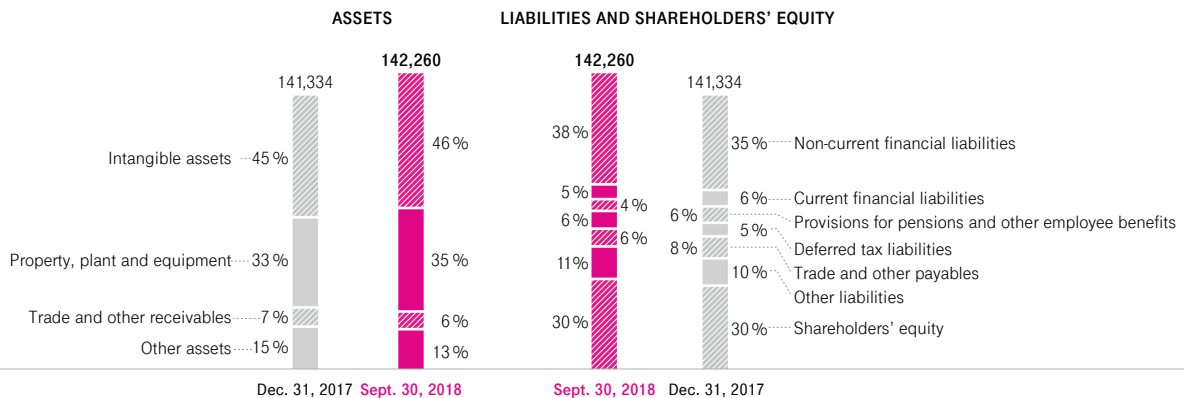
^a We assigned Vivento Customer Services GmbH, a provider of call center services, to our Germany operating segment as of January 1, 2018; previously it was part of our Group Headquarters & Group Services segment. Comparative figures have been adjusted retrospectively. For more information, please refer to the section "Group organization, strategy, and management," pages 9 and 10, and the disclosures under segment reporting in the interim consolidated financial statements, pages 51 and 52.

The Group's headcount decreased by 0.3 percent compared with the end of 2017. In our Germany operating segment, the total number of employees had decreased by 2.1 percent at the end of the third quarter of 2018 as a result of efficiency enhancement measures, fewer new hires in the operational units, and the take-up of socially responsible instruments. The total number of employees in our United States operating segment increased by 0.6 percent at September 30, 2018, compared to December 31, 2017, due primarily to increases in customer support, network, and back office employees, partially offset by a decrease in customer acquisition employees. In our Europe operating segment, staff levels grew by 2.4 percent compared with the end of the prior year. This growth was mainly attributable to our national companies in Austria, where we took over employees of UPC Austria, and in Croatia, due in part to the expansion of our service activities there. The number of employees in our Systems Solutions operating segment decreased by 0.5 percent compared with the end of 2017, due mainly to declining staff levels in our IT Division. In our Group Development operating segment, the number of employees declined slightly compared with the end of 2017. The headcount in the Group Headquarters & Group Services segment was down 3.3 percent compared with the end of 2017. The decline in staff levels caused by ongoing restructuring measures at Vivento was partially offset by the addition of employees at the Technology and Innovation unit.

FINANCIAL POSITION OF THE GROUP

Structure of the consolidated statement of financial position

millions of €



Total assets amounted to EUR 142.3 billion, up by EUR 0.9 billion against December 31, 2017.

The total carrying amounts of **intangible assets and property, plant and equipment** were up by EUR 4.6 billion against the prior year. Capital expenditure totaling EUR 10.3 billion – especially to upgrade the network in our United States operating segment and in connection with the broadband/fiber-optic build-out, the IP transformation, and mobile infrastructure in the Germany operating segment – increased total assets. Effects of changes in the composition of the Group totaling EUR 2.9 billion, mainly due to the acquisition of the Austrian cable operator UPC Austria in the Europe operating segment and the online TV provider Layer3 TV in the United States operating segment, and positive exchange rate effects totaling EUR 1.7 billion, particularly from the translation of U.S. dollars into euros, also increased the carrying amount. Depreciation, amortization and impairment losses of EUR 9.6 billion reduced the carrying amount. Compared with December 31, 2017, **trade and other receivables** decreased by EUR 0.4 billion, primarily due to reclassification and remeasurement effects from the mandatory first-time application of the new accounting standards IFRS 9 and IFRS 15. Exchange rate effects, primarily from the translation from U.S. dollars into euros, had a slight offsetting effect. Under **other assets**, current and non-current other financial assets were reduced in particular. On March 23, 2018, we transferred our 12 percent financial stake in BT, which is worth EUR 3.1 billion, to the Group's own trust, Deutsche Telekom Trust e.V., where it will serve as plan assets to cover pension entitlements. The impairment loss on the exchange-traded stake in BT – which was recognized in other comprehensive income for the period from January 1, 2018 until the date of transfer – reduced the carrying amount by EUR 0.7 billion. Capitalized contract assets in the amount of EUR 1.7 billion and capitalized contract costs of EUR 1.6 billion increased other assets. Their recognition relates to the remeasurement and reclassification effects recognized directly in equity following the mandatory application of IFRS 15 as of January 1, 2018. By contrast, inventories declined by EUR 0.4 billion, especially due to a reduction in inventories of higher-priced smartphones in the United States operating segment.

There was an overall increase of EUR 3.6 billion in current and non-current **financial liabilities** compared with the end of 2017. This was mainly due to the euro bonds with a total volume of EUR 3.4 billion issued by Deutsche Telekom International Finance B.V. and U.S. dollar bonds with a total volume of EUR 1.5 billion (USD 1.75 billion), as well as to the bonds issued by T-Mobile US with a volume of EUR 2.0 billion (USD 2.5 billion). In addition, OTE issued a euro bond with a volume of EUR 0.4 billion. The settlement agreed in the Toll Collect arbitration proceedings increased financial liabilities by EUR 0.6 billion. Payment of the first tranche of EUR 0.2 billion in the reporting period reduced financial liabilities. The early repayment of T-Mobile US' debt instruments in the amount of EUR 2.7 billion (USD 3.4 billion) and regular repayments in the Group of euro bonds of EUR 1.1 billion and U.S. dollar bonds of

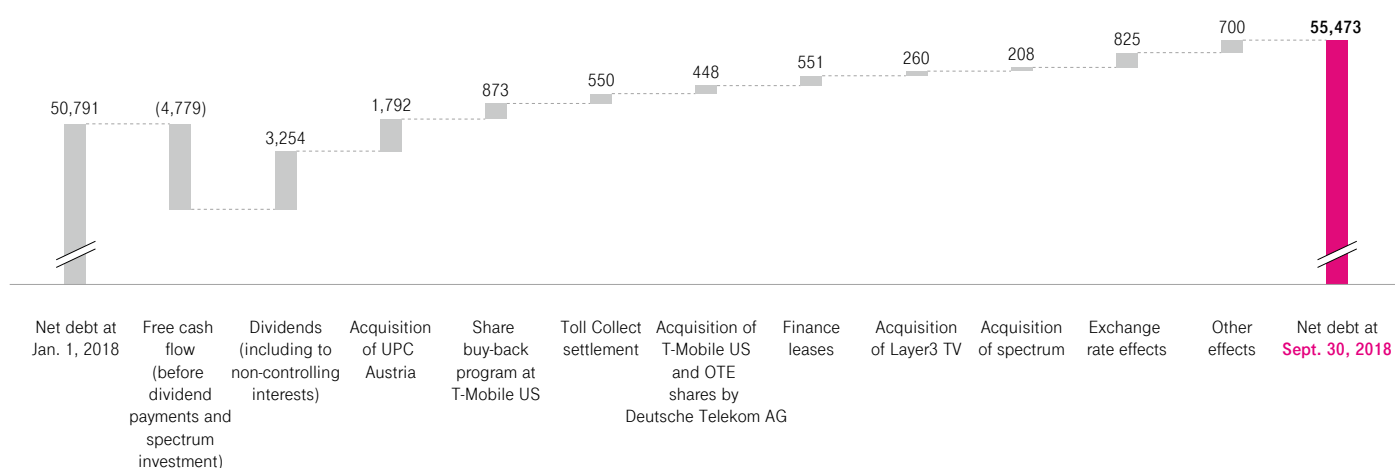
EUR 0.7 billion (USD 0.85 billion) also decreased the carrying amount of financial liabilities, as did the net change of EUR 0.7 billion in commercial paper. **Provisions for pensions and other employee benefits** decreased by EUR 3.0 billion compared with December 31, 2017, mainly due to the transfer of our stake in BT and the associated netting of these plan assets with the defined benefit obligations. **Trade and other payables** decreased by EUR 2.0 billion due to the reduction in the portfolio of liabilities, mainly in the United States, Europe, and Germany operating segments, and also as a result of the reduction in procurement volumes, especially in the United States. Exchange rate effects, mainly from the translation of U.S. dollars into euros, had a minor offsetting effect. **Other liabilities** rose due to an increase of EUR 2.4 billion in current and non-current contract liabilities. The contract liabilities relate to the remeasurement and reclassification effects recognized directly in equity following the mandatory application of IFRS 15 as of January 1, 2018. At the same time, current and non-current other liabilities decreased by a comparable amount on first-time application of IFRS 15.

Shareholders' equity increased by EUR 1.0 billion compared with December 31, 2017 to EUR 43.5 billion. This increase was attributable in particular to the net profit of EUR 3.5 billion and to the transition to IFRS 9 and IFRS 15. The cumulative effect of this was an increase of EUR 1.5 billion in retained earnings (including shares attributable to non-controlling interests) recognized directly in equity as of January 1, 2018. Currency translation effects of EUR 0.7 billion recognized directly in equity and capital increases from share-based payments of EUR 0.4 billion, especially in our United States operating segment, also increased shareholders' equity. By contrast, the carrying amount was reduced in particular by dividend payments for the 2017 financial year to Deutsche Telekom AG shareholders in the amount of EUR 3.1 billion and to non-controlling interests in the amount of EUR 0.2 billion. Transactions with owners reduced shareholders' equity by a further EUR 1.4 billion. These transactions include EUR 0.9 billion for the share buy-back program launched by T-Mobile US, EUR 0.3 billion for the acquisition of another 5 percent stake in the Greek subsidiary OTE, and EUR 0.2 billion for the T-Mobile US shares acquired by Deutsche Telekom in the first quarter of 2018. Furthermore, the subsequent measurement in other comprehensive income of equity instruments held reduced the carrying amount by EUR 0.6 billion; this figure includes the impairment loss of EUR 0.7 billion on the exchange-traded stake in BT that was recognized in other comprehensive income for the period from January 1, 2018 through March 23, 2018.

For further information on the statement of financial position, please refer to the interim consolidated financial statements, page 46 et seq.

Changes in net debt

millions of €



Other effects of EUR 0.7 billion include, among other factors, financing options under which the payments for trade payables become due at a later point in time by involving banks in the process, and the recognition of liabilities for the acquisition of broadcasting rights. For more information on net debt, please refer to the disclosures on the reconciliation of alternative performance measures in the section "Additional information," page 65 et seq.

Free cash flow (before dividend payments and spectrum investment)

millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
CASH GENERATED FROM OPERATIONS	4,805	4,947	5,238	5,232	0.1	14,990	15,468	(3.1)	19,706
Interest received (paid)	(509)	(555)	(385)	(424)	9.2	(1,449)	(2,102)	31.1	(2,509)
NET CASH FROM OPERATING ACTIVITIES	4,297	4,392	4,853	4,808	0.9	13,542	13,367	1.3	17,196
Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment (CASH CAPEX)	(3,076)	(3,021)	(3,047)	(3,002)	(1.5)	(9,143)	(9,241)	1.1	(12,099)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	161	144	77	67	14.9	381	276	38.0	400
FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)	1,382	1,514	1,883	1,873	0.5	4,779	4,403	8.5	5,497

Free cash flow. Free cash flow in the Group before dividend payments and spectrum investment increased by EUR 0.4 billion year-on-year to EUR 4.8 billion. Net cash from operating activities increased by EUR 0.2 billion. Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment decreased year-on-year by EUR 0.1 billion.

Net cash from operating activities increased by EUR 0.2 billion year-on-year to EUR 13.5 billion. Exchange rate effects adversely affected the continuing positive business trend in the United States operating segment. In addition, positive effects from factoring agreements – in particular in the Systems Solutions and Germany operating segments – on net cash from operating activities were EUR 0.3 billion lower than in the prior-year period. The comparable figure in the prior-year period included a EUR 0.1 billion higher dividend payment from BT (totaling EUR 0.2 billion), while the profit of EUR 0.1 billion distributed by Toll Collect GmbH was a key component in the reporting period. A EUR 0.7 billion decrease in net interest payments enhanced net cash from operating activities.

The EUR 0.1 billion decrease in cash capex (before spectrum investment) compared with the prior-year period related primarily to a reduction of EUR 0.4 billion in the United States operating segment, whereas cash capex was EUR 0.1 billion higher in the Germany operating segment. Adjusted for exchange rate effects, cash capex (before spectrum investment) was higher than in the prior-year period. In each case, the cash outflows were for investments in network build-out and network modernization.

For further information on the statement of cash flows, please refer to the interim consolidated financial statements, pages 50 and 51.

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

GERMANY

For information on changes in the organizational structure, please refer to the section "Group organization, strategy, and management," pages 9 and 10.

CUSTOMER DEVELOPMENT

thousands

	Sept. 30, 2018	Change Sept. 30, 2018/ June 30, 2018		Change Sept. 30, 2018/ Dec. 31, 2017		Change Sept. 30, 2018/ Sept. 30, 2017	
		June 30, 2018	%	Dec. 31, 2017	%	Sept. 30, 2017	%
Mobile customers	43,646	43,023	1.4	43,125	1.2	42,534	2.6
Contract customers	25,179	24,965	0.9	25,887	(2.7)	25,452	(1.1)
Prepay customers	18,466	18,058	2.3	17,238	7.1	17,082	8.1
Fixed-network lines ^a	18,809	18,989	(0.9)	19,239	(2.2)	19,352	(2.8)
Of which: retail IP-based	14,493	13,629	6.3	11,996	20.8	11,177	29.7
Retail broadband lines ^b	13,504	13,437	0.5	13,209	2.2	13,105	3.0
Of which: optical fiber	6,896	6,559	5.1	5,803	18.8	5,417	27.3
Television (IPTV, satellite)	3,291	3,240	1.6	3,139	4.8	3,089	6.5
Unbundled local loop lines (ULLs)	5,402	5,587	(3.3)	6,138	(12.0)	6,417	(15.8)
Wholesale broadband lines	6,495	6,277	3.5	5,638	15.2	5,315	22.2
Of which: optical fiber	4,685	4,432	5.7	3,783	23.8	3,485	34.4

^a The baseline as of January 1, 2018 increased (by 62 thousand) due to the inclusion of new products launched in the Business Customer portfolio. Prior-year comparatives were not adjusted.

^b The baseline as of January 1, 2018 increased (by 53 thousand) due to the inclusion of new products launched in the Business Customer portfolio. Prior-year comparatives were not adjusted.

Total

In Germany we continue to be market leader both in terms of fixed-network and mobile revenues. This success is attributable to our high-performance networks. We offer best customer experience with multi-award winning network quality – like in the connect readers' choice awards where we came top of the fixed and mobile provider categories – and a broad portfolio of products. Growing demand for our integrated product MagentaEINS drove up the number of new customers by 381 thousand compared with the end of 2017, bringing the total number of customers added in the first three quarters of 2018 since the product was launched to 4.0 million.

Compared with year-end 2017, we won another 521 thousand mobile communications customers in the first three quarters of 2018. High demand for mobile rate plans with included data volumes resulted in an increase in the number of branded contract customers under the Telekom and congstar brands. Seasonal business fluctuations at one of our service providers continued to have a negative effect overall on customer development. We recorded growth in the number of prepay customers.

By the end of the third quarter of 2018, we had migrated 20.7 million retail and wholesale lines to IP, which corresponds to an overall migration rate of 82 percent.

We continued to see strong demand for our fiber-optic products. As of the end of the third quarter of 2018, the number of lines had increased to 11.6 million overall. In other words, we connected another 2.0 million lines to our fiber-optic network in Germany in the first nine months of 2018. With the progress made in fiber-optic rollout and innovative vectoring technology, we also drove the marketing of higher bandwidths.

Mobile communications

Compared with year-end 2017, we won a total of 247 thousand branded contract customers under the Telekom and congstar brands and at Telekom Deutschland Multibrand GmbH. The number of mobile contract customers with service providers decreased, primarily due to seasonal business fluctuations at one of our service providers. The number of prepay customers increased by 1,228 thousand.

Fixed network

Due to the persistently challenging development in the fixed-network market, primarily owing to aggressive pricing offers of competitors, we are pursuing new paths in marketing, focusing on integrated offers and on TV and fiber-optic lines. For example, if we take into account the new products launched for business customers since the start of 2018,

the number of broadband lines in our portfolio rose by 295 thousand between year-end 2017 and the end of the third quarter of 2018. The number of TV customers increased by 152 thousand. In the traditional fixed network, the number of lines decreased by 492 thousand.

Our MagentaZuhause rate plans offer a comprehensive product portfolio for the fixed network based on IP technology and rate plan-specific bandwidths. MagentaZuhause Hybrid bundles fixed-network and mobile technology in a single router. To date, 434 thousand customers, primarily based in rural areas, have selected this innovative product.

Wholesale

At the end of the third quarter of 2018, fiber-optic lines accounted for 39.4 percent of all lines – 7.3 percentage points higher than at the end of 2017. This accelerated growth was driven largely by high demand for our contingent model. The number of unbundled local loop lines decreased by 736 thousand or 12.0 percent compared with the end of the prior year. This is due first to the move to higher-quality fiber-optic lines, and second to retail customers switching to cable operators. In addition, wholesale customers are migrating their retail customers to their own fiber-optic lines. The total number of wholesale lines stood at 11.9 million at the end of the third quarter of 2018.

DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
TOTAL REVENUE	5,325	5,322	5,441	5,488	(0.9)	16,088	16,256	(1.0)	21,931
Consumers	2,813	2,820	2,923	2,964	(1.4)	8,556	8,759	(2.3)	11,797
Business Customers ^a	1,491	1,492	1,500	1,486	0.9	4,483	4,430	1.2	6,017
Wholesale	932	926	930	947	(1.8)	2,789	2,802	(0.5)	3,747
Other ^a	90	84	88	91	(3.3)	261	265	(1.5)	370
Profit from operations (EBIT)	935	954	1,096	1,139	(3.8)	2,985	3,238	(7.8)	4,276
EBIT margin %	17.6	17.9	20.1	20.8		18.6	19.9		19.5
Depreciation, amortization and impairment losses	(980)	(988)	(996)	(963)	(3.4)	(2,964)	(2,851)	(4.0)	(3,828)
EBITDA	1,915	1,941	2,093	2,102	(0.4)	5,949	6,089	(2.3)	8,104
Special factors affecting EBITDA	(167)	(185)	(129)	(75)	(72.0)	(481)	(229)	n. a.	(308)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	2,082	2,126	2,222	2,177	2.1	6,430	6,318	1.8	8,412
EBITDA margin (adjusted for special factors) %	39.1	39.9	40.8	39.7		40.0	38.9		38.4
CASH CAPEX	(1,145)	(963)	(1,134)	(1,052)	(7.8)	(3,242)	(3,109)	(4.3)	(4,214)

^a As of July 1, 2017, a share of revenue previously recognized under "Other" was assigned to Business Customers on account of a reorganization. Prior-year comparatives were not adjusted.

Total revenue

Total revenue decreased by 1.0 percent compared with the first three quarters of 2017. Adjusted for the effects of the IFRS 15 accounting standard, the application of which is mandatory from January 1, 2018, total revenue developed on a par with the prior year. In mobile business, revenue declined by 2.3 percent year-on-year; excluding the effects of IFRS 15, revenue increased compared with the prior-year period. Higher IT and broadband revenues had a positive impact on fixed-network revenue. This was sufficient to almost completely offset the year-on-year decline in fixed-network revenues.

Revenue from **Consumers** declined by 2.3 percent year-on-year; adjusted for the effects of IFRS 15, the decline was only marginal. Volume-related revenue decreases continued to affect traditional fixed-network business. By contrast, revenue from broadband business increased.

Revenue from **Business Customers** grew by 1.2 percent; this growth was even stronger once adjusted for the effects of IFRS 15. Mobile revenues increased by 2.7 percent and IT revenues by 25.5 percent compared with the same period of last year. In the fixed network, by contrast, a decline was recorded in traditional voice telephony, due largely to the increasing number of customers moving to flat-rate plans.

Revenue from **Wholesale** business in the first three quarters of 2018 was slightly below the prior-year period. Adjusted for the effects of IFRS 15, revenue would have grown.

EBITDA, adjusted EBITDA

EBITDA amounted to EUR 5.9 billion at the end of the third quarter of 2018, down 2.3 percent year-on-year due mainly to higher special factors for expenses in connection with our staff restructuring. Adjusted for special factors, EBITDA totaled EUR 6.4 billion at the end of the third quarter of 2018, up 1.8 percent compared with the same period of last year. This year-on-year increase was attributable largely to the lower headcount, lower revenue-dependent costs, and the successful implementation of our efficiency and digitalization initiatives. Our adjusted EBITDA margin increased to 40.0 percent, up from 38.9 percent in the prior-year period.

UNITED STATES

For information on changes in the organizational structure, please refer to the section "Group organization, strategy, and management," pages 9 and 10.

CUSTOMER DEVELOPMENT

thousands

	Sept. 30, 2018	June 30, 2018	Change Sept. 30, 2018/ June 30, 2018		Dec. 31, 2017	Change Sept. 30, 2018/ Dec. 31, 2017		Sept. 30, 2017	Change Sept. 30, 2018/ Sept. 30, 2017	
			%	%		%	%			
Mobile customers	77,249	75,619	2.2		72,585	6.4		70,731	9.2	
Branded customers ^a	62,163	61,049	1.8		58,715	5.9		57,494	8.1	
Branded postpaid ^a	41,161	40,082	2.7		38,047	8.2		36,975	11.3	
Branded prepay ^a	21,002	20,967	0.2		20,668	1.6		20,519	2.4	
Wholesale customers ^b	15,086	14,570	3.5		13,870	8.8		13,237	14.0	

^a Due to certain acquisitions by T-Mobile US at the beginning of 2018, the number of branded postpaid customers as of the first quarter of 2018 included an adjustment of 13 thousand and the number of branded prepay customers as of the first quarter of 2018 included an adjustment of 9 thousand.

^b T-Mobile US believes current and future regulatory changes have made the Lifeline program offered by T-Mobile US' wholesale partners uneconomical. T-Mobile US will continue to support its wholesale partners offering the Lifeline program, but has excluded the Lifeline customers from the reported wholesale subscriber base resulting in the removal of 160 thousand and 4,368 thousand reported wholesale customers as of the beginning of the third quarter of 2017 and the beginning of the second quarter of 2017, respectively.

Total Customers

At September 30, 2018, the United States operating segment (T-Mobile US) had 77.2 million customers, compared to 72.6 million customers at December 31, 2017. Net customer additions were 4.6 million for the nine months ended September 30, 2018, compared to 3.8 million net customer additions for the nine months ended September 30, 2017, due to the factors described below.

Branded Customers. Branded postpaid net customer additions were 3,101 thousand for the nine months ended September 30, 2018, compared to 2,548 thousand branded postpaid net customer additions for the nine months ended September 30, 2017. The increase in branded postpaid net customer additions was due primarily to higher gross customer additions from connected devices, specifically the Apple watch, lower churn, continued growth in existing and greenfield markets, and

EBIT

Profit from operations decreased by 7.8 percent year-on-year to EUR 3.0 billion. In addition to the effects described under EBITDA, depreciation, amortization and impairment losses increased on account of sustained high investments in our network infrastructure.

Cash capex

Cash capex increased by 4.3 percent compared with the third quarter of 2017. As part of our integrated network strategy, we again made significant investments in the broadband and fiber-optic rollout, our IP transformation, and our mobile infrastructure.

the growing success of new customer segments such as T-Mobile for Business, T-Mobile ONE™ Unlimited 55+, T-Mobile ONE Military, and T-Mobile Essentials. These increases were partially offset by the impact from more aggressive service promotions and the launch of Un-carrier Next – All Unlimited (with taxes and fees) in the first quarter of 2017.

Branded prepay net customer additions were 325 thousand for the nine months ended September 30, 2018, compared to 706 thousand branded prepay net customer additions for the nine months ended September 30, 2017. The decrease was due primarily to increased competitive activity in the marketplace, partially offset by lower migrations to branded postpaid plans.

Wholesale Customers. Wholesale net customer additions were 1,216 thousand for the nine months ended September 30, 2018, compared to 550 thousand for the nine months ended September 30, 2017. The increase was due primarily to lower deactivations driven by the removal of Lifeline program customers during 2017.

DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
TOTAL REVENUE	8,455	8,821	9,227	8,466	9.0	26,504	26,684	(0.7)	35,736
Profit (loss) from operations (EBIT)	1,137	1,201	1,252	2,804	(55.3)	3,591	5,135	(30.1)	5,930
EBIT margin %	13.4	13.6	13.6	33.1		13.5	19.2		16.6
Depreciation, amortization and impairment losses	(1,223)	(1,321)	(1,358)	(1,130)	(20.2)	(3,901)	(3,825)	(2.0)	(5,019)
EBITDA	2,360	2,522	2,610	3,934	(33.7)	7,492	8,960	(16.4)	10,949
Special factors affecting EBITDA	28	(32)	(55)	1,647	n. a.	(59)	1,647	n. a.	1,633
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	2,332	2,553	2,665	2,288	16.5	7,551	7,313	3.3	9,316
EBITDA margin (adjusted for special factors) %	27.6	28.9	28.9	27.0		28.5	27.4		26.1
CASH CAPEX	(1,143)	(1,353)	(1,158)	(1,243)	6.8	(3,653)	(11,148)	67.2	(11,932)

Total revenue

Total revenue for the United States operating segment of EUR 26.5 billion in the first nine months of 2018 decreased by 0.7 percent, compared to EUR 26.7 billion in the first nine months of 2017. In U.S. dollars, T-Mobile US' total revenues increased by 6.7 percent year-on-year due primarily to growth in service revenue from increases in T-Mobile US' average branded customer base primarily from the continued growth in existing and greenfield markets, the growing success of new customer segments, along with lower postpaid churn in the first nine months of 2018, and higher connected devices. Additionally, the increase in equipment revenues from a higher average revenue per device sold due to an increase in the high-end device mix and a positive impact from IFRS 15 also contributed to the increase in total revenues.

EBITDA, adjusted EBITDA

In euros, adjusted EBITDA increased by 3.3 percent to EUR 7.6 billion in the first nine months of 2018, compared to EUR 7.3 billion in the first nine months of 2017. The adjusted EBITDA margin increased to 28.5 percent in the first nine months of 2018, compared to 27.4 percent in the first nine months of 2017. In U.S. dollars, adjusted EBITDA increased by 11.0 percent during the same period. Adjusted EBITDA increased due primarily to higher total revenues as discussed above, the positive impact of the reimbursements from our insurance carriers, net of costs incurred related to hurricanes, for the first nine months of 2018 of USD 265 million, compared to costs incurred related to hurricanes for the first nine months of 2017 of USD 148 million, as well as from the positive impact from IFRS 15. These increases were partially offset by higher employee-related costs, costs related to managed services, commissions, costs related to the proposed Sprint transaction, higher costs associated with network expansion, an increase in net losses on equipment sales, and lower gains on disposal of spectrum licenses.

EBITDA for the first nine months of 2018 included special factors of EUR -0.1 billion compared to special factors of EUR 1.6 billion for the first nine months of 2017. The decrease in special factors was primarily due to a spectrum impairment reversal in the first nine months of 2017. Overall, EBITDA decreased by 16.4 percent to EUR 7.5 billion in the first nine months of 2018, compared to EUR 9.0 billion in the first nine months of 2017, due to the factors described above, including special factors.

EBIT

EBIT decreased to EUR 3.6 billion in the first nine months of 2018 compared to EUR 5.1 billion in the first nine months of 2017, driven by lower EBITDA.

Cash capex

Cash capex decreased to EUR 3.7 billion in the first nine months of 2018, compared to EUR 11.1 billion in the first nine months of 2017. In U.S. dollars, cash capex decreased to USD 4.4 billion, compared to USD 12.3 billion during the same period, due primarily to a decrease in spectrum licenses acquired in the first nine months of 2018.

EUROPE

For information on changes in the organizational structure, please refer to the section "Group organization, strategy, and management," pages 9 and 10.

CUSTOMER DEVELOPMENT

thousands

		Sept. 30, 2018	June 30, 2018	Change Sept. 30, 2018/ June 30, 2018 %	Dec. 31, 2017	Change Sept. 30, 2018/ Dec. 31, 2017 %	Sept. 30, 2017	Change Sept. 30, 2018/ Sept. 30, 2017 %
EUROPE, TOTAL	Mobile customers	50,429	49,886	1.1	48,842	3.2	48,205	4.6
	Contract customers	26,402	26,022	1.5	25,483	3.6	25,119	5.1
	Prepay customers	24,027	23,865	0.7	23,359	2.9	23,086	4.1
	Fixed-network lines	9,034	8,414	7.4	8,439	7.1	8,422	7.3
	Of which: IP-based	7,114	6,235	14.1	5,734	24.1	5,555	28.1
	Broadband customers ^a	6,293	5,671	11.0	5,530	13.8	5,457	15.3
	Television (IPTV, satellite, cable)	4,782	4,293	11.4	4,244	12.7	4,200	13.9
	Unbundled local loop lines (ULLs)/wholesale PSTN	2,267	2,275	(0.4)	2,265	0.1	2,261	0.3
	Wholesale broadband lines	401	395	1.5	389	3.1	391	2.6
GREECE	Mobile customers	8,123	8,163	(0.5)	7,981	1.8	7,867	3.3
	Fixed-network lines	2,547	2,552	(0.2)	2,547	-	2,536	0.4
	Broadband customers ^a	1,855	1,830	1.4	1,757	5.6	1,713	8.3
ROMANIA	Mobile customers	5,302	5,282	0.4	5,258	0.8	5,231	1.4
	Fixed-network lines	1,772	1,803	(1.7)	1,865	(5.0)	1,894	(6.4)
	Broadband customers ^a	1,108	1,117	(0.8)	1,134	(2.3)	1,139	(2.7)
HUNGARY	Mobile customers	5,302	5,306	(0.1)	5,293	0.2	5,401	(1.8)
	Fixed-network lines	1,651	1,640	0.7	1,632	1.2	1,634	1.0
	Broadband customers ^a	1,126	1,104	2.0	1,073	4.9	1,061	6.1
POLAND	Mobile customers	10,693	10,609	0.8	10,454	2.3	10,297	3.8
	Fixed-network lines	19	26	(26.9)	32	(40.6)	29	(34.5)
	Broadband customers ^a	20	23	(13.0)	25	(20.0)	27	(25.9)
CZECH REPUBLIC	Mobile customers	6,177	6,174	0.0	6,176	0.0	6,176	0.0
	Fixed-network lines	276	248	11.3	197	40.1	153	80.4
	Broadband customers ^a	227	208	9.1	176	29.0	163	39.3
CROATIA	Mobile customers	2,331	2,268	2.8	2,244	3.9	2,297	1.5
	Fixed-network lines	942	952	(1.1)	967	(2.6)	974	(3.3)
	Broadband customers ^a	620	621	(0.2)	624	(0.6)	624	(0.6)
SLOVAKIA	Mobile customers	2,339	2,320	0.8	2,243	4.3	2,245	4.2
	Fixed-network lines	851	859	(0.9)	858	(0.8)	855	(0.5)
	Broadband customers ^a	533	532	0.2	516	3.3	506	5.3
AUSTRIA^b	Mobile customers	6,870	6,441	6.7	5,702	20.5	5,201	32.1
	Fixed-network lines	643	-	-	-	-	-	-
	Broadband customers ^a	569	-	-	-	-	-	-
OTHER^c	Mobile customers	3,291	3,323	(1.0)	3,490	(5.7)	3,490	(5.7)
	Fixed-network lines	333	334	(0.3)	340	(2.1)	345	(3.5)
	Broadband customers ^a	234	232	0.9	225	4.0	225	4.0

^a Starting Q2 2018, we no longer report the number of retail broadband lines from a technical perspective. Instead we report the number of broadband customers. Prior-year comparatives have been adjusted.

^b Following the acquisition of UPC Austria, we report fixed-network lines and broadband customers for the first time from the third quarter of 2018.

^c "Other": national companies of Albania, Macedonia, and Montenegro, as well as the lines of the GTS Central Europe group in Romania.

Total

The markets in our segment remained intensely competitive in the first nine months of 2018. We rose to the challenge in several ways, for instance by achieving substantial growth of 31.5 percent in the number of FMC customers (fixed-mobile convergence) thanks in part to our convergent product portfolio, MagentaOne. The acquisition of UPC Austria as of July 31, 2018 in particular contributes to our aim of becoming an integrated provider of mobile and fixed-network products across our entire segment. We also concluded an agreement with Orange in July of this year that will enable us to offer comprehensive convergent services in Poland in the future, thanks to the shared use of Orange's fiber-optic network. In addition to the agreement with Orange, T-Mobile Polska signed another wholesale FTTH agreement with network operator Nexera, covering more than 450 thousand further households to be connected by the end of 2020. Our TV and broadband operations are becoming consistent revenue drivers, not least thanks to the large-scale build-out of our network with state-of-the-art fiber-optic-based lines (FTTH, FTTB, and FTTC). The number of IP lines increased as a result, primarily thanks to the migration from traditional PSTN lines to IP technology. Our mobile operations recorded growth overall, with increases in both the number of high-value contract customers and the number of prepaid customers compared with the end of the prior year.

Mobile communications

The number of mobile customers totaled 50.4 million at the end of the first nine months of 2018, up by 3.2 percent or 1.6 million customers compared with the end of 2017. The number of contract customers continued to grow unabated throughout the third quarter. As of September 30, 2018, we won another 919 thousand customers, an increase of 3.6 percent. These additions include the customer base of UPC Austria starting from the third quarter of 2018. Overall, our national companies reported positive trends in their customer base, especially in Poland, Romania, Hungary, and the Czech Republic. Contract customers accounted for 52.4 percent of the total customer base. Our customers benefited not only from our innovative services/rate plans, but also from greater coverage with fast mobile broadband – a result of our integrated network strategy. As of September 30, 2018, we already covered 96 percent of the population in the countries of our operating segment with LTE, reaching around 108 million people in total. Customer demand for high data volumes has risen sharply due to the explosion in data traffic driven by video streaming services, for example. Prepaid business also looks set to continue growing, with 668 thousand net additions (a 2.9 percent increase) in the first nine months of 2018. Our national companies in Austria and Greece made particularly marked contributions to this positive trend.

Fixed network

Our TV and entertainment services saw substantial growth of 12.7 percent in the first nine months of 2018, driven primarily by the acquisition of UPC Austria. But even without this effect, customer growth would have stood at 2.0 percent, with our national companies in Hungary, the Czech Republic, and Slovakia accounting for the majority of these net customer additions. With both telecommunication providers and OTT players offering TV services in the countries of our segment, the TV market there is highly contested.

The number of broadband customers increased by 13.8 percent as of September 30, 2018 to 6.3 million overall, with the acquisition of UPC Austria also accounting for the majority of these net customer additions. Without this effect, there would have been growth of 3.7 percent. In particular, the customer bases of our national companies in Greece, Hungary, the Czech Republic, and Slovakia saw growth, partly on the back of increased investment in innovative fiber-optic-based technologies. We continued to extend our fiber-optic coverage and, as of September 30, 2018, had reached 7.0 million households.

Consistent growth in IP-based lines as a percentage of all fixed-network lines confirms that we are making good progress: At the end of September 2018, this share amounted to 78.7 percent. The acquisition of UPC Austria increased the number of fixed-network lines in our Europe operating segment to 9.0 million overall, an increase of 7.1 percent. Without this effect, development would have remained stable.

FMC – fixed-mobile convergence

Our portfolio of convergent products, MagentaOne, remained highly popular with consumers across all of our integrated national companies. As of September 30, 2018, we had around 2.9 million FMC customers; this corresponds to significant growth of 31.5 percent or 695 thousand net additions compared with year-end 2017. Our national companies in Hungary and Greece were the main drivers of this trend. We have also been increasingly successful in marketing our MagentaOne Business product to business customers.

DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
TOTAL REVENUE^a	2,811	2,896	3,045	2,945	3.4	8,752	8,587	1.9	11,589
Greece	686	711	754	740	1.9	2,151	2,123	1.3	2,846
Romania	226	238	227	240	(5.4)	691	706	(2.1)	972
Hungary	443	488	460	463	(0.6)	1,391	1,332	4.4	1,808
Poland ^a	375	368	392	376	4.3	1,135	1,117	1.6	1,509
Czech Republic	254	258	261	255	2.4	773	740	4.5	1,011
Croatia	222	233	261	259	0.8	717	714	0.4	955
Slovakia	181	185	190	186	2.2	555	554	0.2	748
Austria	218	214	289	222	30.2	721	665	8.4	900
Other ^b	253	250	274	277	(1.1)	777	806	(3.6)	1,069
Profit from operations (EBIT)	345	357	425	400	6.3	1,127	1,081	4.3	462
EBIT margin %	12.3	12.3	14.0	13.6		12.9	12.6		4.0
Depreciation, amortization and impairment losses	(559)	(550)	(616)	(558)	(10.4)	(1,726)	(1,668)	(3.5)	(3,157)
EBITDA	905	907	1,041	959	8.6	2,853	2,749	3.8	3,619
Special factors affecting EBITDA	(7)	(46)	(21)	(49)	57.1	(73)	(94)	22.3	(130)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)^a	911	953	1,062	1,007	5.5	2,926	2,843	2.9	3,749
Greece	280	279	321	303	5.9	880	842	4.5	1,135
Romania	33	37	41	43	(4.7)	112	119	(5.9)	166
Hungary	121	143	148	168	(11.9)	412	418	(1.4)	545
Poland ^a	96	101	97	88	10.2	294	313	(6.1)	419
Czech Republic	111	107	113	101	11.9	332	301	10.3	406
Croatia	85	98	120	108	11.1	303	288	5.2	386
Slovakia	80	78	82	86	(4.7)	240	244	(1.6)	315
Austria	76	68	114	73	56.2	258	231	11.7	266
Other ^b	28	42	26	37	(29.7)	96	87	10.3	110
EBITDA margin (adjusted for special factors) %	32.4	32.9	34.9	34.2		33.4	33.1		32.3
CASH CAPEX	(438)	(398)	(417)	(395)	(5.6)	(1,253)	(1,273)	1.6	(1,874)

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

^a The business of T-Systems Polska Sp. z o.o., which, in organizational terms, was previously assigned to the Systems Solutions operating segment, is now disclosed under the Europe operating segment as of September 1, 2017. Prior-year comparatives were not adjusted.

^b "Other": national companies of Albania, Macedonia, and Montenegro, as well as IWS (International Wholesale), consisting of ICSS (International Carrier Sales & Solutions) and its national companies, the GTS Central Europe group in Romania, and the Europe Headquarters.

Total revenue

Our Europe operating segment generated total revenue of EUR 8.8 billion in the first nine months of 2018, a year-on-year increase of 1.9 percent. In organic terms, i.e., assuming constant exchange rates and without the inclusion of UPC Austria as of July 31, 2018, revenue increased slightly by 1.3 percent. The mandatory first-time application of the IFRS 15 accounting standard as of January 1, 2018 did not have a material effect on the development of revenues at segment level.

Our Business Customer operations continued on their successful growth course in the third quarter, driven mainly by the positive trend in ICT business in Hungary. Mobile communications revenue was also up by 1.9 percent year-on-year. Most of the countries in our operating segment contributed to this growth. Fixed-network revenue at segment level also increased slightly year-on-year in the core business, mainly due to the positive revenue effect from TV and broadband business,

especially in Hungary and Greece. These increases were partially offset by a decline in wholesale business. Intense competition on the telecommunications markets had a negative impact on our revenue in some countries of our operating segment.

Revenue from **Consumers** increased by 2.7 percent compared with the first nine months of the prior year, driven mainly by mobile business. Revenue from fixed-network business rose, too, on the back of the trend in TV and broadband operations driven by our innovative TV and program management activities as well as the continuous rollout of fiber-optic technology in most of our national companies. In addition to higher terminal equipment revenues, strong growth in the number of FMC customers had a positive impact on revenue. This offset the negative effects caused by declining revenue mainly from voice telephony.

In **Business Customer** operations, especially ICT, we recorded year-on-year growth of 3.3 percent in the first nine months of 2018. Our Systems Solutions (ICT) business performed well in Hungary and other markets once again. We also recorded strong, double-digit growth year-on-year from convergent solutions for small and medium-sized enterprises (FMCC) as well as from our Smart City projects. Our core business (fixed-network and mobile communications) remained stable.

Wholesale revenue declined year-on-year following the most recent EU roaming regulation level, which resulted in lower revenues both in the national companies and in our International Wholesale unit.

Looking at the development by country, our national companies in Hungary, Greece, Slovakia, and the Czech Republic made the largest contributions to the organic development of revenue in the first nine months of 2018. This more than offset the decline in revenue in Romania in particular, where lower fixed-network revenues, especially from voice telephony, were only compensated to a limited extent by higher revenues from mobile communications and B2B/ICT business customer operations.

EBITDA, adjusted EBITDA

Our Europe operating segment generated adjusted EBITDA of EUR 2.9 billion in the first nine months of 2018, an increase of 2.9 percent. In organic terms, i.e., assuming constant exchange rates and excluding UPC Austria, adjusted EBITDA increased slightly by 2.1 percent. The mandatory first-time application of the IFRS 15 accounting standard as of January 1, 2018 did not have a material effect on the development of adjusted EBITDA.

The positive trend in adjusted organic EBITDA was driven both by the growth in revenue and by savings made in indirect costs, especially in the Czech Republic, Croatia, and Greece – in the latter primarily as a result of lower personnel costs. By contrast, in terms of direct costs, market investments and costs relating to the B2B/ICT operations increased. In addition, regulatory effects, including the reduction in EU roaming charges, reduced adjusted EBITDA.

EBITDA continued its positive trend for the third quarter in a row this year, growing by 3.8 percent compared with the prior-year period to EUR 2.9 billion, due primarily to the increase in adjusted EBITDA. At EUR -73 million, special factors were EUR 21 million lower than in the prior-year period. In organic terms, EBITDA grew by 2.9 percent.

Looking at the development by country, the increase in adjusted EBITDA was largely attributable to the positive trends at our national companies in Greece, the Czech Republic, Croatia, and Hungary. Offsetting developments were reported mainly at the national companies in Poland and Romania. At the latter, adjusted EBITDA decreased by 5.9 percent year-on-year to EUR 112 million as a result of declining fixed-network business.

Development of operations in selected countries

Greece. In Greece, revenue was up year-on-year by 1.3 percent in the first nine months of 2018 at EUR 2.2 billion. This was driven mainly by higher mobile revenues and sustained high fixed-network revenues: Broadband, B2B/ICT operations, and wholesale business continued to grow, while revenues from TV business declined. The FMC offering also developed positively, with rising customer numbers and corresponding revenues.

In the first nine months of 2018, adjusted EBITDA in Greece increased year-on-year by a substantial 4.5 percent to EUR 880 million driven largely by improved cost efficiency, especially with regard to personnel costs.

Hungary. In Hungary, revenue grew substantially in the first nine months of 2018 by 4.4 percent compared with the prior-year period to EUR 1.4 billion. In organic terms, it increased by 7.5 percent. This growth was driven by rising mobile service revenues and by fixed-network business with sustained clear revenue growth in B2B/ICT business customer operations. Broadband, TV, and terminal equipment operations also made a positive contribution to revenue. Our MagentaOne portfolio of FMC products is enjoying success among consumers and business customers alike, a trend that is underpinned by growing customer numbers and a corresponding rise in revenue. Both service revenues and terminal equipment business performed well, which was attributable to our high-speed, high-reach mobile network.

Adjusted EBITDA decreased by 1.4 percent year-on-year to EUR 412 million. Organic adjusted EBITDA increased by 1.7 percent.

Austria. In Austria, we generated revenue of EUR 721 million in the first nine months of 2018, up 8.4 percent compared with the same nine months of the prior year. This increase is attributable to the effects of the acquisition of UPC Austria, which now allows us to offer fixed-network technology in addition to the mobile broadband internet services already being successfully marketed to our customers. In organic terms, i.e., excluding UPC Austria, revenue remained on a par with the prior-year level.

The increase in revenue also impacted adjusted EBITDA, which increased by 11.7 percent year-on-year to EUR 258 million. Excluding the acquisition of UPC Austria, adjusted EBITDA would have remained stable.

Poland. Revenue at our national company in Poland increased by 1.6 percent year-on-year to EUR 1.1 billion; in organic terms, revenue increased by 1.2 percent year-on-year. This was mainly due to higher revenues in B2B/ICT operations and in mobile business; fixed-network business recorded a decline, primarily in wholesale revenues.

Adjusted EBITDA stood at EUR 294 million, down 6.1 percent year-on-year. In organic terms, adjusted EBITDA also declined by 6.1 percent, mainly due to higher interconnection costs and regulation-induced higher roaming costs.

EBIT

EBIT in our Europe operating segment increased substantially by 4.3 percent in the first nine months of 2018 to EUR 1.1 billion, due to the positive development of EBITDA. Depreciation, amortization and impairment losses were up 3.5 percent on the prior-year level.

Cash capex

In the reporting period, our Europe operating segment reported cash capex of EUR 1.3 billion. The slight decline is largely attributable to restrained investment activities in some of our national companies. By contrast, in some countries we invested more heavily in building out broadband and fiber-optic technology as part of our integrated network strategy. As in the prior-year period, we acquired a small number of spectrum licenses in the first nine months of 2018.

SYSTEMS SOLUTIONS**ORDER ENTRY**

millions of €

	Q1-Q3 2018	H1 2018	FY 2017	Q1-Q3 2017	Change Q1-Q3 2018/ Q1-Q3 2017 %
ORDER ENTRY	4,672	3,348	5,241	3,936	18.7

Development of business

We realigned our strategy for the Systems Solutions operating segment with a focus on returning to sustained growth in this area. Our previous investments in growth areas and innovation fields (such as cloud computing, the Internet of Things, all IP) along with efforts to scale back the number of risk-prone legacy contracts in our traditional IT operations mark important steps on our transformation journey. On this basis, we continue to realign the segment strategy to focus on consistently moving the business into strategic growth areas while simultaneously strengthening our telecommunications business and successfully managing the decline in traditional IT business.

With this goal in mind, we have rolled out a comprehensive transformation program that specifically includes a clear portfolio strategy as part of our performance management activities. According to this portfolio strategy, we are differentiating between the following portfolios: telecommunications operations, traditional IT business, and growth areas (cloud computing, Internet of Things, SAP, security, digital solutions, toll collection systems).

Order entry in our Systems Solutions operating segment was up by 18.7 percent in the first three quarters of 2018, marking a particularly positive development compared with the prior-year period. This is due in part to a number of big deals that we closed in traditional IT business this year, which were not included in the prior-year figure. Order entry in our growth areas also developed very well in the first three quarters of 2018.

DEVELOPMENT OF OPERATIONS^a

millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
TOTAL REVENUE	1,665	1,674	1,754	1,707	2.8	5,094	5,099	(0.1)	6,918
External revenue	1,332	1,319	1,381	1,352	2.1	4,032	4,069	(0.9)	5,504
Loss from operations (EBIT)	(76)	(28)	(17)	(1,282)	98.7	(121)	(1,319)	90.8	(1,356)
Special factors affecting EBIT	(38)	(51)	(57)	(1,319)	95.7	(146)	(1,396)	89.5	(1,477)
EBIT (adjusted for special factors)	(38)	23	40	38	5.3	25	76	(67.1)	121
EBIT margin (adjusted for special factors) %	(2.3)	1.4	2.3	2.2		0.5	1.5		1.7
Depreciation, amortization and impairment losses	(95)	(99)	(103)	(1,338)	92.3	(296)	(1,533)	80.7	(1,636)
EBITDA	19	71	85	56	51.8	175	214	(18.2)	280
Special factors affecting EBITDA	(38)	(51)	(54)	(74)	27.0	(143)	(148)	3.4	(229)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	57	121	139	131	6.1	318	362	(12.2)	509
EBITDA margin (adjusted for special factors) %	3.4	7.2	7.9	7.7		6.2	7.1		7.4
CASH CAPEX	(83)	(182)	(87)	(87)	-	(352)	(264)	(33.3)	(383)

^a The business of T-Systems Polska Sp. z o.o., which, in organizational terms, was previously assigned to the Systems Solutions operating segment, is now disclosed under the Europe operating segment as of September 1, 2017. Prior-year comparatives were not adjusted.

Total revenue

In the first three quarters of 2018, total revenue in our Systems Solutions operating segment was on a par with the prior-year level at EUR 5.1 billion. Revenue in our growth areas developed positively, driven mainly by cloud computing, the Internet of Things, digital solutions, toll collection systems, and SAP. By contrast, revenue in traditional IT business declined year-on-year as expected on account of lower revenues from international corporate customers and the general downswing in our core market of Western Europe.

EBITDA, adjusted EBITDA

In the first three quarters of 2018, adjusted EBITDA at our Systems Solutions operating segment declined by EUR 44 million to EUR 318 million, which was in line with our expectations. The decrease was attributable mainly to the higher costs involved in establishing operations in growth areas and to higher financial burdens in our telecommunications business due to the ongoing migration to all IP. EBITDA decreased by EUR 39 million year-on-year to EUR 175 million, mainly due to the effects described under adjusted EBITDA. Special factors were slightly below the prior-year level.

EBIT, adjusted EBIT

Adjusted EBIT in our Systems Solutions operating segment declined by EUR 51 million compared with the first three quarters of 2017, coming in at EUR 25 million. The effects described under adjusted EBITDA were the main drivers of this decrease. Depreciation, amortization and impairment losses were substantially below the prior-year level due to the impairment loss on goodwill of EUR 1.2 billion recognized in the third quarter of 2017. EBIT was significantly higher than in the prior-year period, coming in at EUR -121 million, due to the effects described above.

Cash capex

Cash capex in the Systems Solutions operating segment stood at EUR 352 million in the reporting period, compared with EUR 264 million in the prior-year period. Capital expenditures remain focused on developing our operations in growth areas, such as digital solutions, the Internet of Things, and toll collection systems. In parallel, we are investing in the upgrade of our in-house IT systems.

GROUP DEVELOPMENT

CUSTOMER DEVELOPMENT

thousands

	Sept. 30, 2018	Change Sept. 30, 2018/ June 30, 2018		Change Sept. 30, 2018/ Dec. 31, 2017		Change Sept. 30, 2018/ Sept. 30, 2017	
		June 30, 2018	%	Dec. 31, 2017	%	Sept. 30, 2017	%
NETHERLANDS							
Mobile customers	4,004	3,967	0.9	3,850	4.0	3,876	3.3
Fixed-network lines	227	210	8.1	191	18.8	188	20.7
Broadband lines	227	210	8.1	191	18.8	188	20.7

After successfully repositioning itself in the market, T-Mobile Netherlands posted year-on-year growth of 4.0 percent in the first three quarters of 2018 with its mobile services for consumers and business customers. This increase was mainly due to the new rate plan portfolio introduced in 2017 and to the enhanced market approach it enabled, but also to business customer net additions. The number of customers in the fixed-network consumer portfolio grew by 17 thousand.

DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
TOTAL REVENUE	528	535	544	545	(0.2)	1,607	1,702	(5.6)	2,263
Netherlands	309	318	335	327	2.4	962	1,014	(5.1)	1,355
Profit from operations (EBIT)	148	149	134	343	(60.9)	431	1,417	(69.6)	1,504
Depreciation, amortization and impairment losses	(78)	(80)	(86)	(72)	(19.4)	(244)	(215)	(13.5)	(304)
EBITDA	227	228	220	415	(47.0)	675	1,632	(58.6)	1,808
Special factors affecting EBITDA	(5)	(5)	(7)	195	n. a.	(16)	937	n. a.	893
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	231	233	227	220	3.2	691	695	(0.6)	915
Netherlands	108	109	104	98	6.1	321	328	(2.1)	421
EBITDA margin (adjusted for special factors) %	43.8	43.6	41.7	40.4		43.0	40.8		40.4
CASH CAPEX	(85)	(56)	(60)	(76)	21.1	(201)	(215)	6.5	(290)

Total revenue

Total revenue in our Group Development operating segment in the first three quarters of 2018 decreased by 5.6 percent year-on-year due to the forgone revenue following the sale of Strato effective March 31, 2017. Compared with the prior-year period, revenue at DFMG decreased slightly due to non-recurring effects that canceled out a slight, volume-related increase in revenue. By contrast, at T-Mobile Netherlands, rising mobile handset revenues and growth in the customer base had a positive impact; this was partially offset by the negative effect of the mandatory application of the new IFRS 15 accounting standard.

EBITDA, adjusted EBITDA

EBITDA decreased from EUR 1.6 billion in the first three quarters of 2017 to EUR 0.7 billion. Regular reviews of our investment portfolio prompted us to sell our stake in Strato and our remaining shares in Scout24 AG last year. The disposals resulted in income recognized as special factors of around EUR 0.7 billion. In addition, the prior-year period had included positive special factors of EUR 0.2 billion originating from a settlement agreement with BT concluded in July 2017.

Adjusted EBITDA in our Group Development operating segment was on a par with the prior-year level. Forgone earnings following the deconsolidation of Strato caused a decline. Adjusted EBITDA at T-Mobile Netherlands decreased by 2.1 percent in the first three quarters of 2018 owing to the first-time application of IFRS 15. Adjusted EBITDA at DFMG, by contrast, increased by 4.5 percent year-on-year.

EBIT

EBIT decreased by EUR 1.0 billion year-on-year to EUR 0.4 billion, due primarily to the same factors described under EBITDA. Depreciation, amortization and impairment losses were higher than in the prior-year period, mainly due to higher capital expenditure on network capacity and quality at T-Mobile Netherlands.

Cash capex

Cash capex at our Group Development operating segment in the first nine months of 2018 decreased by 6.5 percent year-on-year. We continue to invest continuously in enhancing network capacity and quality at T-Mobile Netherlands.

GROUP HEADQUARTERS & GROUP SERVICES

For information on changes in the organizational structure, please refer to the section "Group organization, strategy, and management," pages 9 and 10.

DEVELOPMENT OF OPERATIONS

millions of €

	Q1 2018	Q2 2018	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
TOTAL REVENUE	651	767	677	741	(8.6)	2,096	2,262	(7.3)	2,935
Loss from operations (EBIT)	(324)	(281)	(366)	(307)	(19.2)	(971)	(851)	(14.1)	(1,437)
Depreciation, amortization and impairment losses	(162)	(269)	(184)	(159)	(15.7)	(615)	(500)	(23.0)	(657)
EBITDA	(162)	(12)	(182)	(148)	(23.0)	(356)	(352)	(1.1)	(780)
Special factors affecting EBITDA	(92)	(54)	(68)	(46)	(47.8)	(214)	(61)	n.a.	(119)
EBITDA (ADJUSTED FOR SPECIAL FACTORS)	(70)	41	(114)	(102)	(11.8)	(143)	(291)	50.9	(661)
CASH CAPEX	(248)	(247)	(253)	(231)	(9.5)	(748)	(711)	(5.2)	(1,005)

Total revenue

Total revenue in our Group Headquarters & Group Services segment decreased in the reporting period by 7.3 percent year-on-year. This decline was mainly due to the fact that, as of January 2016, the costs of intragroup development services newly commissioned from Deutsche Telekom IT in Germany are no longer charged internally. Other reasons for the decrease were forgone revenue from DeTeMedien, which was sold effective June 2017, and lower revenue from land and buildings, essentially due to further optimization of the use of space. Higher intragroup revenue at Deutsche Telekom IT from the licensing of the Group-wide ERP system had a positive effect.

EBITDA, adjusted EBITDA

Adjusted EBITDA in the Group Headquarters & Group Services segment improved by EUR 148 million year-on-year in the reporting period, mainly due to higher revenue at Deutsche Telekom IT from the licensing of the Group-wide ERP system, which does not impact on earnings at Group level. The reduction in headcount brought about by ongoing restructuring of the Vivento workforce also had a positive effect. By contrast, lower revenue from land and buildings had a negative impact on adjusted EBITDA.

Overall, negative net special factors of EUR 214 million affected EBITDA in the reporting period. Expenses for staff-related measures were partially offset by the positive effect of the reversal of provisions for legal risks in connection with the Toll Collect arbitration proceedings. In the prior-year period, negative net special factors totaled EUR 61 million and mainly comprised expenses for staff-related measures on the one hand and income from the sale of DeTeMedien on the other.

EBIT

EBIT declined by EUR 120 million year-on-year largely as a result of the same effects described under EBITDA and a EUR 115 million increase in depreciation, amortization and impairment losses. This increase was due, in particular, to higher depreciation and amortization caused by increased levels of capitalization at Deutsche Telekom IT. The latter were attributable to the fact that the costs of newly commissioned intragroup development services in Germany are no longer charged internally. This development was partially offset by lower depreciation, amortization and impairment losses from land and buildings as a result of our continued optimization of the real estate portfolio.

Cash capex

Cash capex increased by EUR 37 million year-on-year, primarily owing to increased investment in technology and innovation, mainly for development activities.

EVENTS AFTER THE REPORTING PERIOD (SEPTEMBER 30, 2018)

For information on events after the reporting period, please refer to "Events after the reporting period" in the interim consolidated financial statements, page 62.

FORECAST

The statements in this section reflect the current views of our management. Contrary to the forecasts published in the 2017 combined management report (2017 Annual Report, page 101 et seq.) and in the Interim Group Report as of June 30, 2018 (page 27), we now expect to post stronger-than-expected increases in the Group's adjusted EBITDA and free cash flow for the 2018 financial year. The previous forecast was for adjusted EBITDA to grow to EUR 23.4 billion from the prior-year figure of around EUR 22.2 billion. We now expect to post adjusted EBITDA of around EUR 23.6 billion for full-year 2018. This is largely attributable to stronger-than-expected business performance in the United States operating segment, where we now anticipate adjusted EBITDA of around USD 11.7 billion, up from around USD 11.5 billion. Due to our raised guidance for adjusted EBITDA, we are also raising our forecast for full-year free cash flow from the previous figure of around EUR 6.2 billion to around EUR 6.3 billion. All other statements made in the 2017 combined management report remain valid. For additional information and recent changes in the economic situation, please refer to the section "The economic environment," pages 10 and 11, in this interim Group management report. Readers are also referred to the Disclaimer at the end of this report.

RISKS AND OPPORTUNITIES

This section provides important additional information and explains recent changes in the risks and opportunities as described in the combined management report for the 2017 financial year (2017 Annual Report, page 111 et seq.). Readers are also referred to the Disclaimer at the end of this report.

REGULATION

Deregulation of retail products in Germany. Previously, the Federal Network Agency had notified the European Commission of its draft analysis of retail markets and its plans to abolish additional regulation of product bundles for retail customers. Telephone lines with no broadband component in the product bundle were to remain regulated for retail customers. On July 13, 2018, the Federal Network Agency withdrew the draft market analysis. Currently, it is not possible to make any specific statements as to the content of the final market analysis. The regulation of wholesale products will remain unaffected.

Changes to regulatory policy and legislation – EU regulatory framework for telecommunications. On September 14, 2016, the European Commission published legislative proposals for a revision of the EU legal framework for telecommunications. These proposals were subsequently the subject of discussions between the European Parliament and the Council. In early June 2018, a political agreement was reached in the form of the European Electronic Communications Code. The aim is to reform central EU regulation of the telecommunications sector, primarily price and access regulation, spectrum policy, sector-specific rules on consumer protection, and the universal service regime. We expect the new rules to enter into force in December 2018. The Member States will then have 24 months to transpose the requirements into national law. Individual rules will enter into force at an earlier date – in particular those governing the regulation of retail customer rate plans for voice calls and text messages within the EU – and take effect as of May 15, 2019 as part of a directly applicable EU Regulation. The agreement provides for less regulation of "very high capacity networks" and more stable regulatory conditions over the long term in cases where competitors invest jointly, as is the case with open co-investment models. In addition to establishing co-ownership and co-financing, co-investment models also include long-term agreements on access-based network usage that comply with specific requirements designed to safeguard competition. Fiber-to-the-building/home (FTTB/FTTH) networks, in particular, could benefit from the new rules. At the same time, the new legal framework gives the regulatory authorities new powers to impose access obligations on all networks independent of whether a company has significant market power (symmetrical regulation). In terms of spectrum policy, the new EU regulatory framework aims to increase the level of harmonization in certain areas and thus improve legal certainty when awarding mobile spectrum, for example, by including a minimum license term of 15 years with an option to extend for a further five years. With respect to consumer protection, fully harmonized obligations are in place at European level – thus negating the need for additional national regulations – whereas obligations in individual areas are more stringent. In particular, since May 15, 2019, the charges for international voice calls and sending text messages within the EU have been limited to EUR 0.19/minute and EUR 0.09/SMS (net) for five years.

Planned amendment to the German Telecommunications Act following a Federal Constitutional Court ruling. As the result of a proposed amendment to the Act (TKG), which was approved by the Cabinet of Germany on July 18, 2018, Deutsche Telekom may in future be able to claim the payment of higher rates in some cases also retroactively – at least from major competitors – in the event of a successful complaint against a Federal Network Agency rate ruling. Until now, this has only been possible under very restrictive circumstances. The change to the law became necessary following a Federal Constitutional Court ruling which judged the previous regulation to be unconstitutional. The draft is in the process of becoming law. The amended Act is expected to enter into force in late 2018/early 2019.

LITIGATION

Toll Collect arbitration proceedings. On May 16, 2018, Daimler Financial Services AG, Deutsche Telekom AG, and the Federal Republic of Germany reached an agreement to end the Toll Collect arbitration proceedings. The settlement was notarized in early July 2018 and confirmed by the arbitral tribunal, bringing the arbitration proceedings to an end. The agreed settlement amount of around EUR 3.2 billion includes services previously provided to the Federal Republic of Germany. Daimler Financial Services AG and Deutsche Telekom AG have both agreed to make final payments of EUR 550 million each.

Claims relating to charges for the shared use of cable ducts.

Regarding the legal proceedings brought by Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH, and Kabel BW GmbH, an appeal filed by the plaintiffs was rejected by the Düsseldorf Higher Regional Court in its ruling of March 14, 2018. An appeal was not permitted. The plaintiffs filed a complaint against the non-allowance of appeal with the Federal Court of Justice. In the parallel proceedings brought by Vodafone Kabel Deutschland GmbH, its claim now stands at approximately EUR 624 million along with another around EUR 9 million for the alleged benefit from additional interest, plus interest in each case.

ASSESSMENT OF THE AGGREGATE RISK POSITION

At the time of preparing this report, neither our risk management system nor our management could identify any material risks to the continued existence of Deutsche Telekom AG or a significant Group company as a going concern.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

millions of €

	Sept. 30, 2018	Dec. 31, 2017	Change	Change %	Sept. 30, 2017
ASSETS					
CURRENT ASSETS	19,981	20,392	(411)	(2.0)	18,344
Cash and cash equivalents	2,235	3,312	(1,077)	(32.5)	2,860
Trade and other receivables	9,331	9,723	(392)	(4.0)	9,196
Contract assets	1,716	n.a.	n.a.	n.a.	n.a.
Current recoverable income taxes	335	236	99	41.9	160
Other financial assets	2,912	3,329	(417)	(12.5)	2,442
Inventories	1,541	1,985	(444)	(22.4)	1,520
Other assets	1,752	1,646	106	6.4	1,795
Non-current assets and disposal groups held for sale	159	161	(2)	(1.2)	371
NON-CURRENT ASSETS	122,279	120,943	1,336	1.1	121,497
Intangible assets	64,890	62,865	2,025	3.2	63,577
Property, plant and equipment	49,448	46,878	2,570	5.5	46,081
Capitalized contract costs	1,566	n.a.	n.a.	n.a.	n.a.
Investments accounted for using the equity method	574	651	(77)	(11.8)	601
Other financial assets	1,621	5,716	(4,095)	(71.6)	5,963
Deferred tax assets	3,104	4,013	(909)	(22.7)	4,498
Other assets	1,075	819	256	31.3	778
TOTAL ASSETS	142,260	141,334	926	0.7	139,841
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES	24,183	27,366	(3,183)	(11.6)	25,937
Financial liabilities	7,319	8,358	(1,039)	(12.4)	9,250
Trade and other payables	8,988	10,971	(1,983)	(18.1)	8,516
Income tax liabilities	334	224	110	49.1	341
Other provisions	2,839	3,372	(533)	(15.8)	2,953
Other liabilities	2,903	4,440	(1,537)	(34.6)	4,877
Contract liabilities	1,801	n.a.	n.a.	n.a.	n.a.
Liabilities directly associated with non-current assets and disposal groups held for sale	-	-	-	n.a.	0
NON-CURRENT LIABILITIES	74,595	71,498	3,097	4.3	74,850
Financial liabilities	53,804	49,171	4,633	9.4	49,387
Provisions for pensions and other employee benefits	5,347	8,375	(3,028)	(36.2)	8,185
Other provisions	3,159	3,155	4	0.1	3,220
Deferred tax liabilities	8,204	6,967	1,237	17.8	10,060
Other liabilities	3,476	3,831	(355)	(9.3)	3,999
Contract liabilities	604	n.a.	n.a.	n.a.	n.a.
LIABILITIES	98,779	98,864	(85)	(0.1)	100,787
SHAREHOLDERS' EQUITY	43,481	42,470	1,011	2.4	39,055
Issued capital	12,189	12,189	-	0.0	12,189
Treasury shares	(49)	(49)	0	0.0	(49)
	12,141	12,140	1	0.0	12,140
Capital reserves	54,620	55,010	(390)	(0.7)	54,638
Retained earnings including carryforwards	(37,426)	(38,750)	1,324	3.4	(38,656)
Total other comprehensive income	(741)	(1,127)	386	34.3	(1,055)
Net profit (loss)	2,597	3,461	(864)	(25.0)	2,129
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT	31,192	30,734	458	1.5	29,195
Non-controlling interests	12,290	11,737	553	4.7	9,859
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	142,260	141,334	926	0.7	139,841

The new accounting standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" took effect as of January 1, 2018. Prior-year comparatives were not adjusted. For more information, please refer to the section "Accounting policies," page 37 et seq.

CONSOLIDATED INCOME STATEMENT

millions of €

	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
NET REVENUE	19,104	18,251	4.7	55,395	55,787	(0.7)	74,947
Of which: interest income calculated using the effective interest method	220	n. a.	n. a.	222	n. a.	n. a.	n. a.
Other operating income	365	2,081	(82.5)	1,077	3,331	(67.7)	3,819
Changes in inventories	22	(3)	n. a.	23	31	(25.8)	21
Own capitalized costs	618	563	9.8	1,759	1,668	5.5	2,292
Goods and services purchased	(9,508)	(8,910)	(6.7)	(27,190)	(27,503)	1.1	(38,161)
Personnel costs	(4,026)	(3,817)	(5.5)	(12,245)	(11,605)	(5.5)	(15,504)
Other operating expenses	(701)	(847)	17.2	(2,119)	(2,443)	13.3	(3,444)
Impairment losses on financial assets	(91)	n. a.	n. a.	(307)	n. a.	n. a.	n. a.
Gains (losses) from the write-off of financial assets measured at amortized cost	(26)	n. a.	n. a.	(45)	n. a.	n. a.	n. a.
Other	(584)	(847)	31.1	(1,767)	(2,443)	27.7	(3,444)
Depreciation, amortization and impairment losses	(3,344)	(4,220)	20.8	(9,645)	(10,568)	8.7	(14,586)
PROFIT FROM OPERATIONS	2,530	3,098	(18.3)	7,053	8,699	(18.9)	9,383
Finance costs	(443)	(540)	18.0	(1,396)	(1,688)	17.3	(2,197)
Interest income	64	74	(13.5)	193	243	(20.6)	320
Interest expense	(508)	(614)	17.3	(1,589)	(1,931)	17.7	(2,517)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	3	3	0.0	(527)	10	n. a.	76
Other financial income (expense)	(61)	(139)	56.1	(175)	(1,990)	91.2	(2,269)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	(502)	(676)	25.7	(2,098)	(3,669)	42.8	(4,390)
PROFIT (LOSS) BEFORE INCOME TAXES	2,029	2,421	(16.2)	4,956	5,030	(1.5)	4,994
Income taxes	(563)	(1,323)	57.4	(1,427)	(1,931)	26.1	558
PROFIT (LOSS)	1,466	1,098	33.5	3,529	3,099	13.9	5,551
PROFIT (LOSS) ATTRIBUTABLE TO							
Owners of the parent (net profit (loss))	1,110	507	n. a.	2,597	2,129	22.0	3,461
Non-controlling interests	355	591	(39.9)	932	970	(3.9)	2,090

The new accounting standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" took effect as of January 1, 2018. Prior-year comparatives were not adjusted. For more information, please refer to the section "Accounting policies," page 37 et seq.

EARNINGS PER SHARE

	Q3 2018	Q3 2017	Change %	Q1-Q3 2018	Q1-Q3 2017	Change %	FY 2017
Profit (loss) attributable to the owners of the parent (net profit (loss))	1,110	507	n. a.	2,597	2,129	22.0	3,461
Adjusted weighted average number of ordinary shares (basic/diluted)	4,742	4,692	1.1	4,742	4,692	1.1	4,703
EARNINGS PER SHARE BASIC/DILUTED	0.23	0.11	n. a.	0.55	0.45	22.2	0.74

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

millions of €

	Q3 2018	Q3 2017	Change	Q1-Q3 2018	Q1-Q3 2017	Change	FY 2017
PROFIT (LOSS)	1,466	1,098	368	3,529	3,099	430	5,551
Items not subsequently reclassified to profit or loss (not recycled)							
Gains (losses) from the remeasurement of equity instruments ^a	15	n.a.	n.a.	(632)	n.a.	n.a.	n.a.
Gains (losses) from the remeasurement of defined benefit plans	388	(51)	439	246	275	(29)	116
Revaluation due to business combinations	0	0	0	0	0	0	0
Share of profit (loss) of investments accounted for using the equity method	0	0	0	0	0	0	0
Other income and expense recognized directly in equity	0	0	0	0	0	0	0
Income taxes relating to components of other comprehensive income	(151)	17	(168)	(94)	(86)	(8)	(19)
	252	(34)	286	(480)	189	(669)	97
Items subsequently reclassified to profit or loss (recycled), if certain reasons are given							
Exchange differences on translating foreign operations							
Recognition of other comprehensive income in income statement	0	0	0	(1)	0	(1)	0
Change in other comprehensive income (not recognized in income statement)	228	(732)	960	714	(1,981)	2,695	(2,196)
Gains (losses) from the remeasurement of available-for-sale financial assets ^{a, b}							
Recognition of other comprehensive income in income statement	n.a.	1	n.a.	n.a.	4	n.a.	7
Change in other comprehensive income (not recognized in income statement)	n.a.	(3)	n.a.	n.a.	17	n.a.	27
Gains (losses) from the remeasurement of debt instruments ^a							
Recognition of other comprehensive income in income statement	(42)	n.a.	n.a.	(78)	n.a.	n.a.	n.a.
Change in other comprehensive income (not recognized in income statement)	23	n.a.	n.a.	26	n.a.	n.a.	n.a.
Gains (losses) from hedging instruments ^{a, c}							
Recognition of other comprehensive income in income statement	n.a.	106	n.a.	n.a.	372	n.a.	450
Change in other comprehensive income (not recognized in income statement)	n.a.	(103)	n.a.	n.a.	(195)	n.a.	(270)
Gains (losses) from hedging instruments (designated risk components) ^a							
Recognition of other comprehensive income in income statement	11	n.a.	n.a.	(35)	n.a.	n.a.	n.a.
Change in other comprehensive income (not recognized in income statement)	4	n.a.	n.a.	(48)	n.a.	n.a.	n.a.
Gains (losses) from hedging instruments (hedging costs) ^{a, d}							
Recognition of other comprehensive income in income statement	0	n.a.	n.a.	0	n.a.	n.a.	n.a.
Change in other comprehensive income (not recognized in income statement)	(16)	n.a.	n.a.	47	n.a.	n.a.	n.a.
Share of profit (loss) of investments accounted for using the equity method							
Recognition of other comprehensive income in income statement	0	0	0	0	0	0	0
Change in other comprehensive income (not recognized in income statement)	0	0	0	6	(1)	7	0
Income taxes relating to components of other comprehensive income	5	(1)	6	26	(57)	83	(58)
	213	(732)	945	657	(1,841)	2,498	(2,040)
OTHER COMPREHENSIVE INCOME	466	(766)	1,232	177	(1,652)	1,829	(1,943)
TOTAL COMPREHENSIVE INCOME	1,931	332	1,599	3,706	1,447	2,259	3,608
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO							
Owners of the parent	1,524	(24)	1,548	2,493	1,188	1,305	2,340
Non-controlling interests	406	356	50	1,213	259	954	1,268

^a For the new items in relation to IFRS 9 to be recognized in accordance with IAS 1, Deutsche Telekom utilizes the option of not showing comparative figures for the prior-year period.

^b The measurement category "available-for-sale financial assets" as per IAS 39 was to be applied for the last time as of December 31, 2017.

^c Gains and losses from hedging costs were recognized for the last time as of December 31, 2017 under IAS 39 as part of gains and losses from hedging instruments. Under IFRS 9, gains and losses from hedging costs are recognized separately in equity.

^d In the 2018 financial year, hedging costs relate entirely to cross currency basis spreads; please refer to the information on financial instruments, page 53 et seq.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

millions of €

	Issued capital and reserves attributable to owners of the parent							
	Equity contributed		Consolidated shareholders' equity generated			Total other comprehensive income		
	Issued capital	Treasury shares	Capital reserves	Retained earnings including carryforwards	Net profit (loss)	Translation of foreign operations	Revaluation surplus	Available-for-sale financial assets (IAS 39)
BALANCE AT JANUARY 1, 2017	11,973	(50)	53,356	(38,727)	2,675	(371)	(60)	69
Changes in the composition of the Group								
Transactions with owners			(64)			(5)		
Unappropriated profit (loss) carried forward				2,675	(2,675)			
Dividends				(2,794)				
Capital increase at Deutsche Telekom AG	216		1,175					
Capital increase from share-based payment			171					
Share buy-back/shares held in a trust deposit		1		3				
Profit (loss)					2,129			
Other comprehensive income				187		(1,268)		20
TOTAL COMPREHENSIVE INCOME								
Transfer to retained earnings								
BALANCE AT SEPTEMBER 30, 2017	12,189	(49)	54,638	(38,656)	2,129	(1,644)	(60)	89
BALANCE AT JANUARY 1, 2018	12,189	(49)	55,010	(38,750)	3,461	(1,729)	(60)	101
Transfer resulting from change in accounting standards				1,413				(101)
Changes in the composition of the Group			(29)					
Transactions with owners			(587)	0		(12)		
Unappropriated profit (loss) carried forward				3,461	(3,461)			
Dividends				(3,083)				
Capital increase at Deutsche Telekom AG								
Capital increase from share-based payment			226					
Share buy-back/shares held in a trust deposit		1	0	3				
Profit (loss)					2,597			
Other comprehensive income				153		419		
TOTAL COMPREHENSIVE INCOME								
Transfer to retained earnings				(624)			30	
BALANCE AT SEPTEMBER 30, 2018	12,189	(49)	54,620	(37,426)	2,597	(1,322)	(30)	n. a.

The new accounting standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" took effect as of January 1, 2018. Prior-year comparatives were not adjusted. For more information, please refer to the section "Accounting policies," page 37 et seq.

Issued capital and reserves attributable to owners of the parent							Total	Non-controlling interests	Total shareholders' equity
Total other comprehensive income									
Equity instruments measured at fair value through other comprehensive income (IFRS 9)	Debt instruments measured at fair value through other comprehensive income (IFRS 9)	Hedging instruments (IAS 39)	Hedging instruments: designated risk components (IFRS 9)	Hedging instruments: hedging costs (IFRS 9)	Investments accounted for using the equity method	Taxes			
n. a.	n. a.	609	n. a.	n. a.	27	(196)	29,305	9,540	38,845
							-	8	8
							(69)	80	11
							0	-	0
							(2,794)	(122)	(2,916)
							1,391	-	1,391
							171	94	265
							4	-	4
							2,129	970	3,099
		177				(1)	(941)	(711)	(1,652)
							1,188	(259)	1,447
							-	-	-
n. a.	n. a.	786	n. a.	n. a.	26	(252)	29,195	9,859	39,055
n. a.	n. a.	789	n. a.	n. a.	26	(254)	30,734	11,737	42,470
93	0	(789)	789			38	1,444	103	1,547
							(29)	47	18
0	2						(598)	(769)	(1,368)
							0	-	0
							(3,083)	(172)	(3,255)
							-	-	-
							226	132	358
							4	-	4
							2,597	932	3,529
(633)	(33)		(84)	47	6	20	(104)	281	177
							2,493	1,213	3,706
633	(6)				(35)	1	0	0	0
94	(37)	n. a.	705	47	(4)	(194)	31,192	12,290	43,481

CONSOLIDATED STATEMENT OF CASH FLOWS

millions of €

	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	FY 2017
PROFIT BEFORE INCOME TAXES	2,029	2,421	4,956	5,030	4,994
Depreciation, amortization and impairment losses	3,344	4,220	9,645	10,568	14,586
(Profit) loss from financial activities	502	676	2,098	3,669	4,390
(Profit) loss on the disposal of fully consolidated subsidiaries	-	2	-	(548)	(537)
(Income) loss from the sale of stakes accounted for using the equity method	-	-	-	(226)	(226)
Other non-cash transactions	103	(1,742)	333	(1,557)	(1,447)
(Gains) losses from the disposal of intangible assets and property, plant and equipment	5	19	(86)	(16)	(103)
Change in assets carried as working capital	(605)	(26)	(295)	(135)	(1,874)
Change in provisions	168	154	(500)	(171)	265
Change in other liabilities carried as working capital	(73)	(441)	(879)	(1,003)	51
Income taxes received (paid)	(241)	(204)	(463)	(384)	(634)
Dividends received	7	153	180	241	241
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives	-	-	-	-	-
CASH GENERATED FROM OPERATIONS	5,238	5,232	14,990	15,468	19,706
Interest paid	(724)	(703)	(2,568)	(3,015)	(3,783)
Interest received	339	279	1,119	913	1,274
NET CASH FROM OPERATING ACTIVITIES	4,853	4,808	13,542	13,367	17,196
Cash outflows for investments in					
Intangible assets	(769)	(683)	(2,458)	(9,399)	(10,345)
Property, plant and equipment	(2,349)	(2,338)	(6,893)	(7,142)	(9,149)
Non-current financial assets	(313)	(122)	(517)	(297)	(361)
Payments to acquire control of subsidiaries and associates	(1,794)	(4)	(2,076)	(15)	(15)
Proceeds from disposal of					
Intangible assets	-	1	1	16	21
Property, plant and equipment	76	66	380	260	379
Non-current financial assets	133	216	432	563	612
Proceeds from the loss of control of subsidiaries and associates	(4)	(1)	(65)	499	528
Net change in short-term investments and marketable securities and receivables	(403)	(195)	(464)	1,753	1,514
Other	-	2	5	1	2
NET CASH USED IN INVESTING ACTIVITIES	(5,422)	(3,056)	(11,655)	(13,759)	(16,814)
Proceeds from issue of current financial liabilities	14,104	4,570	48,256	10,885	13,516
Repayment of current financial liabilities	(14,952)	(5,945)	(53,820)	(23,292)	(26,537)
Proceeds from issue of non-current financial liabilities	1,076	309	7,984	10,322	11,215
Repayment of non-current financial liabilities	-	-	(21)	(10)	(10)
Dividends (including to non-controlling interests)	(106)	(56)	(3,254)	(1,559)	(1,559)
Repayment of lease liabilities	(226)	(180)	(629)	(541)	(715)
Cash inflows from transactions with non-controlling entities	-	-	3	18	18
Cash outflows from transactions with non-controlling entities	(41)	(11)	(1,458)	(104)	(522)
Other	-	-	-	-	-
NET CASH USED IN FINANCING ACTIVITIES	(145)	(1,312)	(2,939)	(4,282)	(4,594)
Effect of exchange rate changes on cash and cash equivalents	5	(21)	(26)	(215)	(226)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	-	-	-	3	3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(709)	419	(1,078)	(4,887)	(4,435)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE PERIOD	3,618	2,441	3,312	7,747	7,747
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	2,235	2,860	2,235	2,860	3,312

SIGNIFICANT EVENTS AND TRANSACTIONS

ACCOUNTING POLICIES

In accordance with the amended § 53 (6) of the Exchange Rules for the Frankfurter Wertpapierbörse (FWB), Deutsche Telekom AG voluntarily publishes a quarterly financial report that comprises interim consolidated financial statements and an interim Group management report. The interim consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) applicable to interim financial reporting as adopted by the EU. The interim management report for the Group was prepared in accordance with German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

STATEMENT OF COMPLIANCE

The interim consolidated financial statements for the period ended September 30, 2018 have been prepared voluntarily in compliance with International Accounting Standard (IAS) 34. As permitted by IAS 34, it has been decided to publish a condensed version compared to the consolidated financial statements at December 31, 2017. All IFRSs applied by Deutsche Telekom have been adopted by the European Commission for use within the EU.

In the opinion of the Board of Management, the reviewed quarterly financial report includes all standard adjustments to be applied on an ongoing basis that are required to give a true and fair view of the results of operations and financial position of the Group. Please refer to the notes to the consolidated financial statements as of December 31, 2017 for the accounting policies applied for the Group's financial reporting, 2017 Annual Report, page 153 et seq.

INITIAL APPLICATION OF NEW STANDARDS AND INTERPRETATIONS AS WELL AS AMENDMENTS TO STANDARDS AND INTERPRETATIONS IN THE REPORTING PERIOD RELEVANT FOR THE 2018 FINANCIAL YEAR

Pronouncement	Title	To be applied by Deutsche Telekom from	Changes	Impact on the presentation of Deutsche Telekom's results of operations and financial position
IFRS 9	Financial Instruments	Jan. 1, 2018	IFRS 9 introduces new classification and measurement requirements for financial instruments and replaces, in particular, IAS 39. The new regulations cover the classification of financial assets on the basis of the underlying business models and the cash flow characteristics of the instruments. Under the new provisions on the accounting of impairment losses, expected losses have to be recognized on initial recognition. In addition, the requirements apply not only to debt instruments, but also to contract assets pursuant to IFRS 15. Among other things, the new rules for reporting hedge relationships provide the option of recognizing hedging costs separately in other comprehensive income.	The effects of IFRS 9 are detailed in the explanations following this table.
IFRS 15	Revenue from Contracts with Customers	Jan. 1, 2018	This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces in particular IAS 18 and IAS 11. 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 application (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 of IFRS 15 are detailed in the explanations following this table.
Amendments to IFRS 15	Effective Date of IFRS 15	Jan. 1, 2018	Mandatory adoption of IFRS 15 for reporting periods beginning on or after January 1, 2018.	The effects of IFRS 15 are detailed in the explanations following this table.
Amendments to IFRS 15	Clarifications to IFRS 15	Jan. 1, 2018	The clarifications address the following topics relating to IFRS 15: <ul style="list-style-type: none"> • 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 the case of services provided by third parties. • Clarification of the conditions for the timing of recognition of revenue arising from the licensing of 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.

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 40	Transfers of Investment Property	Jan. 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	Jan. 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	Jan. 1, 2018	Entities falling within the scope of IFRS 4 and whose predominant activity is issuing insurance contracts may, by way of temporary exemption, defer application of IFRS 9 until such time as the new standard for insurance contracts has come into force. In the interim, such entities are thus subject to the provisions of IAS 39. In the case of designated financial assets, other entities falling within the scope of IFRS 4 may incur differences in values depending on whether these assets are to be accounted for in accordance with IFRS 9 or IAS 39; these differences must be presented in other comprehensive income instead of in profit or loss.	No material impact.
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Jan. 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.
Annual Improvements Project	Annual Improvements to IFRSs 2014 – 2016 Cycle	Jan. 1, 2018 (IFRS 1 and IAS 28)	Clarification of many published standards.	No material impact.

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

The new provisions and the related changes in the accounting principles applied by Deutsche Telekom mainly comprise the following items of relevance to Deutsche Telekom:

- Depending on the respective underlying business model, the new provisions on the classification of financial assets give rise to changes in measurement and presentation in some cases. The measurement of debt instruments – especially trade receivables held for potential sale – at fair value through other comprehensive income with recycling to profit or loss had minor effects at the transition date. Effects may arise in ongoing application, particularly from changes in the volumes of receivables held for potential sale in the future. Equity instruments held are irrevocably allocated to a measurement category instrument by instrument upon initial recognition. Deutsche Telekom in general measures equity instruments held at fair value through other comprehensive income without recycling to profit or loss (OCI option).

- The new provisions on the accounting of impairment losses will lead to expected losses having to be recognized earlier in some cases. There will be a minor increase in impairment losses due to application of the simplified approach for trade receivables with a significant financing component and for lease assets, and to impairment losses on contract assets recognized for the first time as of January 1, 2018 in accordance with IFRS 15. Effects may arise in ongoing application from a change in business development (for example, changes in volumes or prices) or from changes to business models where these are reflected in the amounts reported for long-term trade receivables and contract assets.
- The hedging relationships are accounted for in accordance with the requirements of IFRS 9. The transition of existing hedging relationships to the new regime has no material effects. Cash flow hedges for hedging interest rate and currency risks have been de-designated and re-designated on the transition to IFRS 9 so that future use can be made of the opportunity to recognize the cost of hedging in other comprehensive income. The other hedging relationships will continue unchanged.

Deutsche Telekom utilizes the option for simplified initial application. The cumulative effect arising from the transition is recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives are not adjusted; instead, Deutsche Telekom provides an explanation of the reasons for the changes in items in the statement of financial position and the income statement for the current period.

The transition to IFRS 9 as of January 1, 2018 will result mainly in the following cumulative changes to retained earnings before deferred taxes – including the corresponding shares attributable to non-controlling interests:

millions of €	
Increase in impairment losses on trade receivables	123
Impairment losses on contract assets recognized for the first time in accordance with IFRS 15	28
	151

For further information on the first-time application of IFRS 9, please refer to the statements made under the disclosures on financial instruments, page 53 et seq.

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers.” Application of the standard is mandatory for reporting periods beginning on or after January 1, 2018. This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces, in particular, IAS 18 and IAS 11 and has a material effect on the presentation of Deutsche Telekom’s results of operations and financial position. Depending on the business model applied, the new provisions and the related changes in the accounting principles applied by Deutsche Telekom affect the following issues in particular:

- In the case of multiple-element arrangements (e.g., mobile contract plus handset), the total transaction price of the bundled contract is allocated among the individual, separate performance obligations 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 contractual performance obligations. In contrast to the previous accounting treatment, the relative standalone selling price of an individual element and thus the revenue recognized for this unit of accounting is no longer limited to 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 was limited by this subsidized price. Under IFRS 15, this limitation no longer applies, i.e., in the case of subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the element delivered in advance (mobile handset), requiring earlier recognition of revenue under the new regulations. 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. The contract asset is deferred over the remaining contract period, reducing revenue from the other performance obligations (in this case: mobile service revenues) compared with the amounts billed.
- At the same time, it results in higher revenue from the sale of goods and merchandise and lower revenue from the provision of services.
- The extent of the changes resulting from the first-time application of IFRS 15 that are described above therefore largely depends on the business models used by the subsidiary in question. Whereas the sale of subsidized handsets in connection with the conclusion of service contracts in retail business is still common in the Germany segment, handsets are not sold at a discount at all, or only to a limited extent, in the United States and to some extent in the Europe operating segments; payment-by-installment models or lease models are offered to customers instead.
- Customer activation fees and other advance one-time payments by the customer that do not constitute consideration for a separate performance obligation are classed as contract liabilities, and are deferred and recognized as revenue over the (remaining) term of the contract.
- Expenses for sales commissions (costs of obtaining a customer contract (contract costs)) must be capitalized and recognized over the estimated customer retention period. The expenses are disclosed in Deutsche Telekom’s income statement, not under depreciation and amortization but – depending on the sales channel – as goods and services purchased or personnel costs.
- In the indirect sales channel, reimbursements explicitly or implicitly included in commissions paid to third-party retailers for handset subsidies granted by those retailers are recognized not as an expense but as a reduction of the service revenues over the contract term. This ensures that the amount of the service revenues generated with retail customers for identical rate plans does not depend on the type of sales channel.
- On first-time application of the standard, both total assets and shareholders’ equity increased due to the capitalization of contract assets and contract costs for contracts not yet fully completed.
- In cases where “material rights” are granted – such as offering additional discounts for future purchases of further products – a portion of the transaction price must be deferred as a contract liability and is not recognized as revenue until this additional performance obligation has been satisfied or has lapsed.
- Contract liabilities (which, as deferred revenue, were already recognized as liabilities in the past) must be netted against the contract assets for each customer contract.
- For the purposes of determining whether Deutsche Telekom sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), there are no material changes for the existing agreements.

As regards IFRS 15, Deutsche Telekom utilizes the following accounting options:

- Deutsche Telekom applies the option for simplified initial application, limiting the retroactive application of IFRS 15 to contracts that have not yet been completely fulfilled at the date of initial application. The contracts that have not yet been completely fulfilled as of January 1, 2018 are accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition is recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives are not adjusted; instead, Deutsche Telekom provides 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.

- A significant financing component is not considered for the amount and timing of revenue recognition if the period between when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.

- In general, contract costs whose amortization period would not be more than one year are immediately recognized as an expense.

The adjustments made to items in the statement of financial position as of January 1, 2018 and attributable to IFRS 15 are as follows^a:

millions of €

	Carrying amount in accordance with IAS 18/IAS 11 Dec. 31, 2017	Remeasurements	Reclassification	Carrying amount in accordance with IFRS 15 Jan. 1, 2018
ASSETS				
CURRENT ASSETS				
Trade and other receivables ^b	9,723	(163)	(150)	9,410
Contract assets ^b	n. a.	1,622	150	1,772
Current recoverable income taxes	236	(1)	-	235
Other assets	1,646	(43)	-	1,603
NON-CURRENT ASSETS				
Capitalized contract costs	n. a.	1,128	48	1,176
Deferred tax assets	4,013	27	-	4,040
Other assets	819	(78)	(48)	693
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Financial liabilities	8,358	9	(1)	8,366
Trade and other payables	10,971	0	(38)	10,933
Income tax liabilities	224	29	-	253
Other provisions	3,372	(19)	(48)	3,305
Other liabilities	4,440	(209)	(1,612)	2,619
Contract liabilities	n. a.	212	1,699	1,911
NON-CURRENT LIABILITIES				
Deferred tax liabilities	6,967	663	-	7,630
Other liabilities	3,831	(322)	(212)	3,297
Contract liabilities	n. a.	351	212	563
SHAREHOLDERS' EQUITY				
Retained earnings incl. carryforwards plus shares attributable to non-controlling interests ^c	(27,013)	1,778	0	(25,235)

^a The overview above contains only those items of the statement of financial position that are affected by the first-time application of IFRS 15.

^b Carrying amounts as of January 1, 2018 are shown before impairment losses on contract assets recognized in accordance with IFRS 9. Please refer to the explanations in regard to the initial application of IFRS 9 in this section.

^c For reasons of simplification, the figure is combined to show the cumulative effect of the transition to IFRS 15 to be recognized directly in equity.

The remeasurement effects are mainly attributable to the first-time recognition of

- contract assets in the amount of EUR 1.6 billion that, under IFRS 15, would have resulted in the earlier recognition of revenue, in particular from the sale of goods and merchandise;

- deferred contract costs of EUR 1.1 billion that, under IFRS 15, would have resulted in the later recognition of selling expenses; and

- contract liabilities totaling EUR 0.6 billion that, under IFRS 15, would have resulted in the later recognition of revenue.

After deferred tax liabilities totaling EUR 0.6 billion (net) and other minor effects were taken into account, the transition to the new standard as of January 1, 2018 resulted in a cumulative effect that increased retained earnings by EUR 1.8 billion and included the shares attributable to non-controlling interests.

The reclassifications mainly concern the following items:

- The receivables from long-term construction contracts (EUR 0.2 billion) that, under IAS 11, were recognized under trade and other receivables as of December 31, 2017 are classified as contract assets under IFRS 15.
- The deferred revenue of EUR 1.8 billion recognized under other liabilities as of December 31, 2017 is recognized as contract liabilities in accordance with IFRS 15.

Due to the remeasurements described above, the carrying amounts of the cash-generating units that must be tested for impairment in accordance with IAS 36 increased when IFRS 15 was applied for the first time on January 1, 2018. As a result, the carrying amounts of the cash-generating units Romania and Poland in the Europe operating segment and of the cash-generating unit Netherlands in the Group Development operating segment exceeded in each case the recoverable amounts for these units. Consequently, the goodwill recognized directly in equity in each case had to be impaired as of January 1, 2018 for an aggregate amount of EUR 0.1 billion. Please refer to the explanations given in the notes on intangible assets and property, plant and equipment, pages 46 and 47.

Comparative figures for the items of the financial statements affected by the first-time application of IFRS 15

The following tables contain relevant items from the financial statements as of September 30, 2018 in accordance with IFRS 15 as well as the previous accounting treatment in accordance with IAS 18/IAS 11 and related interpretations:

millions of €

	IFRS 15 Sept. 30, 2018	IAS 18/IAS 11 Sept. 30, 2018	Change
ASSETS			
CURRENT ASSETS			
Trade and other receivables	9,331	9,703	(372)
Contract assets	1,716	n. a.	1,716
Current recoverable income taxes	335	331	4
Other assets	1,752	1,830	(78)
NON-CURRENT ASSETS			
Capitalized contract costs	1,566	n. a.	1,566
Deferred tax assets	3,104	3,776	(672)
Other assets	1,075	1,203	(128)
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Financial liabilities	7,319	7,312	7
Trade and other payables	8,988	8,997	(9)
Income tax liabilities	334	326	8
Other provisions	2,839	2,912	(73)
Other liabilities	2,903	4,602	(1,699)
Contract liabilities	1,801	n. a.	1,801
NON-CURRENT LIABILITIES			
Deferred tax liabilities	8,204	8,160	44
Other liabilities	3,476	4,091	(615)
Contract liabilities	604	n. a.	604
SHAREHOLDERS' EQUITY			
Retained earnings including carryforwards and net profit plus non-controlling interests	(22,539)	(24,487)	1,948

Under IAS 18/IAS 11, trade and other receivables would have included receivables from long-term construction contracts, which are recognized as contract assets under IFRS 15.

Due to the transition to IFRS 15, contract assets are recognized for the first time and amortized, and capitalized contract costs are recognized as assets for the first time and amortized.

Under IAS 18/IAS 11, other liabilities would have included deferred revenue, which, under IFRS 15, is either recognized as contract liabilities or netted with contract assets.

The differences in the amounts recognized under deferred tax assets and deferred tax liabilities are due to remeasurement effects in connection with the first-time and continuing application of IFRS 15 in the first nine months of 2018.

millions of €

	IFRS 15 Q1-Q3 2018	IAS 18/IAS 11 Q1-Q3 2018	Change
NET REVENUE	55,395	55,408	(14)
Other operating income	1,077	1,077	0
Changes in inventories	23	23	0
Own capitalized costs	1,759	1,759	0
Goods and services purchased	(27,190)	(27,365)	174
Personnel costs	(12,245)	(12,334)	88
Other operating expenses	(2,119)	(2,113)	(6)
Depreciation, amortization and impairment losses	(9,645)	(9,645)	0
PROFIT (LOSS) FROM OPERATIONS	7,053	6,810	243
Finance costs	(1,396)	(1,393)	(3)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	(527)	(527)	0
Other financial income (expense)	(175)	(175)	0
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	(2,098)	(2,094)	(3)
PROFIT (LOSS) BEFORE INCOME TAXES	4,956	4,716	240
Income taxes	(1,427)	(1,357)	(70)
PROFIT (LOSS)	3,529	3,359	170

Adjusted for the effects of IFRS 15, total revenue was comparable with the prior-year period. Revenue-reducing effects were evident in the first three quarters of 2018, mainly due to the amortization of the contract assets/liabilities recognized in the statement of financial position over the (remaining) period of contract. These items also include reimbursements for handset subsidies granted by third-party retailers in the indirect sales channel. These reimbursements are a component of the commissions paid to those retailers. The subsidies are now no longer recognized as an expense, but as a reduction of the service revenues over the contract term. Under other business models, revenue was increased due to the capitalization and revenue-related amortization of expenses for sales commissions (contract costs) under goods and services purchased; these expenses were previously recognized as revenue-reducing effects.

Adjusted for the effects of IFRS 15, goods and services purchased and personnel costs would have come in at EUR 27.4 billion and EUR 12.3 billion, respectively, and would thus have been a total of EUR 0.3 billion higher. This effect is attributable to the capitalization of expenses for sales commissions, which, under IAS 18/IAS 11, would have been recognized immediately in profit or loss either under goods and services purchased (dealer commissions) or personnel costs (employee commissions). It was only partially offset by the amortization of capitalized expenses for sales commissions in the first three quarters of 2018.

STANDARDS, INTERPRETATIONS, AND AMENDMENTS ISSUED, BUT NOT YET TO BE APPLIED

In January 2016, the IASB issued IFRS 16 "Leases." The standard will be effective for the first time for financial years beginning on or after January 1, 2019. From the date of first-time application, the new lease standard will have a material effect on Deutsche Telekom's consolidated financial statements, particularly on the results of operations, net cash from operating activities, total assets, and the presentation of the financial position.

Deutsche Telekom will not apply the new lease standard retrospectively in full, but will make use of the corresponding exemption provisions for lessees, also known as the modified retrospective method. On transition to the new regulations, payment obligations from existing operating leases (please also refer to the 2017 Annual Report, Note 33 "Leases" in the notes to the consolidated financial statements, pages 226 and 227) will be discounted using the relevant incremental borrowing rate. The resulting present value will be recognized as a lease liability. The right-of-use assets will be carried in the amount of the lease liability, adjusted by the amount of the prepaid or accrued lease payments.

As regards the options and exemptions permitted under IFRS 16, Deutsche Telekom is likely to take the following approach:

- Right-of-use assets and lease liabilities will be reported separately in the statement of financial position.
- The recognition, measurement and disclosure requirements of IFRS 16 will also be applied in full to short-term leases and leases of low-value assets.
- A distinction will not be made in leases that contain both lease components and non-lease components. Each lease component will be accounted for – as a lease – in conjunction with other related performance components.
- IFRS 16 will not be applied to leases for intangible assets.

Depending on whether Deutsche Telekom is the supplier or the customer in an arrangement or on how the contractual facts have been designed in the various business models in our operating segments, the application of IFRS 16 will have the following material effects:

- The lease payments largely relate to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes.
- In the future, payment obligations for operating leases – which, in accordance with the existing regulations, must be disclosed in the notes to the consolidated financial statements – will be reported as right-of-use assets and lease liabilities.
- Deutsche Telekom anticipates a significant increase in total assets and liabilities on first-time adoption due to the capitalization of right-of-use assets and the recognition of lease liabilities. The increase in lease liabilities will lead to a corresponding increase in net debt. Due to material liabilities from straight-line leases in accordance with IAS 17 – which, under IFRS 16, must generally be deducted from the right-of-use assets – a significantly lower amount will be recognized for the right-of-use assets capitalized under IFRS 16 as of January 1, 2019 than is recognized for lease liabilities (see Note 14 “Other liabilities” in the notes to the consolidated financial statements in the 2017 Annual Report, page 206).
- Going forward, depreciation charges and interest expense – rather than lease expense – will be reported in the income statement. This will give rise to a significant improvement in EBITDA.
- In the statement of cash flows, the repayment portion of the lease payments from existing operating leases will reduce net cash from/used in financing activities and no longer affect net cash from operating activities. Only the interest payments will remain in net cash from operating activities, the total of which will rise.
- For Deutsche Telekom as a lessor, the number of identified leases will change. This does not affect the contracts for routers or similar hardware provided to customers as part of data and network solutions or contracts for terminal equipment and SmartHome network solutions provided to customers. It is expected that these will continue to be defined as leases. In fact, the number of contracts for modems/routers for the latest generation of devices provided to consumers as part of fixed-network mass-market contracts is expected to decrease. Deutsche Telekom has come to the conclusion that contracts for services provided in data centers include lease components for the letting of space, e.g., dedicated rooms for the customer’s own hardware. Contracts concerning the letting of space to wholesale fixed-network customers also contain lease components.

The full effects of IFRS 16 will be analyzed as part of a Group-wide project for implementing the new standard. Given the complexity and the large number of different business models as well as the relevant transaction volumes, it is not currently possible to provide a firm estimate of the quantitative effects.

Readers are also referred to the Disclaimer at the end of this report as regards the forward-looking statements contained in this section; the latter reflect the current views of the management of Deutsche Telekom with regard to future events.

For more information on standards, interpretations, and amendments that have been issued but not yet applied, as well as disclosures on the recognition and measurement of items in the statement of financial position and discretionary decisions and estimation uncertainties, please refer to the section “Summary of accounting policies” in the notes to the consolidated financial statements in the 2017 Annual Report, page 153 et seq.

CHANGES IN ACCOUNTING POLICIES AND CHANGES IN THE REPORTING STRUCTURE

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

Vivento Customer Services GmbH, a provider of call center services, has been assigned to the Germany operating segment since January 1, 2018; previously it was part of the Group Headquarters & Group Services segment. Comparative figures have been adjusted retrospectively.

CHANGES IN THE COMPOSITION OF THE GROUP, TRANSACTIONS WITH OWNERS, AND OTHER TRANSACTIONS

In the first nine months of 2018, Deutsche Telekom conducted the following transactions, which (will) have 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 interim consolidated financial statements.

Acquisition of Layer3 TV, Inc.

The agreement signed by T-Mobile US on November 9, 2017 to acquire 100 percent of the shares in online TV provider Layer3 TV, Inc. was consummated on January 22, 2018. T-Mobile US expects the acquisition to further strengthen its TV and video portfolio, and its plans include rolling out its own TV service in 2018. The consideration paid at the acquisition date amounts to EUR 0.3 billion in cash.

The fair values of the acquired assets and liabilities recognized at the acquisition date mainly relate to an identifiable intangible asset of EUR 0.1 billion in connection with technology developed by Layer3 TV. This asset will be amortized over an expected useful life of five years. Goodwill of EUR 0.2 billion was recognized for the difference between the consideration paid and the balance of the identifiable assets acquired and the liabilities assumed at the acquisition date, measured at fair value. This item is mainly based on the industry expertise of the acquired management team as well as the other non-separable intangible assets identified. Under local tax law, this goodwill is not recognized and is thus not tax-deductible.

Acquisition of UPC Austria GmbH

On December 22, 2017, T-Mobile Austria agreed to acquire a 100 per cent stake in UPC Austria GmbH and its subsidiaries, taking into account non-controlling interests. The European Commission approved the transaction on July 9, 2018 and the transaction was consummated on July 31, 2018.

With more than 1,000 employees, UPC Austria is a leading provider of communication and entertainment services in Austria's telecommunications sector. Since the acquisition date of July 31, 2018, UPC Austria has been included in the consolidated financial statements as a fully consolidated subsidiary. Through its high-performance coaxial and fiber-optic cable infrastructure, the company provides more than half a million consumers and business customers with fast, easy access to the digital world.

By acquiring UPC Austria, T-Mobile Austria is set to become the leading broadband provider in the Austrian market. The combination of the fast UPC fiber-optic network and T-Mobile Austria's high-performance LTE network will put the company in a good position to take a leading role in terms of internet speed, service, and entertainment in Austria.

As the transaction was concluded so close to September 30, 2018, all information relating to it that is provided here is provisional. The purchase price allocation and the measurement of the UPC Austria group's assets and liabilities as of July 31, 2018 had not yet been finalized by September 30, 2018. This applies, in particular, to the measurement of the company's property, plant and equipment, and intangible assets, as well as the accounting of non-controlling interests. Therefore, the net carrying amount of the goodwill may also change.

The cash consideration transferred at the date of acquisition was EUR 1.8 billion and took into account a negative amount of EUR 0.1 billion in provisional adjustments to net working capital and net debt in accordance with the purchase agreement. The aforementioned consideration may be adjusted on the basis of the closing statements – to be submitted to the seller by the buyer within 60 business days – detailing the final figures for net working capital and net debt.

The preliminary fair values of the UPC Austria group's acquired assets and liabilities recognized at the acquisition date are presented in the following table.

Fair values at the acquisition date	
millions of €	
ASSETS	
CURRENT ASSETS	30
Cash and cash equivalents	1
Trade and other receivables	7
Income tax receivables	18
Other assets	3
Inventories	1
NON-CURRENT ASSETS	2,286
Goodwill	536
Other intangible assets	514
Of which: customer base	469
Of which: other	46
Property, plant and equipment	1,235
Other assets	1
ASSETS	2,315
LIABILITIES	
CURRENT LIABILITIES	(78)
Financial liabilities	(30)
Trade and other payables	(25)
Other provisions	(8)
Other liabilities	(15)
NON-CURRENT LIABILITIES	(439)
Financial liabilities	(72)
Provisions	(13)
Deferred tax liabilities	(354)
Other liabilities	(1)
LIABILITIES	(517)

The preliminary acquired goodwill of EUR 536 million to be recognized in Deutsche Telekom's consolidated statement of financial position is calculated as follows:

Fair values at the acquisition date	
millions of €	
Consideration transferred	1,792
+ fair value of non-controlling interests excluding goodwill	36
– fair value of the call option to acquire non-controlling interests	(29)
– fair value of the acquired assets	(1,779)
+ fair value of acquired liabilities	517
= GOODWILL	536

In the course of the business combination, the non-controlling interests were recognized at the fair value of the prorated net assets excluding goodwill. On the basis of the carrying amount of the shareholders' equity, the PPA adjustments directly attributable to UPC Telekabel Wien GmbH were taken into account and, subsequently, the corresponding share of the non-controlling interests was calculated. Goodwill is influenced by synergy effects that arise from the future business potential attributable to the company's position as an integrated provider of telecommunications services in Austria after the acquisition.

Goodwill resulting from the business combination is not recognized under local tax law and is thus not tax-deductible. The purchase price allocation did not result in any deferred taxes on goodwill, nor will it in the future. As the call option for the non-controlling interests purchased in the course of the business combination is an equity instrument, it was offset against consolidated shareholder's equity at the acquisition date.

A detailed analysis of the receivables acquired has not yet been completed. No material contingent liabilities have been identified.

T-Mobile Austria and the seller also concluded a transitional service contract covering the continuation and provision of certain services by the seller as well as management of the processes of separation from the seller and integration in T-Mobile Austria's organization. Fixed and/or usage-based charges are payable under this contract. The contract came into force on the date of transfer (July 31, 2018) and ends on the day the last service period expires. Some service periods last up to four years. The purchased services are expensed immediately under goods and services purchased.

No material transaction-based costs were incurred by September 30, 2018.

Deutsche Telekom's net revenue increased by EUR 61 million in the reporting period due to the acquisition of UPC Austria. If the business combination had already taken place on January 1, 2018, net revenue of the Group would have been EUR 271 million higher. Deutsche Telekom's net profit for the current reporting period includes profit of EUR 16 million from the UPC Austria group. If the business combination had already taken place on January 1, 2018, the Group's net profit would have been EUR 86 million higher. The above information reflects the situation prior to any effects of the purchase price allocation.

Toll Collect

On May 16, 2018, Daimler Financial Services AG, Deutsche Telekom AG, and the Federal Republic of Germany reached an agreement to end the Toll Collect arbitration proceedings. The settlement was notarized in early July 2018 and confirmed by the arbitral tribunal, bringing the arbitration proceedings to an end. The agreed settlement amount of around EUR 3.2 billion includes services previously provided to the Federal Republic of Germany. Daimler Financial Services AG and Deutsche Telekom AG have both agreed to make final payments of EUR 550 million each. These payments to the Federal Republic of Germany will be made on behalf of Toll Collect GbR in three tranches over the period until 2020; the first tranche was paid in the reporting period.

As it had announced in advance, the Federal Republic of Germany exercised its option to purchase 100 percent of the shares in the operating company, Toll Collect GmbH, when the operating agreement expired on August 31, 2018. Even after the acquisition of Toll Collect GmbH by the Federal Republic of Germany, the consortium Toll Collect GbR – comprising Deutsche Telekom AG, Daimler Financial Services AG, and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) – continues to exist with an unchanged ownership structure.

The bank guarantees for third parties for a maximum amount of EUR 100 million that were issued during the term of the operating agreement expired as scheduled on October 15, 2018. The equity maintenance undertaking entered into by the aforementioned consortium members under the operating agreement remained in place until the Federal Republic of Germany assumed full control of Toll Collect GmbH, and was replaced as of August 31, 2018 by guaranteed equity base of at least EUR 50 million for Toll Collect GmbH.

The following transaction is expected to change the composition of the Deutsche Telekom Group in future.

Agreed business combination of T-Mobile US and Sprint

Together with their respective majority shareholders Deutsche Telekom AG and Softbank K.K., T-Mobile US and Sprint Corp. concluded a binding agreement on April 29, 2018 to combine their companies. Under the agreement, T-Mobile US will acquire all of the shares in Sprint. In return for every 9.75 Sprint shares, the company's shareholders will receive one new T-Mobile US share without any additional cash contribution. On completion of the transaction, Deutsche Telekom will hold around 42 percent of T-Mobile US' shares and Softbank around 27 percent, while the free float will account for about 31 percent. Due to the voting-rights agreement with Softbank, and to the fact that Deutsche Telekom will hold the majority of the seats on the new company's Board of Directors, T-Mobile US will continue to be included as a fully consolidated subsidiary in the consolidated financial statements. The larger T-Mobile US is expected to achieve cost and capital expenditure synergies with a net present value of around USD 43 billion (after integration costs). Around USD 15 billion has been budgeted for integration costs. The agreement is subject to approval by the authorities as well as other closing conditions.

OTHER TRANSACTIONS THAT HAD NO EFFECT ON THE COMPOSITION OF THE GROUP

T-Mobile US share buy-back program

Under the share buy-back program launched in December 2017, T-Mobile US acquired further common stock for an amount of USD 1.1 billion (EUR 0.9 billion) in the first half of 2018. Including the common stock acquired prior to that date, the total volume of shares repurchased under the share buy-back program amounts to USD 1.5 billion (EUR 1.3 billion). In addition, in the first quarter of 2018, Deutsche Telekom purchased shares in T-Mobile US on the capital market for a total amount of USD 0.2 billion (EUR 0.2 billion). As a result, Deutsche Telekom holds around 63 percent of the shares in T Mobile US.

On April 27, 2018, T-Mobile US' Board of Directors authorized an increase in the total share buy-back program to up to USD 9.0 billion, consisting of the USD 1.5 billion in repurchases already executed and for up to an additional USD 7.5 billion of T-Mobile US common stock until the end of 2020. The additional buy-back authorization is contingent upon the termination of the business combination agreement with Sprint.

Acquisition of OTE shares

In March 2018, Deutsche Telekom exercised its right of first refusal as invited by the Greek privatization authority Hellenic Republic Asset Development Fund (HRADF) and acquired a 5 percent stake in its Greek subsidiary OTE. The transaction was completed in May 2018 through the acquisition of additional shares in the amount of EUR 0.3 billion. As a result, Deutsche Telekom AG holds around 45 percent of the company's shares.

SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**TRADE AND OTHER RECEIVABLES**

Trade and other receivables decreased by EUR 0.4 billion to EUR 9.3 billion, mainly due to reclassification and remeasurement effects from the mandatory first-time application of the new accounting standards IFRS 9 and IFRS 15. For example, receivables from long-term construction contracts in the amount of EUR 0.2 billion accounted for in accordance with IAS 11 were reclassified as contract assets as of January 1, 2018. Exchange rate effects, primarily from the translation from U.S. dollars into euros, had a slight offsetting effect.

CONTRACT ASSETS

Following the transition to IFRS 15, a remeasurement effect of EUR 1.6 billion was recognized directly in equity as of January 1, 2018 in relation to the initial recognition of contract assets. In prior periods, under IFRS 15, these would have led to the earlier recognition of revenue, in particular from the sale of goods and merchandise. Further, as a result of the transition, receivables from long-term construction contracts in the amount of EUR 0.2 billion, which were previously recognized as trade and other receivables, were reclassified as contract assets. For more information, please refer to the section "Accounting policies," page 37 et seq.

INVENTORIES

Compared with December 31, 2017, inventories were EUR 0.4 billion lower at EUR 1.5 billion, especially due to a reduction in inventories of higher-priced smartphones in the United States operating segment.

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

At the reporting date, the carrying amount of non-current assets and disposal groups held for sale was unchanged at EUR 0.2 billion. During the reporting period, sales of real estate took place in the Group Headquarters & Group Services segment, while a portfolio of shareholdings of a comparable volume in the Group Development operating segment was classified as non-current assets and disposal groups held for sale.

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets increased by EUR 2.0 billion to EUR 64.9 billion. Additions totaling EUR 2.6 billion increased the carrying amount. They mainly comprised capital expenditures in the United States and Europe operating segments and in the Group Headquarters & Group Services segment. Changes in the composition of the Group increased the carrying amount by a further EUR 1.4 billion. As of the date of acquisition of UPC Austria, an identifiable intangible asset of EUR 0.5 billion was recognized in connection with the latter's customer base, along with goodwill of EUR 0.5 billion. Further, as of the acquisition date of Layer3 TV, an identifiable intangible asset of EUR 0.1 billion was recognized in connection with technology developed by the latter as well as goodwill of EUR 0.2 billion. For detailed information on corporate transactions, please refer to the section "Changes in the composition of the Group, transactions with owners, and other transactions," page 43 et seq. Positive exchange rate effects, primarily from the translation of U.S. dollars into euros, increased the carrying amount by EUR 1.3 billion. Depreciation, amortization and impairment losses decreased the carrying amount by EUR 3.2 billion. The first-time application of IFRS 15 as of January 1, 2018 produced effects that reduced the carrying amount of intangible assets by EUR 0.1 billion. Under the new accounting standard, contract assets must be capitalized for the first time. For detailed information on the requirements and the effects of the first-time application of the standard, please refer to the section "Accounting policies," page 37 et seq. An initial consequence was that the carrying amounts of the cash-generating units that must be tested for impairment in accordance with IAS 36 increased when IFRS 15 was applied for the first time on January 1, 2018. As a result, the carrying amounts of the cash-generating units Romania and Poland in the Europe operating segment and of the cash-generating unit Netherlands in the Group Development operating segment exceeded in each case the recoverable amounts for these units. Consequently, the goodwill recognized for these units had to be impaired as of January 1, 2018. The recoverable amounts of these three units, along with the relevant valuation methods and the assumptions and parameters on which they are based, are described in the 2017 Annual Report, Note 5 "Intangible assets," page 180 et seq. The recoverable amount for the cash-generating unit Romania was EUR 10 million below its carrying amount as of January 1, 2018; the corresponding figure for the Poland unit was EUR 19 million below the carrying amount, and for the Netherlands unit EUR 68 million below the carrying amount. The corresponding goodwill impairments for these units were recognized directly in equity by reducing retained earnings as of January 1, 2018.

Property, plant and equipment increased by EUR 2.6 billion compared to December 31, 2017 to EUR 49.4 billion. Additions of EUR 7.7 billion, primarily in the United States and Germany operating segments, increased the carrying amount. They included, in particular, capital expenditure in connection with the modernization of the T-Mobile US network as well as for broadband and fiber-optic build-out, the IP transformation, and mobile infrastructure in the Germany operating segment. A further EUR 0.7 billion was attributable to the capitalization of higher-priced mobile handsets in connection with the JUMP! On Demand business model at T-Mobile US, under which customers do not purchase devices but lease them. Changes in the composition of the Group – particularly the acquisition of UPC Austria in the Europe operating segment and of Layer3 TV in the United States operating segment – increased the carrying amount by EUR 1.4 billion. Positive exchange rate effects, primarily from the translation of U.S. dollars into euros, decreased the carrying amount by EUR 0.4 billion. Depreciation, amortization and impairment losses in the amount of EUR 6.5 billion and disposals of EUR 0.5 billion – EUR 0.2 billion of which was accounted for by handsets returned by customers under the JUMP! On Demand program – reduced the carrying amount.

CAPITALIZED CONTRACT COSTS

Following the transition to IFRS 15, a remeasurement and reclassification effect of EUR 1.2 billion was recognized directly in equity as of January 1, 2018 in relation to the initial recognition of capitalized contract costs. Under IFRS 15, these costs would have resulted in the later recognition of selling expenses. The carrying amount had changed to EUR 1.6 billion as of September 30, 2018. For more information, please refer to the section “Accounting policies,” page 37 et seq.

OTHER FINANCIAL ASSETS

Other financial assets decreased from EUR 9.0 billion (as of December 31, 2017) to EUR 4.5 billion. On March 23, 2018, the 12 percent stake in BT, which is worth EUR 3.1 billion, was transferred to the Group’s own trust, Deutsche Telekom Trust e.V., where it will serve as plan assets to cover pension entitlements. The impairment loss on the exchange-traded stake in BT – which was recognized in other comprehensive income for the period from January 1, 2018 until the date of transfer – reduced the carrying amount by EUR 0.7 billion.

TRADE AND OTHER PAYABLES

Trade and other payables decreased by EUR 2.0 billion to EUR 9.0 billion due to the reduction in the portfolio of liabilities, mainly in the United States, Europe, and Germany operating segments and also as a result of the reduction in procurement volumes, especially in the United States. Exchange rate effects, mainly from the translation of U.S. dollars into euros, had a minor offsetting effect.

OTHER LIABILITIES

Current and non-current other liabilities decreased by EUR 1.9 billion to EUR 6.4 billion. The main reason for this decline were the reclassification effects triggered by the transition to IFRS 15: Deferred revenue of EUR 1.8 billion, previously recognized under other liabilities, was reclassified as contract liabilities. For further information on application of the new accounting standard, please refer to the section “Accounting policies,” page 37 et seq.

FINANCIAL LIABILITIES

Current and non-current financial liabilities increased by EUR 3.6 billion to EUR 61.1 billion compared with the end of 2017.

In the first nine months of 2018, T-Mobile US placed fixed-interest U.S. dollar bonds with a volume of USD 2.5 billion (EUR 2.0 billion) with institutional investors: an 8-year bond with a volume of USD 1.0 billion and a 10-year bond with a volume of USD 1.5 billion. In addition, Deutsche Telekom International Finance B.V. issued euro bonds with a total volume of EUR 3.4 billion and U.S. dollar bonds with a total volume of USD 1.75 billion (EUR 1.5 billion). Further, OTE PLC issued a 4-year fixed-interest euro bond with a volume of EUR 0.4 billion.

A contrary effect in the reporting period was generated by T-Mobile US’ premature repayment of senior notes in the amount of USD 1.0 billion (EUR 0.8 billion) with an interest rate of 6.125 percent, in the amount of USD 1.75 billion (EUR 1.4 billion) with an interest rate of 6.625 percent, and in the amount of USD 0.6 billion (EUR 0.5 billion) with an interest rate of 6.836 percent.

Further, euro bonds totaling EUR 1.1 billion and U.S. dollar bonds totaling USD 0.85 billion (EUR 0.7 billion) were repaid at Group level in the reporting period. The net change of EUR 0.7 billion in commercial paper also decreased the carrying amount of the financial liabilities.

The increase of EUR 0.8 billion in liabilities to banks compared with the end of 2017 was mainly due to the positive net change of EUR 0.6 billion in the balance of short-term borrowings and to the loan issued by the European Investment Bank in January 2018, with a volume of EUR 0.2 billion and a term of 7 years. Repayments in the reporting period had an offsetting effect.

The settlement agreed in the Toll Collect arbitration proceedings increased financial liabilities by EUR 0.6 billion. Payment of the first tranche of EUR 0.2 billion in the reporting period reduced financial liabilities. For further information, please refer to the section “Changes in the composition of the Group, transactions with owners, and other transactions,” page 43 et seq.

A year-on-year increase in the carrying amount of the financial liabilities of around EUR 0.4 billion relates to exchange rate effects in the United States operating segment.

The following table shows the composition and maturity structure of financial liabilities as of September 30, 2018:

millions of €

	Sept. 30, 2018	Due within 1 year	Due >1 ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities	47,965	1,875	18,935	27,156
Liabilities to banks	5,816	1,871	2,982	963
Finance lease liabilities	2,595	902	1,176	517
Liabilities to non-banks from promissory notes	510	179	53	278
Other interest-bearing liabilities	1,762	1,046	547	169
Other non-interest-bearing liabilities	1,466	1,334	126	5
Derivative financial liabilities	1,010	113	169	729
FINANCIAL LIABILITIES	61,124	7,319	23,987	29,818

CONTRACT LIABILITIES

Following the transition to IFRS 15, a remeasurement effect of EUR 0.6 billion was recognized directly in equity as of January 1, 2018. This related to the initial recognition of contract liabilities that would have resulted in the later recognition of revenue under IFRS 15. In addition, a total of EUR 1.9 billion was reclassified as contract liabilities in accordance with IFRS 15. These reclassifications mainly comprise deferred revenue that was recognized under other liabilities as of December 31, 2017. The carrying amount for current and non-current contract liabilities was remeasured at EUR 2.4 billion as of September 30, 2018. For more information, please refer to the section "Accounting policies," page 37 et seq.

PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

Provisions for pensions and other employee benefits decreased from EUR 8.4 billion as of December 31, 2017 to EUR 5.3 billion. The main reason for this decline was the transfer, on March 23, 2018, of the 12 percent stake in BT (valued at EUR 3.1 billion) to the Group's own trust, Deutsche Telekom Trust e.V., where it will serve as plan assets. Due to the netting of the present value of the pension obligations with the plan assets, the increase in external cover led to a reduction in provisions for pensions and other employee benefits. For more information on the Global Pension Policy and a description of the plan, please refer to page 200 et seq. of the 2017 Annual Report.

On July 20, 2018, the latest life expectancy tables (Heubeck-Richttafel 2018 G) were published. They take account of the most recent statistics of Germany's statutory pension scheme and Federal Statistical Office. For the first time, the tables include socioeconomic factors. Overall, Deutsche Telekom expects the first-time application of the new tables as of December 31, 2018 to result in a moderate increase in its defined benefit obligations, which will be recognized under other comprehensive income. At present, the financial impact of this cannot be assessed with sufficient certainty.

SELECTED NOTES TO THE CONSOLIDATED INCOME STATEMENT

NET REVENUE

Net revenue breaks down into the following revenue categories:

millions of €

	Q1-Q3 2018	Q1-Q3 2017
Revenue from the rendering of services	46,070	46,854
Germany	13,188	13,746
United States	20,614	20,525
Europe	7,349	7,414
Systems Solutions	3,932	4,023
Group Development	942	1,052
Group Headquarters & Group Services	44	94
Revenue from the sale of goods and merchandise^a	8,373	7,829
Germany	1,529	1,177
United States	5,441	5,505
Europe	1,104	868
Systems Solutions	83	61
Group Development	215	200
Group Headquarters & Group Services	0	17
Revenue from the use of entity assets by others	952	1,105
Germany	359	320
United States	448	653
Europe	36	34
Systems Solutions	17	(15)
Group Development	-	-
Group Headquarters & Group Services	92	113
NET REVENUE	55,395	55,787

^a Revenue from the sale of goods and merchandise includes interest income of EUR 0.2 billion in the reporting period, calculated using the effective interest method. This income is primarily attributable to accrued interest on receivables in connection with terminal equipment sold under installment plans in the United States operating segment.

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the interim Group management report, page 11 et seq.

OTHER OPERATING INCOME

millions of €

	Q1-Q3 2018	Q1-Q3 2017
Income from the reversal of impairment losses on non-current assets	8	1,662
Of which: IFRS 5	-	2
Income from the disposal of non-current assets	202	150
Income from reimbursements	124	149
Income from insurance compensation	313	46
Income from ancillary services	21	24
Miscellaneous other operating income	409	1,300
Of which: income from divestitures and from the sale of stakes accounted for using the equity method	-	774
	1,077	3,331

Income from the disposal of non-current assets was primarily attributable to the disposal of real estate previously recognized as non-current assets and disposal groups held for sale. Income from insurance compensation mainly comprised compensation payments received by T-Mobile US in the first three quarters of 2018 for damage caused by hurricanes in 2017. Miscellaneous other operating income decreased by EUR 0.9 billion year-on-year. The main items posted in the comparable period last year were income of EUR 0.5 billion from the divestiture of Strato AG, income of EUR 0.2 billion from a payment received in connection with the settlement agreement concluded with BT in July 2017, and income of EUR 0.2 billion from the sale of the remaining shares in Scout24 AG, which had been accounted for using the equity method.

OTHER OPERATING EXPENSES

millions of €

	Q1-Q3 2018	Q1-Q3 2017
Impairment losses on financial assets ^a	(307)	n. a.
Gains (losses) from the write-off of financial assets measured at amortized cost	(45)	n. a.
Other	(1,767)	(2,443)
Legal and audit fees	(217)	(167)
Losses from asset disposals	(117)	(133)
Income (losses) from the measurement of factoring receivables	(92)	(89)
Income (losses) from the measurement of receivables ^a	n. a.	(449)
Other taxes	(364)	(334)
Cash and guarantee transaction costs	(247)	(242)
Insurance expenses	(69)	(66)
Miscellaneous other operating expenses	(661)	(963)
	(2,119)	(2,443)

^a Due to the transition to IFRS 9, changes were made both to the method of measuring impairment losses on receivables and to their disclosure in the financial statements. A comparison with the prior period is possible to a limited extent only.

Miscellaneous other operating expenses include a large number of individual items accounting for marginal amounts.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

At EUR 9.6 billion, depreciation, amortization and impairment losses were EUR 0.9 billion lower than in the prior-year period. This decrease was attributable in particular to the impairment of goodwill in the amount of EUR 1.2 billion that was recognized in the Systems Solutions operating segment in the prior-year period. By contrast, amortization of intangible assets and depreciation of property, plant and equipment were actually EUR 0.3 billion higher in the first three quarters of 2018 than in the prior-year period, an increase primarily related to the build-out of the 4G/LTE network in the United States operating segment and to capital expenditures in the Germany operating segment.

PROFIT/LOSS FROM FINANCIAL ACTIVITIES

In the first three quarters of 2018, the loss from financial activities decreased by EUR 1.6 billion year-on-year to EUR 2.1 billion. This was attributable in particular to the decrease of EUR 1.8 billion in other financial expense to EUR 0.2 billion. The figure for the prior-year period was mainly impacted by the EUR 1.3 billion impairment of the financial stake in BT recognized in profit or loss. In March 2018, the financial stake in BT was transferred to Deutsche Telekom Trust e.V., where it will be used as plan assets to cover existing pension obligations. As a consequence of the transition to IFRS 9 as of January 1, 2018, changes in the value of the financial stake prior to the transfer date were no longer recognized in the income statement as profit/loss from financial activities, but in other comprehensive income. For more information, please refer to the disclosures on financial instruments, page 53 et seq. In the first three quarters of 2018, negative effects from the exercise and remeasurement of embedded derivatives at T-Mobile US increased the loss from financial activities by EUR 0.2 billion. In the prior-year period, this negative effect on the loss from financial activities totaled EUR 0.5 billion.

Finance costs of EUR 1.4 billion, which were EUR 0.3 billion lower than a year earlier, also had a positive effect on the loss from financial activities. This was essentially due to the fact that T-Mobile US has increasingly been financed internally since 2017. The Consent Fee of EUR 0.1 billion paid (or still payable) to lending banks in connection with the probable increase in the admissible amount of collateralized financing instruments at T-Mobile US as a consequence of the agreed business combination with Sprint had an increasing effect on finance costs.

The share of profit/loss of associates and joint ventures accounted for using the equity method decreased to EUR -0.5 billion. This was mainly attributable to the settlement agreement reached to end the Toll Collect arbitration proceedings, which had a negative effect of EUR 0.6 billion. The associated payments to the Federal Republic of Germany will be made on behalf of Toll Collect GbR in three tranches over the period until 2020. For further information, please refer to the section "Changes in the composition of the Group, transactions with owners, and other transactions," page 43 et seq. By contrast, the profit distribution resolved in March 2018 by the shareholders of the Toll Collect GmbH joint venture – EUR 0.1 billion of which is attributable to Deutsche Telekom – had a positive effect.

INCOME TAXES

In the first nine months of 2018, a tax expense of EUR 1.4 billion was recognized. The effective tax rate of 28.8 percent essentially reflects the shares of the different countries in profit before income taxes and their respective national tax rates.

In the prior-year period, a tax expense of EUR 1.9 billion was recognized on marginally higher pre-tax income. The higher effective tax rate was attributable in particular to two non-tax-deductible items: the impairment of goodwill in the Systems Solutions operating segment and the impairment of the financial stake in BT recognized in profit and loss. The recognition of deferred tax assets of EUR 0.2 billion on federal loss carryforwards in the United States and tax reductions for a comparable amount for previous years in Germany had a contrary effect on the effective tax rate.

OTHER DISCLOSURES

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

NET CASH FROM OPERATING ACTIVITIES

Net cash from operating activities increased by EUR 0.2 billion year-on-year to EUR 13.5 billion. Exchange rate effects weighed on the continuing positive business trend in the United States operating segment. Factoring agreements – especially in the Systems Solutions operating segment – resulted in positive effects of EUR 0.2 billion on net cash from operating activities in the reporting period. The effect from factoring agreements in the prior-year period totaled EUR 0.5 billion. The comparable figure in the prior-year period included a EUR 0.1 billion higher dividend payment from BT (totaling EUR 0.2 billion), while the profit of EUR 0.1 billion distributed by Toll Collect GmbH was a key component in the reporting period. Net interest payments were EUR 0.7 billion lower, enhancing net cash from operating activities, while the increase of EUR 0.1 billion in payments for income taxes decreased net cash from operating activities.

NET CASH USED IN INVESTING ACTIVITIES

	Q1-Q3 2018	Q1-Q3 2017
millions of €		
Cash capex		
Germany operating segment	(3,242)	(3,109)
United States operating segment	(3,653)	(11,148)
Europe operating segment	(1,253)	(1,273)
Systems Solutions operating segment	(352)	(264)
Group Development operating segment	(201)	(215)
Group Headquarters & Group Services	(748)	(712)
Reconciliation	99	180
	(9,351)	(16,541)
Net cash flows for collateral deposited and hedging transactions	(460)	1,613
Cash inflows from the sale of the shares in Scout24 AG	-	319
Cash outflows for the acquisition of shares in Layer3 TV ^a	(258)	-
Cash outflows for the acquisition of shares in UPC Austria GmbH ^b	(1,791)	-
Proceeds from the disposal of property, plant and equipment, and intangible assets	381	276
Cash flows from the loss of control of subsidiaries and associates ^c	(65)	499
Reverse allocation under contractual trust agreement (CTA) on pension commitments	225	-
Payment in relation to settlement reached in Toll Collect arbitration proceedings	(200)	-
Payment in relation to equity maintenance undertaking for Toll Collect GmbH	(60)	-
Acquisition/sale of government bonds, net	-	5
Other	(76)	70
	(11,655)	(13,759)

^a Includes, in addition to the purchase price of EUR 260 million, inflows of cash and cash equivalents in the amount of EUR 2 million.

^b Includes, in addition to the purchase price of EUR 1,792 million, inflows of cash and cash equivalents in the amount of EUR 1 million.

^c Relates primarily to outflows of cash and cash equivalents in connection with the transfer of the stake in BT as plan assets to Deutsche Telekom Trust e.V. in March 2018.

Cash capex decreased from EUR 16.5 billion to EUR 9.4 billion. The prior-year figure contained a total of EUR 7.3 billion for the acquisition of mobile spectrum licenses, while the figure for the reporting period included payments totaling EUR 0.2 billion. In both periods, these payments related almost exclusively to the United States operating segment. Whereas cash capex in the Germany operating segment was up EUR 0.1 billion year-on-year due to the broadband/fiber-optic network build-out, cash capex in the United States operating segment – not including investments in mobile spectrum licenses – was EUR 0.4 billion lower, primarily due to exchange rate effects. Adjusted for exchange rate effects, and excluding capital expenditure on mobile spectrum licenses, cash capex was higher overall than in the prior-year period.

NET CASH USED IN FINANCING ACTIVITIES

millions of €

	Q1-Q3 2018	Q1-Q3 2017
Repayment of bonds	(4,554)	(10,980)
Dividends (including to non-controlling interests)	(3,254)	(1,559)
Repayment of financial liabilities from financed capex and opex	(213)	(264)
Repayment of EIB loans	(159)	(323)
Net cash flows for collateral deposited and hedging transactions	256	28
Repayment of lease liabilities	(629)	(541)
Repayment of financial liabilities for media broadcasting rights	(323)	(198)
Cash flows from continuing involvement factoring, net	32	(9)
Loans taken out with the EIB	150	675
Promissory notes, net	324	167
Secured loans	-	(1,863)
Issuance of bonds	7,483	9,445
Commercial paper, net	(775)	1,568
Overnight borrowings from banks	533	-
Cash inflows from transactions with non-controlling entities		
T-Mobile US stock options	3	18
	3	18
Cash outflows from transactions with non-controlling entities		
T-Mobile US share buy-backs	(946)	(94)
OTE share buy-backs	(63)	-
Acquisition of T-Mobile US shares	(164)	-
Acquisition of OTE shares	(284)	-
Other	(1)	(10)
	(1,458)	(104)
Other	(355)	(342)
	(2,939)	(4,282)

NON-CASH TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

In the first three quarters of 2018, Deutsche Telekom chose financing options totaling EUR 0.2 billion under which the payments for trade payables from operating and investing activities become due at a later point in time mainly by involving banks in the process (Q1 – Q3 2017: EUR 0.3 billion). These payables will subsequently be recognized under financial liabilities in the statement of financial position. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In the first three quarters of 2018, Deutsche Telekom leased network equipment (classified as a finance lease) for a total of EUR 0.6 billion (Q1 – Q3 2017: EUR 0.8 billion). The finance lease is subsequently also shown under financial liabilities in the statement of financial position. Future repayments of the liabilities will be recognized in net cash used in/from financing activities.

Consideration for the acquisition of broadcasting rights will be paid by Deutsche Telekom in accordance with the terms of the contract on the date of its conclusion or spread over the term of the contract. Financial liabilities of EUR 0.2 billion were recognized in the first three quarters of 2018 for future consideration for acquired broadcasting rights (Q1 – Q3 2017: EUR 0.2 billion). As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In the United States operating segment, EUR 0.7 billion was recognized for mobile handsets under property, plant and equipment in the reporting period (Q1 – Q3 2017: EUR 0.7 billion). These relate to the JUMP! On Demand business model at T-Mobile US, under which customers do not purchase the devices but lease them. The payments are presented under net cash from operating activities.

Following the transfer of the financial stake in the BT Group to Deutsche Telekom Trust e.V. in the first quarter of 2018, a non-cash transfer of EUR 3.0 billion to plan assets was made in order to increase external capital funding; this reduced the provisions for pensions recognized in the statement of financial position.

SEGMENT REPORTING

The following table gives an overall summary of Deutsche Telekom's operating segments and the Group Headquarters & Group Services segment for the first three quarters of 2018 and 2017.

Vivento Customer Services GmbH, a provider of call center services, has been assigned to the Germany operating segment since January 1, 2018; previously it was part of the Group Headquarters & Group Services segment. Comparative figures have been adjusted retrospectively.

In accordance with the Company's own principles of segment management, when loans with embedded derivatives are granted internally to Group entities, the derivative component is recognized separately in the creditor company's financial statements and measured at fair value through profit or loss.

For details on the development of operations in the operating segments and the Group Headquarters & Group Services segment, please refer to the section "Development of business in the operating segments" in the interim Group management report, page 17 et seq.

Segment information in the first three quarters

millions of €

		Comparative period			Reporting date					
		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Depreciation and amortization	Impairment losses	Segment assets	Segment liabilities	Investments accounted for using the equity method
Germany	Q1-Q3 2018	15,077	1,011	16,088	2,985	(2,964)	-	36,232	26,725	12
	Q1-Q3 2017	15,244	1,012	16,256	3,238	(2,845)	(6)	33,739	26,641	12
United States	Q1-Q3 2018	26,503	1	26,504	3,591	(3,901)	-	66,574	41,302	156
	Q1-Q3 2017 ^a	26,683	1	26,684	5,135	(3,821)	(4)	64,931	42,003	189
Europe	Q1-Q3 2018	8,490	262	8,752	1,127	(1,723)	(3)	27,644	10,018	59
	Q1-Q3 2017	8,316	271	8,587	1,081	(1,666)	(2)	25,746	10,206	62
Systems Solutions	Q1-Q3 2018	4,032	1,062	5,094	(121)	(296)	-	5,749	3,695	23
	Q1-Q3 2017	4,069	1,030	5,099	(1,319)	(291)	(1,242)	6,408	5,061	31
Group Development	Q1-Q3 2018	1,157	450	1,607	431	(244)	-	6,802	6,015	314
	Q1-Q3 2017	1,252	450	1,702	1,417	(215)	-	9,997	5,549	346
Group Headquarters & Group Services	Q1-Q3 2018	136	1,960	2,096	(971)	(608)	(7)	47,340	59,108	11
	Q1-Q3 2017	223	2,039	2,262	(851)	(475)	(24)	46,957	55,863	11
TOTAL	Q1-Q3 2018	55,395	4,746	60,141	7,042	(9,736)	(10)	190,341	146,863	575
	Q1-Q3 2017	55,787	4,803	60,590	8,701	(9,313)	(1,278)	187,778	145,323	651
Reconciliation	Q1-Q3 2018	-	(4,746)	(4,746)	11	101	(1)	(48,081)	(48,084)	(1)
	Q1-Q3 2017	-	(4,803)	(4,803)	(2)	24	(1)	(46,444)	(46,459)	-
GROUP	Q1-Q3 2018	55,395	-	55,395	7,053	(9,635)	(11)	142,260	98,779	574
	Q1-Q3 2017	55,787	-	55,787	8,699	(9,289)	(1,279)	141,334	98,864	651

^a Profit (loss) from operations (EBIT) in the comparative period includes a partial reversal of impairment losses on spectrum licenses previously acquired by T-Mobile US, accounting for EUR 1.7 billion.

CONTINGENT LIABILITIES

This section provides additional information and explains recent changes in the contingent liabilities as described in the consolidated financial statements for the 2017 financial year.

Toll Collect arbitration proceedings. On May 16, 2018, Daimler Financial Services AG, Deutsche Telekom AG, and the Federal Republic of Germany reached an agreement to end the Toll Collect arbitration proceedings. The settlement was notarized in early July 2018 and confirmed by the arbitral tribunal, bringing the arbitration proceedings to an end. The agreed settlement amount of around EUR 3.2 billion includes services previously provided to the Federal Republic of Germany. Daimler Financial Services AG and Deutsche Telekom AG have both agreed to make final payments of EUR 550 million each. For more information, please refer to the section "Changes in the composition of the Group, transactions with owners, and other transactions," page 43 et seq.

Claims relating to charges for the shared use of cable ducts. Regarding the legal proceedings brought by Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH, and Kabel BW GmbH, an appeal filed by the plaintiffs was rejected by the Düsseldorf Higher Regional Court in its ruling of March 14, 2018. An appeal was not permitted. The plaintiffs filed a complaint against the non-allowance of appeal with the Federal Court of Justice. In the parallel proceedings brought by Vodafone Kabel Deutschland GmbH, their claim now stands at approximately EUR 624 million along with another around EUR 9 million for the alleged benefit from additional interest, plus interest in each case.

Consent Fee for Sprint. In connection with the agreed business combination of T-Mobile US and Sprint, T-Mobile US may be required to reimburse Sprint for 67 percent of the upfront consent and related bank fees it paid to lending banks, or USD 161 million, if the business combination agreement is terminated.

FUTURE OBLIGATIONS FROM OPERATING LEASES AND OTHER FINANCIAL OBLIGATIONS

The following table provides an overview of Deutsche Telekom's obligations from operating leases and other financial obligations as of September 30, 2018:

	Sept. 30, 2018
Future obligations from operating leases	17,104
Purchase commitments regarding property, plant and equipment	4,162
Purchase commitments regarding intangible assets	519
Firm purchase commitments for inventories	4,130
Other purchase commitments and similar obligations	13,919
Payment obligations to the Civil Service Pension Fund	2,620
Obligations from the acquisition for interests in other companies	23,070
Miscellaneous other obligations	-
	65,524

Obligations from the acquisition for interests in other companies mainly concern the agreed business combination of T-Mobile US and Sprint at USD 26.5 billion (EUR 22.9 billion). Furthermore, the agreed acquisition of Tele2 Netherlands Holding N.V. results in a commitment of EUR 190 million for the cash component to be paid. For additional information on agreed corporate transactions, please refer to the section "Changes in the composition of the Group, transactions with owners, and other transactions," page 43 et seq. of this Interim Report, and to the section "Summary of accounting policies – Changes in the composition of the Group and other transactions" of the 2017 Annual Report, page 171 et seq.

DISCLOSURES ON FINANCIAL INSTRUMENTS

Carrying amounts, amounts recognized, and fair values by class and measurement category

millions of €

	Category in accordance with IFRS 9	Carrying amount Sept. 30, 2018	Amounts recognized in the statement of financial position in accordance with IFRS 9				Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Sept. 30, 2018 ^a
			Amortized cost	Fair value through other comprehensive income without recycling to profit or loss	Fair value through other comprehensive income with recycling to profit or loss	Fair value through profit or loss		
ASSETS								
Cash and cash equivalents	AC	2,235	2,235				-	
Trade receivables								
At amortized cost	AC	5,549	5,549				-	
At fair value through other comprehensive income	FVOCI	3,772		3,772			3,772	
At fair value through profit or loss	FVTPL	10			10		10	
Other financial assets								
Originated loans and other receivables								
At amortized cost	AC	3,050	3,050				3,079	
Of which: collateral paid	AC	686	686				-	
At fair value through other comprehensive income	FVOCI	-					-	
At fair value through profit or loss	FVTPL	108			108		108	
Equity instruments								
At fair value through other comprehensive income	FVOCI	303		303			303	
Derivative financial assets								
Derivatives without a hedging relationship	FVTPL	784			784		784	
Of which: termination rights embedded in bonds issued	FVTPL	159			159		159	
Of which: energy forward agreements embedded in contracts	FVTPL	2			2		2	
Derivatives with a hedging relationship	n. a.	127		14	113		127	
Lease assets	n. a.	150				150	-	
Equity instruments within non-current assets and disposal groups held for sale	FVOCI	94		94			94	
LIABILITIES								
Trade payables	AC	8,988	8,988				-	
Bonds and other securitized liabilities	AC	47,965	47,965				51,589	
Liabilities to banks	AC	5,816	5,816				5,881	
Liabilities to non-banks from promissory notes	AC	510	510				587	
Other interest-bearing liabilities	AC	1,762	1,762				1,806	
Of which: collateral received	AC	411	411				-	
Other non-interest-bearing liabilities	AC	1,466	1,466				-	
Finance lease liabilities	n. a.	2,595				2,595	2,831	
Derivative financial liabilities								
Derivatives without a hedging relationship	FVTPL	295			295		295	
Of which: options granted to third parties for the purchase of shares in subsidiaries and associates	FVTPL	10			10		10	
Of which: energy forward agreements embedded in contracts	FVTPL	71			71		71	
Derivatives with a hedging relationship	n. a.	716		102	614		716	
Of which: aggregated by category in accordance with IFRS 9								
ASSETS								
Financial assets at amortized cost	AC	10,834	10,834				3,079	
Financial assets at fair value through other comprehensive income with recycling to profit or loss	FVOCI	3,772		3,772			3,772	
Financial assets at fair value through other comprehensive income without recycling to profit or loss	FVOCI	397		397			397	
Financial assets at fair value through profit or loss	FVTPL	902			902		902	
LIABILITIES								
Financial liabilities at amortized cost	AC	66,507	66,507				59,863	
Financial liabilities at fair value through profit or loss	FVTPL	295			295		295	

^a The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

Trade receivables include receivables amounting to EUR 1.4 billion (December 31, 2017: EUR 1.6 billion) due in more than one year. The fair value generally equals the carrying amount.

Carrying amounts, amounts recognized, and fair values by class and measurement category

millions of €

	Category in accordance with IAS 39	Carrying amount Dec. 31, 2017	Amounts recognized in the statement of financial position in accordance with IAS 39			Fair value through profit or loss	Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31, 2017 ^a
			Amortized cost	Cost	Fair value recognized directly in equity			
ASSETS								
Cash and cash equivalents	LaR	3,312	3,312					-
Trade receivables	LaR	9,553	9,553					-
Originated loans and receivables	LaR/n. a.	3,507	3,354				153	3,539
Of which: collateral paid	LaR	504	504					-
Other non-derivative financial assets								
Held-to-maturity investments	HtM	5	5					-
Available-for-sale financial assets	AFS	4,216		187	4,029			4,029
Derivative financial assets								
Derivatives without a hedging relationship	FAHFT	1,103				1,103		1,103
Of which: termination rights embedded in bonds issued	FAHFT	351				351		351
Of which: energy forward agreements embedded in contracts	FAHFT	-						-
Derivatives with a hedging relationship	n. a.	214			42	172		214
Non-current assets and disposal groups held for sale	AFS							
LIABILITIES								
Trade payables	FLAC	10,934	10,934					
Bonds and other securitized liabilities	FLAC	45,453	45,453					50,472
Liabilities to banks	FLAC	4,974	4,974					5,062
Liabilities to non-banks from promissory notes	FLAC	480	480					582
Liabilities with the right of creditors to priority repayment in the event of default	FLAC	-	-					-
Other interest-bearing liabilities	FLAC	1,598	1,598					1,629
Of which: collateral received	FLAC	569	569					-
Other non-interest-bearing liabilities	FLAC	1,443	1,443					-
Finance lease liabilities	n. a.	2,635	2,635				2,635	2,893
Derivative financial liabilities								
Derivatives without a hedging relationship	FLHFT	337				337		337
Of which: conversion rights embedded in Mandatory Convertible Preferred Stock	FLHFT	-				-		-
Of which: options granted to third parties for the purchase of shares in subsidiaries	FLHFT	10				10		10
Of which: energy forward agreements embedded in contracts	FLHFT	46				46		46
Derivatives with a hedging relationship	n. a.	609			168	441		609
Derivative financial liabilities directly associated with non-current assets and disposal groups held for sale	FLHFT	-				-		-
Of which: aggregated by category in accordance with IAS 39								
Loans and receivables	LaR	16,219	16,219					3,386
Held-to-maturity investments	HtM	5	5					-
Available-for-sale financial assets	AFS	4,216		187	4,029			4,029
Financial assets held for trading	FAHFT	1,103				1,103		1,103
Financial liabilities measured at amortized cost	FLAC	64,882	64,882					57,745
Financial liabilities held for trading	FLHFT	337				337		337

^a The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

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

Reconciliation of financial assets from IAS 39 to IFRS 9

millions of €

	Carrying amount Dec. 31, 2017 (IAS 39)	Reclassifi- cation ^a	Reclassi- fication to other com- prehensive income	Remeasure- ments ^b	Carrying amount Jan. 1, 2018 (IFRS 9) ^c	Effect to be recognized in retained earnings Jan. 1, 2018 ^d
AT FAIR VALUE THROUGH PROFIT OR LOSS						
Ending balance in accordance with IAS 39	1,103				1,103	
Additions to IFRS 9 – At fair value through profit or loss from						
IAS 39 – Loans and receivables or held-to-maturity investments		8			8	
IAS 39 – Available-for-sale financial assets		12			12	
	1,103	20			1,123	
AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME						
Ending balance in accordance with IAS 39	4,216				4,216	
Additions to IFRS 9 – At fair value through other comprehensive income with recycling to profit or loss from						
IAS 39 – Loans and receivables or held-to-maturity investments		5,035	(101)	(2)	4,931	(97)
Disposals from IAS 39 – Available-for-sale financial assets to						
IFRS 9 – At amortized cost		(185)			(185)	
IFRS 9 – At fair value through other comprehensive income with recycling to profit or loss				(1)	(1)	(1)
IFRS 9 – At fair value through profit or loss		(12)			(12)	
	4,216	4,838	(101)	(3)	8,950	(99)
AT AMORTIZED COST						
Ending balance in accordance with IAS 39	16,226				16,226	
Additions to IFRS 9 – At amortized cost from						
IAS 39 – Available-for-sale financial assets		185			185	
Disposals from IAS 39 – Loans and receivables or held-to-maturity investments to						
IFRS 9 – At amortized cost		(313)		(38)	(350)	(39)
IFRS 9 – At fair value through other comprehensive income with recycling to profit or loss		(5,035)			(5,035)	
IFRS 9 – At fair value through profit or loss		(8)			(8)	
	16,226	(5,170)		(38)	11,017	(39)
TOTAL CHANGE	21,544	(313)	(101)	(41)	21,090	(138)

^a Carrying amount under IAS 39 that must be reclassified from an IAS 39 category to a new IFRS 9 category.

^b Resulting difference from the revaluation of an IAS 39 instrument under the new IFRS 9 category.

^c The allowances posted under trade receivables recognized at fair value through other comprehensive income were offset with the receivables. On initial presentation of the transition to IFRS 9 in the Interim Group Report for the period January 1 to March 31, 2018, these allowances were presented gross in other comprehensive income.

^d Effects include shares attributable to non-controlling interests.

The main reclassifications from the old IAS 39 measurement categories to the new IFRS 9 measurement categories relate to portfolios of trade receivables that are to be sold under a factoring agreement. Previously assigned to the category “Loans and receivables” and measured at amortized cost, these receivables are now measured – depending on the underlying business model – either at fair value through other comprehensive income with recycling to profit or loss, or at fair value through profit or loss. Trade receivables with a carrying amount of EUR 136 million were reclassified as contract assets in accordance with IFRS 15.

In addition, Deutsche Telekom reclassified all equity instruments previously recognized as available-for-sale financial assets to the IFRS 9 category “At fair value through other comprehensive income without recycling to profit or loss.”

Under IFRS 9, debt instruments previously assigned to the categories “Available-for-sale financial assets,” “Held-to-maturity investments,” and “Loans and receivables” are reclassified – depending on the underlying business model and the cash flow characteristics of each instrument – to the new categories “At amortized cost,” “At fair value through other comprehensive income with recycling to profit or loss,” or “At fair value through profit or loss.”

The allocation of financial liabilities to IFRS 9 measurement categories does not result in any changes. The names of the measurement categories were updated to reflect the wording of the new standard.

Subsidiaries that are not included in the consolidated financial statements due to their subordinate significance, and which were previously recognized under IAS 39 at amortized cost as available-for-sale financial assets, are recognized under other assets as of the 2018 financial year and were reclassified as of January 1, 2018 with a carrying amount of EUR 177 million.

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

Classes of financial instruments in accordance with IFRS 9					
	Measurement categories		Carrying amounts Dec. 31, 2017/Jan. 1, 2018		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
ASSETS					
Cash and cash equivalents	Loans and receivables (LaR)	Amortized cost (AC)	3,312	3,312	0
Trade receivables					
At amortized cost		Amortized cost (AC)		4,344	(5,056)
At fair value through other comprehensive income		Fair value through other comprehensive income (FVOCI)	9,400	4,919	4,919
At fair value through profit or loss	Loans and receivables (LaR)	Fair value through profit or loss (FVTPL)		6	6
Other financial assets					
Originated loans and other receivables					
At amortized cost	Loans and receivables (LaR) or held-to-maturity investments (HtM) or available-for-sale financial assets (AFS)	Amortized cost (AC)	3,512	3,361	(151)
Of which: collateral paid	Loans and receivables (LaR)	Amortized cost (AC)	504	504	-
At fair value through profit or loss	Available-for-sale financial assets (AFS)	Fair value through profit or loss (FVTPL)	14	14	-
Equity instruments					
At fair value through other comprehensive income	Available-for-sale financial assets (AFS)	Fair value through other comprehensive income (FVOCI)	4,202	4,029	(173)
At fair value through profit or loss	Available-for-sale financial assets (AFS)	Fair value through profit or loss (FVTPL)	-	-	-
Derivative financial assets					
Derivatives without a hedging relationship	Financial assets held for trading (FAHFT)	Fair value through profit or loss (FVTPL)	1,103	1,103	-
Of which: termination rights embedded in bonds issued	Financial assets held for trading (FAHFT)	Fair value through profit or loss (FVTPL)	351	351	-
Derivatives with a hedging relationship	n. a.	n. a.	214	214	-
Lease assets ^a	n. a.	n. a.	153	153	-
LIABILITIES					
Trade payables	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	10,934	10,934	-
Bonds and other securitized liabilities	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	45,453	45,453	-
Liabilities to banks	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	4,974	4,974	-
Liabilities to non-banks from promissory notes	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	480	480	-
Other interest-bearing liabilities	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	1,598	1,598	-
Of which: collateral received	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	569	569	-
Other non-interest-bearing liabilities	Financial liabilities measured at amortized cost (FLAC)	Amortized cost (AC)	1,443	1,443	-
Finance lease liabilities	n. a.	n. a.	2,635	2,635	-
Derivative financial liabilities					
Derivatives without a hedging relationship	Financial liabilities held for trading (FLHFT)	Fair value through profit or loss (FVTPL)	337	337	-
Of which: options granted to third parties for the purchase of shares in subsidiaries and associates	Financial liabilities held for trading (FLHFT)	Fair value through profit or loss (FVTPL)	10	10	-
Of which: energy forward agreements embedded in contracts	Financial liabilities held for trading (FLHFT)	Fair value through profit or loss (FVTPL)	46	46	-
Derivatives with a hedging relationship	n. a.	n. a.	609	609	-

^a Carrying amount in accordance with IAS 17.

The allowances on financial assets in accordance with IAS 39 are being reconciled to the IFRS 9 requirements as follows:

Allowances on financial assets

millions of €

		Trade receivables	Contract assets	Originated loans and other receivables	Total
Measurement categories					
in accordance with IAS 39	LaR	LaR	n. a.	LaR	
in accordance with IFRS 9	AC	FVOCI	n. a.	AC	
Allowances					
Amount in accordance with IAS 39 (Dec. 31, 2017)	1,303	334	0	19	1,657
Additions resulting from change in measurement category	24	99	28		151
Disposals resulting from change in measurement category				(13)	(13)
Amount in accordance with IFRS 9 (Jan. 1, 2018)	1,327	433	28	6	1,795
DIFFERENCE IN RETAINED EARNINGS (DEBIT (CREDIT))	24	99	28	(13)	138

Financial instruments measured at fair value

When determining the fair value, it is important to maximize the use of current inputs observable in liquid markets for the financial instrument in question and minimize the use of other inputs (e.g., historical prices, prices for similar instruments, prices on illiquid markets). A three-level measurement hierarchy is defined for these purposes. If prices quoted in liquid markets are available at the reporting date for the respective financial instrument, these will be used unadjusted for the measurement (Level 1 measurement). Other input parameters are then irrelevant for the measurement. One such example is shares and bonds that are actively traded on a stock exchange. Even if quoted prices on liquid mar-

kets are not available at the reporting date for the respective financial instrument, the instrument can be measured using other inputs that are observable on the market at the reporting date (Level 2 measurement). The conditions for this are that no major adjustments have been made to the observable inputs and no unobservable inputs are used. Examples of Level 2 measurements are collateralized interest rate swaps, currency forwards, and cross-currency swaps that can be measured using current interest rates or exchange rates. If the conditions for a Level 1 or Level 2 measurement are not met, a Level 3 measurement is applied. In such cases, major adjustments must be made to observable inputs or unobservable inputs must be used.

Financial instruments measured at fair value

millions of €

	Sept. 30, 2018			Total
	Level 1	Level 2	Level 3	
ASSETS				
Trade receivables				
At fair value through other comprehensive income			3,772	3,772
At fair value through profit or loss			10	10
Other financial assets – originated loans and other receivables				
At fair value through other comprehensive income				-
At fair value through profit or loss	99		9	108
Equity instruments				
At fair value through other comprehensive income	10		387	397
Derivative financial assets				
Derivatives without a hedging relationship		623	161	784
Derivatives with a hedging relationship		127		127
LIABILITIES				
Derivative financial liabilities				
Derivatives without a hedging relationship		214	81	295
Derivatives with a hedging relationship		716		716

Financial instruments measured at fair value

millions of €

	Dec. 31, 2017			
	Level 1	Level 2	Level 3	Total
ASSETS				
Available-for-sale financial assets (AFS)	3,752		277	4,029
Financial assets held for trading (FAHFT)		752	351	1,103
Derivative financial assets with a hedging relationship		214		214
LIABILITIES				
Financial liabilities held for trading (FLHFT)		281	56	337
Derivative financial liabilities with a hedging relationship		609		609

Of the equity instruments measured at fair value through other comprehensive income and recognized under other 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 equity instruments recognized as Level 1 are the price quotations at the reporting date. The total volume of instruments recognized as Level 1 amounted to EUR 10 million (December 31, 2017: EUR 3,752 million). The figure for the prior-year period included a strategic financial stake of 12 percent in BT with a carrying amount equivalent to around EUR 3.7 billion. In the reporting period, this stake was transferred to plan assets.

The listed bonds and other securitized liabilities are assigned to Level 1 or Level 2 depending on the market liquidity of the relevant instrument. As a rule, issues denominated in euros or U.S. dollars with relatively large nominal amounts are to be classified as Level 1, the rest as Level 2. The fair values of the instruments assigned to Level 1 equal the nominal amounts multiplied by the price quotations at the reporting date. The fair values of the instruments assigned to Level 2 are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

The fair values of liabilities to banks, liabilities to non-banks from promissory notes, other interest-bearing liabilities, and finance lease liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and Deutsche Telekom's credit spread curve for specific currencies.

Since there are no market prices available for the derivative financial instruments in the portfolio assigned to Level 2 due to the fact that they are not listed on the market, the fair values are calculated using standard financial valuation models, based entirely on observable inputs. The fair value of derivatives is the value that Deutsche Telekom would receive or have to pay if the financial instrument were transferred at the reporting date. Interest rates of contractual partners relevant as of the reporting date are used in this respect. The middle rates applicable as of the reporting date are used as exchange rates. In the case of interest-bearing derivatives, a distinction is made between the clean price and the dirty price. In contrast to the clean price, the dirty price also includes the interest accrued. The fair values carried correspond to the full fair value or the dirty price.

Development of the carrying amounts of the financial assets and financial liabilities assigned to Level 3

millions of €

	Equity instruments at fair value through other comprehensive income	Derivative financial assets at fair value through profit or loss: termination rights embedded in bonds issued	Derivative financial assets at fair value through profit or loss: energy forward agreements embedded in contracts	Derivative financial liabilities at fair value through profit or loss: energy forward agreements embedded in contracts
Carrying amount as of January 1, 2018	277	351	-	(46)
Additions (including first-time categorization as Level 3)	126	11	-	-
Value decreases recognized in profit/loss (including losses on disposal)	-	(158)	-	(26)
Value increases recognized in profit/loss (including gains on disposal)	-	68	2	3
Value decreases recognized directly in equity	(25)	-	-	-
Value increases recognized directly in equity	35	-	-	-
Disposals	(26)	(118)	-	-
Currency translation effects recognized directly in equity	-	5	-	(2)
CARRYING AMOUNT AS OF SEPTEMBER 30, 2018	387	159	2	(71)

The equity instruments assigned to Level 3 that are measured at fair value through other comprehensive income and carried under other financial assets are equity investments with a carrying amount of EUR 379 million measured using the best information available at the reporting date. As a rule, Deutsche Telekom considers transactions involving shares in those companies to have the greatest relevance. Transactions involving shares in comparable companies are also considered. The proximity of the relevant transaction to the reporting date, and the question of whether it was conducted at arm's length, are relevant for deciding which information is 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. Please refer to the table on page 58 for the development of the carrying amounts in the reporting period. At the reporting date, investments with a carrying amount of EUR 94 million were held for sale, while there were no plans to sell the remaining investments. In the case of investments with a carrying amount of EUR 277 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 September 30, 2018. In the case of investments with a carrying amount of EUR 102 million, an analysis of operational indicators (especially revenue, EBIT and liquidity) revealed that the carrying amounts were equivalent to current fair values. Due to better comparability, previous arm's-length transactions involving shares in these investments are preferable to more recent transactions involving shares in comparable companies. As of the reporting date, there were no investments for which the latest arm's-length transactions involving shares in these companies took place some time ago and where a measurement executed more recently via shares in comparable companies provides a better representation of the fair values. In addition, non-material individual items with a carrying amount of EUR 8 million are included with differences in value of minor relevance.

The derivatives without a hedging relationship assigned to Level 3 and carried under derivative financial assets relate to options embedded in bonds issued by T-Mobile US with a carrying amount of EUR 159 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 are used for the measurement because these provide a more reliable estimate 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 1.0 and 2.0 percent. The significant decline in this value compared with the prior year is mainly attributable to the improvement in the rating of T-Mobile US in the reporting period. The spread curve, which is also unobservable, was derived on the basis of current market prices of bonds issued by T-Mobile US and debt instruments of comparable issuers. The spreads used at the current reporting date were between 2.3 and 3.0 percent for the remaining maturities of the bonds and between 1.1 and 2.0 percent for shorter terms. For the mean reversion input, which is likewise unobservable, 10 percent was used. In our opinion, the values used constitute the best estimate in each case. If other values had been used for interest rate volatility, spread curve or mean reversion, the fair values calculated would have been different. These hypothetical deviations (sensitivities) are shown in the table on the following page. In the reporting period, a net expense of EUR 47 million when translated into euros was recognized under the Level 3 measurement in other financial income/expense for unrealized losses for the options in the portfolio at the reporting date. In the reporting period, several options were exercised and the relevant bonds canceled prematurely. At the time of termination, the options and their total carrying amount of EUR 118 million when translated into euros were expensed and derecognized. For the development of the carrying amounts in the reporting period, please refer to the corresponding table on page 58. The changes in value recognized in profit or loss in the reporting period were mainly attributable to fluctuations in the interest rates and historical interest rate volatilities in absolute terms that are relevant for measurement. Due to their distinctiveness, these instruments constitute a separate class of financial instruments.

Sensitivities^a of the carrying amounts of the financial assets and financial liabilities assigned to Level 3 depending on unobservable inputs

millions of €

	Derivative financial assets at fair value through profit or loss: termination rights embedded in bonds issued	Derivative financial assets at fair value through profit or loss: energy forward agreements embedded in contracts	Derivative financial liabilities at fair value through profit or loss: energy forward agreements embedded in contracts
Interest rate volatility ^b +10%	20	-	-
Interest rate volatility ^b -10%	(18)	-	-
Spread curve ^c +100 basis points	(87)	-	-
Spread curve ^c -100 basis points	167	-	-
Mean reversion ^d +100 basis points	(5)	-	-
Mean reversion ^d -100 basis points	5	-	-
Future energy prices +10%	-	6	35
Future energy prices -10%	-	(6)	(35)
Future energy output +5%	-	2	7
Future energy output -5%	-	(2)	(7)
Future prices for renewable energy credits ^e +100%	-	1	10
Future prices for renewable energy credits ^e from zero	-	(1)	(10)

^a Change in the relevant input parameter assuming all other input parameters are unchanged.

^b Interest rate volatility shows the magnitude of fluctuations in interest rates over time (relative change). The larger the fluctuations, the higher the interest rate volatility.

^c The spread curve shows, for the respective maturities, the difference between the interest rates payable by T-Mobile US and the interest rates on U.S. government bonds.

^d Mean reversion describes the assumption that, after a change, an interest rate will revert to its average over time. The higher the selected value (mean reversion speed), the faster the interest rate will revert to its average in the measurement model.

^e Renewable energy credits is the term used for U.S. emission certificates.

With a carrying amount of EUR 71 million when translated into euros, the derivatives without a hedging relationship assigned to Level 3 and carried under derivative financial liabilities relate to energy forward agreements embedded in contracts entered into by T-Mobile US. The same applies to derivative financial instruments with a carrying amount of EUR 2 million when translated into euros. These agreements consist of two components: the energy forward agreement and the acquisition of renewable energy credits by T-Mobile US. The agreements were entered into with energy producers in 2017 and 2018, and will run for terms of between 12 and 20 years from the commencement of commercial operations. In the case of one energy forward agreement, commercial operations began at the end of 2017; with the others, commercial operations are set to begin between 2019 and 2020. The respective settlement period of the energy forward agreement, which is accounted for separately as a derivative, also starts when the facility begins commercial operation. Under the energy forward agreements, T-Mobile US receives variable amounts based on the facility's actual energy output and the then current energy prices, and pays fixed amounts per unit of energy generated throughout the term of the contract. The energy forward agreements are measured using valuation models because no observable market prices are available. The value of the derivative is materially influenced by the facility's future energy output, for which T-Mobile US estimated a value of 1,954 gigawatt hours per year at the reporting date. The value of the derivatives is also materially influenced by future energy prices, which are not observable for the period beyond five years. Further, the value of the derivatives is materially influenced by the future prices for renewable energy credits, which are also not observable. For the unobservable portion

of the term, T-Mobile US used on-peak energy prices of between EUR 23.18/MWh and EUR 62.98/MWh when translated into euros and off-peak prices of between EUR 14.22/MWh and EUR 53.64/MWh when translated into euros. An average on-peak/off-peak ratio of 54 percent was used. In our opinion, the values used constitute the best estimate in each case. If other values had been used for future energy prices, future energy output or future prices of renewable energy credits, the fair values calculated would have been different. These hypothetical deviations (sensitivities) are shown in the table above. In the reporting period, a net expense of EUR 23 million (when translated into euros) was recognized under the Level 3 measurement in other operating income/expense for unrealized losses for the derivatives. For the development of the carrying amounts in the reporting period, please refer to the corresponding table on page 58. The market-price changes in the reporting period were largely attributable to changes in observable and unobservable energy prices and to interest rate effects. As one contract now has a positive fair value (for Deutsche Telekom) of EUR 2 million when translated into euros, it has to be recognized as a financial asset. Due to their distinctiveness, these instruments constitute a separate class of financial instruments. Measurement of the derivatives on initial recognition resulted in a positive value from T-Mobile US' perspective of EUR 139 million when translated into euros. In the view of T-Mobile US, the contracts were entered into at current market conditions, and the most appropriate parameters for the unobservable inputs were used for measurement purposes. The transaction price at inception was zero in each case. Since the unobservable inputs have a material influence on the measurement of the derivatives, the respective amount resulting from initial measurement was not carried on initial recognition. Instead,

these amounts are amortized in profit or loss on a straight-line basis over the period of commercial energy generation (for a total amount of EUR 10 million per year when translated into euros). This amortization adjusts the effects from measuring the derivatives in each accounting period using the respective valuation models and updated parameters. All amounts from the measurement of the derivatives are presented in net terms per contract in the statement of financial position (derivative financial assets/liabilities) and in the income statement (other operating income/expenses). The difference yet to be amortized in the income statement developed as follows during the reporting period:

Energy forward agreements: development of the not-yet-amortized measurement amounts on initial recognition

millions of €

Measurement amount on initial recognition (carrying amount as of January 1, 2018)	112
Measurement amount on initial recognition (additions during the reporting period)	28
Measurement amounts amortized in profit or loss in prior periods	-
Measurement amounts amortized in profit or loss in the current reporting period	(3)
Currency translation adjustments	-
MEASUREMENT AMOUNTS NOT AMORTIZED AS OF SEPTEMBER 30, 2018	137

For the trade receivables, loans issued and other receivables assigned to Level 3, which are measured either at fair value through other comprehensive income or at fair value through profit or loss, the main factor in determining fair value is the credit risk of the relevant counterparties. If the default rates applied as of the reporting date had been 1 percent higher (lower) with no change in the reference variables, the fair values of the instruments would have been 1 percent lower (higher).

The financial liabilities measured at fair value through profit or loss and assigned to Level 3 include derivative financial liabilities with a carrying amount of EUR 10 million resulting from an option granted to third parties in the prior-year period for the purchase of shares in an associate of Deutsche Telekom. The option was granted in connection with a sale of shares in this associate, and no notable fluctuations in value are expected. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

Disclosures on credit risk

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, Deutsche Telekom received unrestricted cash collateral from counterparties pursuant to collateral contracts in the amount of EUR 411 million (December 31, 2017: EUR 569 million). The credit risk was thus reduced by EUR 389 million (December 31, 2017: EUR 566 million) because, on the reporting date, the collateral received was offset by corresponding net derivative positions in the same amount. On the basis of these contracts, derivatives with a positive fair value and a total carrying amount of EUR 750 million as of the reporting date (December 31, 2017: EUR 966 million) had a maximum credit risk of EUR 13 million as of September 30, 2018 (December 31, 2017: EUR 28 million). There is no default risk on embedded derivatives held. For information on the amount not yet amortized from initial measurement of the energy forward agreement, please refer to the explanation above. 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 in the amount of EUR 686 million (December 31, 2017: EUR 504 million) to counterparties pursuant to collateral contracts. The net amounts are normally recalculated every bank working day and offset against each other. The cash collateral paid is offset by corresponding net derivative positions of EUR 574 million at the reporting date (December 31, 2017: EUR 889 million), which is why it was not exposed to any credit risks in this amount. 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 under financial liabilities, constitutes a separate class of financial liabilities on account of its connection to the corresponding derivatives. 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.

RELATED-PARTY DISCLOSURES

With the exception of the matters described in the following, there were no significant changes as of September 30, 2018 to the related-party disclosures reported in the consolidated financial statements as of December 31, 2017.

Joint ventures. In March 2018, the shareholders of the equity-accounted joint venture Toll Collect GmbH resolved to distribute a dividend, Deutsche Telekom's share of which is EUR 0.1 billion. On May 16, 2018, Daimler Financial Services AG, Deutsche Telekom AG, and the Federal Republic of Germany reached an agreement to end the Toll Collect arbitration proceedings. As it had announced in advance, the Federal Republic of Germany exercised its option to purchase 100 percent of the shares in the operating company, Toll Collect GmbH, when the operating agreement expired on August 31, 2018. Even after the acquisition of Toll Collect GmbH by the Federal Republic of Germany, the consortium Toll Collect GbR – comprising Deutsche Telekom AG, Daimler Financial Services AG and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) – continues to exist with an unchanged ownership structure. For more information, please refer to the section “Changes in the composition of the Group, transactions with owners, and other transactions,” page 43 et seq.

Deutsche Telekom Trust e.V. On March 23, 2018, the 12 percent stake in BT, which was worth EUR 3.1 billion at the time, was transferred to the Group's own trust, Deutsche Telekom Trust e.V., where it will serve as plan assets to cover pension entitlements.

EXECUTIVE BODIES

Changes in the composition of the Board of Management

At its meeting on February 21, 2018, the Supervisory Board of Deutsche Telekom AG resolved to extend Timotheus Höttges' contract as Chairman of our Board of Management by five years. Timotheus Höttges will be reappointed as Chairman of the Board of Management effective January 1, 2019. Also at its meeting on February 21, 2018, the Supervisory Board of Deutsche Telekom AG resolved to appoint Dr. Christian P. Illek as Chief Financial Officer (CFO) effective January 1, 2019. The current CFO, Thomas Dannenfeldt, will leave Deutsche Telekom AG for personal reasons when his contract expires at the end of 2018.

At its meeting on July 13, 2018, the Supervisory Board of Deutsche Telekom AG resolved to appoint Birgit Bohle as the new Board of Management member responsible for Human Resources and as Labor Director effective January 1, 2019. Birgit Bohle will succeed Dr. Christian P. Illek in this position.

At its meeting on September 4, 2018, the Supervisory Board of Deutsche Telekom AG resolved to appoint Thorsten Langheim as the Board of Management member responsible for USA and Group Development, a newly created Board of Management department, effective January 1, 2019.

Changes in the composition of the Supervisory Board

Shareholder representatives. Dr. Ulrich Schröder resigned from his position as a member of the Supervisory Board of Deutsche Telekom AG effective February 6, 2018. Dr. Günther Bräunig was initially court-appointed to the Supervisory Board of Deutsche Telekom AG effective March 21, 2018 and subsequently elected to this position by resolution of the shareholders' meeting on May 17, 2018.

Sari Baldauf's term of office expired at the end of the shareholders' meeting of May 17, 2018. Harald Krüger was elected to the Supervisory Board of Deutsche Telekom AG by the shareholders' meeting of May 17, 2018.

Prof. Ulrich Lehner was elected for a further term of office on the Supervisory Board of Deutsche Telekom AG by the shareholders' meeting of May 17, 2018. The members of the Supervisory Board once again elected Prof. Lehner to the position of Chairman.

Johannes Geismann resigned from his position on the Supervisory Board of Deutsche Telekom AG as of the end of the shareholders' meeting of May 17, 2018. Dr. Rolf Bösing was court-appointed to the Supervisory Board of Deutsche Telekom AG effective June 1, 2018.

Employee representatives. Hans-Jürgen Kallmeier resigned from his position as a member of the Supervisory Board of Deutsche Telekom AG effective midnight, December 31, 2017. Odysseus Chatzidis was court-appointed to the Supervisory Board of Deutsche Telekom AG effective January 3, 2018.

Monika Brandl resigned from her position on the Supervisory Board of Deutsche Telekom AG effective July 1, 2018. Nicole Seelemann-Wandtke was court-appointed to the Supervisory Board of Deutsche Telekom AG effective July 5, 2018.

EVENTS AFTER THE REPORTING PERIOD (SEPTEMBER 30, 2018)

T-Mobile US concludes interest rate lock transactions. In October 2018, T-Mobile US entered into several interest rate lock transactions (forward payer swaps) with multiple banks with an aggregate notional amount of USD 9.6 billion. These agreements are to hedge the interest rate levels for future long-term bond issuances.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim Group management report includes a fair review of the development and per-

formance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Bonn, November 8, 2018

Deutsche Telekom AG
Board of Management

Timotheus Höttges

Adel Al-Saleh

Thomas Dannenfeldt

Srini Gopalan

Dr. Christian P. Illek

Dr. Thomas Kremer

Claudia Nemat

Dr. Dirk Wössner

REVIEW REPORT

To Deutsche Telekom AG, Bonn

We have reviewed the condensed consolidated interim financial statements – comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows, and selected explanatory notes – and the interim Group management report of Deutsche Telekom AG, Bonn, for the period from January 1 to September 30, 2018, which are part of the quarterly financial report pursuant to § 115 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRSs applicable to the interim financial reporting as adopted by the EU and to the interim Group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's board of management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim Group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim Group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Review Engagements, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU and that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU nor that the interim Group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Frankfurt/Main, November 8, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Peter Bartels Thomas Tandetzki
Wirtschaftsprüfer Wirtschaftsprüfer

ADDITIONAL INFORMATION

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES

SPECIAL FACTORS

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

Reconciliations are presented for the reporting period, the prior-year period, and the full 2017 financial year:

millions of €

	EBITDA Q1-Q3 2018	EBIT Q1-Q3 2018	EBITDA Q1-Q3 2017	EBIT Q1-Q3 2017	EBITDA FY 2017	EBIT FY 2017
EBITDA/EBIT	16,699	7,053	19,267	8,699	23,969	9,383
GERMANY	(481)	(481)	(228)	(228)	(308)	(308)
Staff-related measures	(455)	(455)	(155)	(155)	(221)	(221)
Non-staff-related restructuring	(22)	(22)	(15)	(15)	(26)	(26)
Effects of deconsolidations, disposals and acquisitions	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Other	(4)	(4)	(58)	(58)	(61)	(61)
UNITED STATES	(59)	(59)	1,647	1,647	1,633	1,633
Staff-related measures	(10)	(10)	(5)	(5)	(7)	(7)
Non-staff-related restructuring	-	-	-	-	-	-
Effects of deconsolidations, disposals and acquisitions	(48)	(48)	1	1	(11)	(11)
Impairment losses	-	-	1,651	1,651	1,651	1,651
Other	-	-	-	-	-	-
EUROPE	(73)	(73)	(94)	(94)	(130)	(95)
Staff-related measures	(60)	(60)	(63)	(63)	(92)	(92)
Non-staff-related restructuring	-	-	-	-	(3)	(3)
Effects of deconsolidations, disposals and acquisitions	(9)	(9)	(1)	(1)	18	18
Impairment losses	-	-	-	-	-	(866)
Other	(4)	(4)	(30)	(30)	(53)	(52)
SYSTEMS SOLUTIONS	(143)	(146)	(148)	(1,396)	(229)	(1,477)
Staff-related measures	(89)	(89)	(87)	(87)	(132)	(132)
Non-staff-related restructuring	(1)	(1)	(1)	(1)	(2)	(2)
Effects of deconsolidations, disposals and acquisitions	-	-	-	-	-	-
Impairment losses	-	(3)	-	(1,247)	-	(1,242)
Other	(53)	(53)	(61)	(61)	(94)	(100)
GROUP DEVELOPMENT	(16)	(16)	937	937	893	893
Staff-related measures	(4)	(4)	3	3	1	1
Non-staff-related restructuring	-	-	(4)	(4)	(5)	(5)
Effects of deconsolidations, disposals and acquisitions	(11)	(11)	736	736	708	708
Impairment losses	-	-	-	-	-	-
Other	(1)	(1)	201	201	189	189
GROUP HEADQUARTERS & GROUP SERVICES	(214)	(214)	(62)	(62)	(119)	(119)
Staff-related measures	(236)	(236)	(78)	(78)	(107)	(107)
Non-staff-related restructuring	(51)	(51)	(15)	(15)	(49)	(49)
Effects of deconsolidations, disposals and acquisitions	(2)	(2)	42	42	63	63
Impairment losses	-	-	-	-	-	-
Other	75	75	(12)	(12)	(26)	(26)
GROUP	(985)	(989)	2,051	804	1,740	(374)
Staff-related measures	(855)	(855)	(382)	(382)	(559)	(559)
Non-staff-related restructuring	(74)	(74)	(35)	(35)	(85)	(85)
Effects of deconsolidations, disposals and acquisitions	(70)	(70)	778	778	778	778
Impairment losses	-	(3)	1,651	403	1,651	(463)
Other	14	14	40	40	(45)	(45)
EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)	17,684	8,042	17,215	7,895	22,230	9,757
Profit (loss) from financial activities (adjusted for special factors)	-	(1,394)	-	(2,360)	-	(2,895)
PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)	-	6,648	-	5,535	-	6,863
Income taxes (adjusted for special factors)	-	(1,897)	-	(1,513)	-	949
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)	-	4,751	-	4,022	-	7,812
PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO	-	-	-	-	-	-
Owners of the parent (net profit (loss)) (adjusted for special factors)	-	3,749	-	3,382	-	6,039
Non-controlling interests (adjusted for special factors)	-	1,003	-	640	-	1,773

GROSS AND NET DEBT

Deutsche Telekom considers net debt to be an important performance indicator for investors, analysts, and rating agencies.

millions of €

	Sept. 30, 2018	Dec. 31, 2017	Change	Change %	Sept. 30, 2017
Financial liabilities (current)	7,319	8,358	(1,039)	(12.4)	9,250
Financial liabilities (non-current)	53,804	49,171	4,633	9.4	49,387
FINANCIAL LIABILITIES	61,124	57,529	3,595	6.2	58,637
Accrued interest	(674)	(692)	18	2.6	(639)
Other	(840)	(781)	(59)	(7.6)	(721)
GROSS DEBT	59,610	56,056	3,554	6.3	57,277
Cash and cash equivalents	2,235	3,312	(1,077)	(32.5)	2,860
Available-for-sale financial assets/ financial assets held for trading	-	7	(7)	n. a.	7
Derivative financial assets	900	1,317	(417)	(31.6)	1,427
Other financial assets	1,002	629	372	59.2	348
NET DEBT	55,473	50,791	4,682	9.2	52,635

RECONCILIATION FOR THE CHANGE IN DISCLOSURE OF KEY FIGURES FOR THE COMPARATIVE PERIOD IN THE FIRST THREE QUARTERS OF 2018

millions of €

	Comparative period						Dec. 31, 2017	
	Total revenue	Profit (loss) from operations (EBIT)	EBITDA	Adjusted EBITDA	Depreciation and amortization	Impairment losses	Segment assets	Segment liabilities
Q1-Q3 2017/SEPTEMBER 30, 2017								
PRESENTATION AS OF SEPTEMBER 30, 2017 - AS REPORTED								
Germany	16,256	3,281	6,132	6,360	(2,845)	(6)	33,667	26,566
United States	26,684	5,135	8,960	7,313	(3,821)	(4)	64,931	42,003
Europe	8,587	1,081	2,749	2,843	(1,666)	(2)	25,746	10,206
Systems Solutions	5,099	(1,319)	214	362	(291)	(1,242)	6,408	5,061
Group Development	1,702	1,417	1,632	695	(215)	0	9,997	5,549
Group Headquarters & Group Services	2,268	(895)	(395)	(333)	(475)	(25)	46,956	55,867
TOTAL	60,596	8,700	19,292	17,240	(9,313)	(1,278)	187,707	145,252
Reconciliation	(4,810)	(1)	(25)	(25)	24	-	(46,373)	(46,388)
GROUP	55,787	8,699	19,267	17,215	(9,289)	(1,278)	141,334	98,864
Q1-Q3 2017/SEPTEMBER 30, 2017								
+/- CHANGE IN DISCLOSURE: VIVENTO CUSTOMER SERVICES								
Germany	-	(44)	(43)	(42)	-	-	71	76
United States	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
Systems Solutions	-	-	-	-	-	-	-	-
Group Development	-	-	-	-	-	-	-	-
Group Headquarters & Group Services	(6)	44	43	42	-	-	-	(4)
TOTAL	(6)	-	-	-	-	-	71	72
Reconciliation	6	-	-	-	-	-	(71)	(72)
GROUP	-	-	-	-	-	-	-	-
Q1-Q3 2017/SEPTEMBER 30, 2017								
= PRESENTATION AS OF SEPTEMBER 30, 2018								
Germany	16,256	3,238	6,089	6,318	(2,845)	(6)	33,739	26,641
United States	26,684	5,135	8,960	7,313	(3,821)	(4)	64,931	42,003
Europe	8,587	1,081	2,749	2,843	(1,666)	(2)	25,746	10,206
Systems Solutions	5,099	(1,319)	214	362	(291)	(1,242)	6,408	5,061
Group Development	1,702	1,417	1,632	695	(215)	-	9,997	5,549
Group Headquarters & Group Services	2,262	(851)	(352)	(291)	(475)	(24)	46,957	55,863
TOTAL	60,590	8,700	19,292	17,240	(9,313)	(1,278)	187,778	145,323
Reconciliation	(4,804)	(1)	(25)	(25)	24	-	(46,444)	(46,459)
GROUP	55,787	8,699	19,267	17,215	(9,289)	(1,278)	141,334	98,864

GLOSSARY

For definitions, please refer to the 2017 Annual Report and the glossary therein, page 260 et seq.

DISCLAIMER

This Report (particularly the section “Forecast”) contains forward-looking statements that reflect the current views of Deutsche Telekom’s management with respect to future events. They are generally identified by the words “expect,” “anticipate,” “believe,” “intend,” “estimate,” “aim,” “goal,” “plan,” “will,” “seek,” “outlook,” or similar expressions and include generally any information that relates to expectations or targets for revenue, adjusted EBITDA, or other performance measures.

Forward-looking statements are based on current plans, estimates, and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom’s control. They include, for instance, the progress of Deutsche Telekom’s staff-related restructuring measures and the impact of other significant strategic or business initiatives, including acquisitions, dispositions, and business combinations. In addition, movements in exchange rates and interest rates, regulatory rulings, stronger than expected competition, technological change, litigation, and regulatory developments, among other factors, may have a material adverse effect on costs and revenue development.

If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, Deutsche Telekom’s actual results may be materially different from those expressed or implied by such statements. Deutsche Telekom can offer no assurance that its expectations or targets will be achieved. Without prejudice to existing obligations under capital market law, Deutsche Telekom does not assume any obligation to update forward-looking statements to account for new information or future events or anything else.

In addition to figures prepared in accordance with IFRS, Deutsche Telekom presents alternative performance measures, e.g., EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted EBIT, adjusted EBIT margin, adjusted net profit/loss, free cash flow, gross debt, and net debt. These measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Alternative performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to alternative performance measures, please refer to the 2017 Annual Report, section “Management of the Group,” page 38 et seq., or to Deutsche Telekom’s Investor Relations website at www.telekom.com/alternative-performance-measures.

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

FINANCIAL CALENDAR

November 8, 2018	February 21, 2019	March 28, 2019
Publication of the Interim Group Report as of September 30, 2018	Press conference on the 2018 financial statements and publication of the 2018 Annual Report	2019 shareholders' meeting
May 9, 2019	August 8, 2019	November 7, 2019
Publication of the Interim Group Report as of March 31, 2019	Publication of the Interim Group Report as of June 30, 2019	Publication of the Interim Group Report as of September 30, 2019

All dates are subject to change.

For more dates, an updated schedule, and information on webcasts, please go to www.telekom.com/financial-calendar.

CONTACTS

Deutsche Telekom AG
Friedrich-Ebert-Allee 140
53113 Bonn

Media inquiries:
Corporate Communications
Phone +49 (0) 228 181 49494
E-mail media@telekom.de

Inquiries relating to the T-Share:
Investor Relations
Phone +49 (0) 228 181 88880
E-mail investor.relations@telekom.de

Further information on Deutsche Telekom is available at: www.telekom.com

This Interim Group Report can be downloaded from our Investor Relations website at: www.telekom.com/investor-relations

Our Annual Report is available online at:
www.telekom.com/geschaeftsbericht
www.telekom.com/annualreport

The English version of the Interim Group Report for January 1 to September 30, 2018 is a translation of the German version of the Interim Group Report. The German version is legally binding.

This Interim Group Report is a publication of Deutsche Telekom AG.

You can access our Investor Relations website directly by scanning this QR code.

