

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

millions of €

	June 30, 2018	Dec. 31, 2017	Change	Change %	June 30, 2017
ASSETS					
CURRENT ASSETS	20,213	20,392	(179)	(0.9)	17,808
Cash and cash equivalents	2,943	3,312	(369)	(11.1)	2,441
Trade and other receivables	8,921	9,723	(802)	(8.2)	9,161
Contract assets	1,715	n. a.	n. a.	n. a.	n. a.
Current recoverable income taxes	283	236	47	19.9	181
Other financial assets	2,585	3,329	(744)	(22.3)	2,116
Inventories	1,571	1,985	(414)	(20.9)	1,729
Other assets	2,020	1,646	374	22.7	1,975
Non-current assets and disposal groups held for sale	175	161	14	8.7	204
NON-CURRENT ASSETS	119,536	120,943	(1,407)	(1.2)	123,682
Intangible assets	63,636	62,865	771	1.2	64,809
Property, plant and equipment	47,844	46,878	966	2.1	46,203
Capitalized contract costs	1,445	n. a.	n. a.	n. a.	n. a.
Investments accounted for using the equity method	568	651	(83)	(12.7)	606
Other financial assets	1,812	5,716	(3,904)	(68.3)	6,417
Deferred tax assets	3,299	4,013	(714)	(17.8)	4,898
Other assets	930	819	111	13.6	748
TOTAL ASSETS	139,749	141,334	(1,585)	(1.1)	141,490
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES	23,454	27,366	(3,912)	(14.3)	27,200
Financial liabilities	6,708	8,358	(1,650)	(19.7)	10,351
Trade and other payables	8,924	10,971	(2,047)	(18.7)	8,735
Income tax liabilities	353	224	129	57.6	358
Other provisions	2,784	3,372	(588)	(17.4)	2,796
Other liabilities	2,823	4,440	(1,617)	(36.4)	4,959
Contract liabilities	1,861	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	74,892	71,498	3,394	4.7	75,696
Financial liabilities	54,554	49,171	5,383	10.9	50,638
Provisions for pensions and other employee benefits	5,650	8,375	(2,725)	(32.5)	8,113
Other provisions	3,143	3,155	(12)	(0.4)	3,215
Deferred tax liabilities	7,500	6,967	533	7.7	9,582
Other liabilities	3,473	3,831	(358)	(9.3)	4,148
Contract liabilities	573	n. a.	n. a.	n. a.	n. a.
LIABILITIES	98,346	98,864	(518)	(0.5)	102,896
SHAREHOLDERS' EQUITY	41,403	42,470	(1,067)	(2.5)	38,594
Issued capital	12,189	12,189	0	n. a.	12,189
Treasury shares	(49)	(49)	0	n. a.	(49)
	12,141	12,140	1	0.0	12,140
Capital reserves	54,573	55,010	(437)	(0.8)	54,574
Retained earnings including carryforwards	(37,635)	(38,750)	1,115	2.9	(38,622)
Total other comprehensive income	(944)	(1,127)	183	16.2	(558)
Net profit (loss)	1,487	3,461	(1,974)	(57.0)	1,621
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT	29,621	30,734	(1,113)	(3.6)	29,155
Non-controlling interests	11,782	11,737	45	0.4	9,439
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	139,749	141,334	(1,585)	(1.1)	141,490

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 xx et. seq.](#)

CONSOLIDATED INCOME STATEMENT

millions of €

	Q2 2018	Q2 2017	Change %	H1 2018	H1 2017	Change %	FY 2017
NET REVENUE	18,367	18,890	(2.8)	36,291	37,537	(3.3)	74,947
Of which: interest income calculated using the effective interest method	1	n. a.	n. a.	2	n. a.	n. a.	n. a.
Other operating income	339	479	(29.2)	711	1,250	(43.1)	3,819
Changes in inventories	0	(6)	n. a.	1	34	(97.1)	21
Own capitalized costs	582	563	3.4	1,141	1,105	3.3	2,292
Goods and services purchased	(8,964)	(9,281)	3.4	(17,682)	(18,593)	4.9	(38,161)
Personnel costs	(4,162)	(3,824)	(8.8)	(8,219)	(7,788)	(5.5)	(15,504)
Other operating expenses	(605)	(835)	27.5	(1,418)	(1,596)	11.2	(3,444)
Impairment losses on financial assets	(110)	n. a.	n. a.	(216)	n. a.	n. a.	n. a.
Gains (losses) from the write-off of financial assets measured at amortized cost	(10)	n. a.	n. a.	(20)	n. a.	n. a.	n. a.
Other	(485)	(835)	41.9	(1,182)	(1,596)	25.9	(3,444)
Depreciation, amortization and impairment losses	(3,204)	(3,156)	(1.5)	(6,302)	(6,347)	0.7	(14,586)
PROFIT FROM OPERATIONS	2,352	2,830	(16.9)	4,523	5,601	(19.2)	9,383
Finance costs	(531)	(511)	(3.9)	(953)	(1,148)	17.0	(2,197)
Interest income	60	94	(36.2)	129	169	(23.7)	320
Interest expense	(591)	(605)	2.3	(1,081)	(1,318)	18.0	(2,517)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	(599)	3	n. a.	(529)	7	n. a.	76
Other financial income (expense)	(56)	(445)	87.4	(114)	(1,851)	93.8	(2,269)
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	(1,185)	(953)	(24.3)	(1,596)	(2,993)	46.7	(4,390)
PROFIT (LOSS) BEFORE INCOME TAXES	1,167	1,877	(37.8)	2,927	2,609	12.2	4,994
Income taxes	(370)	(686)	46.1	(864)	(608)	(42.1)	558
PROFIT (LOSS)	797	1,192	(33.1)	2,063	2,001	3.1	5,551
PROFIT (LOSS) ATTRIBUTABLE TO							
Owners of the parent (net profit (loss))	495	874	(43.4)	1,487	1,621	(8.3)	3,461
Non-controlling interests	302	317	(4.7)	576	380	51.6	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 xx et. seq.](#)

EARNINGS PER SHARE

	Q2 2018	Q2 2017	Change %	H1 2018	H1 2017	Change %	FY 2017
Profit (loss) attributable to the owners of the parent (net profit (loss))	495	874	(43.4)	1,487	1,621	(8.3)	3,461
Weighted average number of ordinary shares (basic/diluted)	4,761	4,669	2.0	4,761	4,669	2.0	4,703
EARNINGS PER SHARE BASIC/DILUTED	0.10	0.19	(47.4)	0.31	0.35	(11.4)	0.74

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

millions of €

	Q2 2018	Q2 2017	Change	H1 2018	H1 2017	Change	FY 2017
PROFIT (LOSS)	797	1,192	(395)	2,063	2,001	62	5,551
Items not subsequently reclassified to profit or loss (not recycled)							
Gains (losses) from the remeasurement of equity instruments ^a	14	n. a.	n. a.	(647)	n. a.	n. a.	n. a.
Gains (losses) from the remeasurement of defined benefit plans	(142)	207	(349)	(141)	326	(467)	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	62	(65)	127	57	(103)	160	(19)
	(66)	142	(208)	(732)	223	(954)	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	(1)	0	(1)	(1)	0	(1)	0
Change in other comprehensive income (not recognized in income statement)	1,102	(1,171)	2,273	486	(1,249)	1,735	(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.	2	n. a.	n. a.	3	n. a.	7
Change in other comprehensive income (not recognized in income statement)	n. a.	22	n. a.	n. a.	20	n. a.	27
Gains (losses) from the remeasurement of debt instruments ^a							
Recognition of other comprehensive income in income statement	(32)	n. a.	n. a.	(35)	n. a.	n. a.	n. a.
Change in other comprehensive income (not recognized in income statement)	(16)	n. a.	n. a.	3	n. a.	n. a.	n. a.
Gains (losses) from hedging instruments ^{a, c}							
Recognition of other comprehensive income in income statement	n. a.	205	n. a.	n. a.	266	n. a.	450
Change in other comprehensive income (not recognized in income statement)	n. a.	(149)	n. a.	n. a.	(92)	n. a.	(270)
Gains (losses) from hedging instruments (designated risk components) ^a							
Recognition of other comprehensive income in income statement	(91)	n. a.	n. a.	(46)	n. a.	n. a.	n. a.
Change in other comprehensive income (not recognized in income statement)	59	n. a.	n. a.	(53)	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)	29	n. a.	n. a.	63	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	7	(1)	8	0
Income taxes relating to components of other comprehensive income	10	(19)	29	20	(56)	76	(58)
	1,060	(1,110)	2,170	445	(1,109)	1,554	(2,040)
OTHER COMPREHENSIVE INCOME	995	(968)	1,963	(288)	(886)	598	(1,943)
TOTAL COMPREHENSIVE INCOME	1,791	224	1,567	1,776	1,115	661	3,608
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO							
Owners of the parent	1,045	312	733	969	1,212	(243)	2,340
Non-controlling interests	747	(89)	836	807	(97)	904	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 xx et seq.](#)

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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			(47)			(6)		
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			90					
Share buy-back/shares held in a trust deposit		1		3				
Profit (loss)					1,621			
Other comprehensive income				221		(770)		22
TOTAL COMPREHENSIVE INCOME								
Transfer to retained earnings								
BALANCE AT JUNE 30, 2017	12,189	(49)	54,574	(38,622)	1,621	(1,147)	(60)	91
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				1,449				(101)
Changes in the composition of the Group								
Transactions with owners			(550)	1		(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			112					
Share buy-back/shares held in a trust deposit		1		2				
Profit (loss)					1,487			
Other comprehensive income				(83)		246		
TOTAL COMPREHENSIVE INCOME								
Transfer to retained earnings				(633)			28	
BALANCE AT JUNE 30, 2018	12,189	(49)	54,573	(37,635)	1,487	(1,495)	(32)	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 xx 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
							-	-	-
							(53)	70	17
							0	-	0
							(2,794)	(122)	(2,916)
							1,391	-	1,391
							90	48	138
							4	-	4
							1,621	380	2,001
		174			(1)	(55)	(409)	(477)	(886)
							1,212	(97)	1,115
							-	-	-
n. a.	n. a.	783	n. a.	n. a.	26	(251)	29,155	9,439	38,594
n. a.	n. a.	789	n. a.	n. a.	26	(254)	30,734	11,737	42,470
93		(789)	789			2	1,446	103	1,548
							-	11	11
0	2					(1)	(559)	(772)	(1,331)
							0	-	0
							(3,083)	(172)	(3,255)
							-	-	-
							112	67	179
							3	-	3
							1,487	576	2,063
(648)	(20)		(99)	63	7	16	(518)	231	(288)
							969	807	1,776
644	(6)				(35)	1	0	0	0
90	(24)	n. a.	689	63	(3)	(233)	29,621	11,782	41,403

CONSOLIDATED STATEMENT OF CASH FLOWS

millions of €

	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
PROFIT BEFORE INCOME TAXES	1,167	1,877	2,927	2,609	4,994
Depreciation, amortization and impairment losses	3,204	3,156	6,302	6,347	14,586
(Profit) loss from financial activities	1,185	953	1,596	2,993	4,390
(Profit) loss on the disposal of fully consolidated subsidiaries	-	(31)	-	(550)	(537)
(Income) loss from the sale of stakes accounted for using the equity method	-	(226)	-	(226)	(226)
Other non-cash transactions	118	67	230	185	(1,447)
(Gains) losses from the disposal of intangible assets and property, plant and equipment	(26)	(2)	(91)	(35)	(103)
Change in assets carried as working capital	(15)	(467)	310	(109)	(1,874)
Change in provisions	(386)	(256)	(667)	(326)	265
Change in other liabilities carried as working capital	(212)	(31)	(806)	(562)	51
Income taxes received (paid)	(98)	(100)	(222)	(180)	(634)
Dividends received	11	13	173	88	241
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives	-	-	-	-	-
CASH GENERATED FROM OPERATIONS	4,947	4,955	9,753	10,235	19,706
Interest paid	(1,020)	(1,141)	(1,843)	(2,311)	(3,783)
Interest received	465	389	779	635	1,274
NET CASH FROM OPERATING ACTIVITIES	4,392	4,204	8,689	8,559	17,196
Cash outflows for investments in					
Intangible assets	(880)	(7,984)	(1,689)	(8,716)	(10,345)
Property, plant and equipment	(2,215)	(2,256)	(4,545)	(4,804)	(9,149)
Non-current financial assets	(95)	(98)	(203)	(175)	(361)
Payments to acquire control of subsidiaries and associates	(6)	(7)	(282)	(11)	(15)
Proceeds from disposal of					
Intangible assets	-	1	1	15	21
Property, plant and equipment	143	90	304	194	379
Non-current financial assets	275	328	299	347	612
Proceeds from the loss of control of subsidiaries and associates	-	504	(62)	500	528
Net change in short-term investments and marketable securities and receivables	183	2,210	(60)	1,948	1,514
Other	5	-	5	(1)	2
NET CASH USED IN INVESTING ACTIVITIES	(2,589)	(7,212)	(6,233)	(10,703)	(16,814)
Proceeds from issue of current financial liabilities	20,750	4,806	34,153	6,315	13,516
Repayment of current financial liabilities	(23,700)	(8,952)	(38,868)	(17,347)	(26,537)
Proceeds from issue of non-current financial liabilities	4,442	1,865	6,908	10,013	11,215
Repayment of non-current financial liabilities	-	-	(21)	(10)	(10)
Dividends (including to non-controlling interests)	(3,148)	(1,502)	(3,148)	(1,503)	(1,559)
Repayment of lease liabilities	(197)	(165)	(402)	(361)	(715)
Cash inflows from transactions with non-controlling entities	1	4	2	18	18
Cash outflows from transactions with non-controlling entities	(646)	(5)	(1,417)	(93)	(522)
Other	-	-	-	-	-
NET CASH USED IN FINANCING ACTIVITIES	(2,499)	(3,950)	(2,794)	(2,970)	(4,594)
Effect of exchange rate changes on cash and cash equivalents	22	(155)	(31)	(194)	(226)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	-	13	-	3	3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(675)	(7,101)	(369)	(5,306)	(4,435)
CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE PERIOD	3,618	9,542	3,312	7,747	7,747
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	2,943	2,441	2,943	2,441	3,312

SIGNIFICANT EVENTS AND TRANSACTIONS

ACCOUNTING POLICIES

In accordance with § 115 of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Deutsche Telekom AG's half-year financial report comprises interim consolidated financial statements and an interim management report for the Group as well as a responsibility statement pursuant to § 297 (2) sentence 4 and § 315 (1) sentence 6 of the German Commercial Code (Handelsgesetzbuch – HGB). 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 the WpHG.

STATEMENT OF COMPLIANCE

The interim consolidated financial statements for the period ended June 30, 2018 are 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 half-year 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 "Revenue" and IAS 11 "Construction Contracts." When applying IFRS 15 for the first time, an entity shall apply the standard in full for the current period. In respect of prior periods, the transition guidance grants entities an option to either apply IFRS 15 in full to prior periods (with certain limited practical expedients being available) or to retain prior-period figures as reported under the previous standards, recognizing the cumulative effect of applying IFRS 15 to all contracts that had not yet been completed at the beginning of the reporting period as an adjustment to the opening balance of equity at the date of first-time 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: • 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	27
	150

For further information on first-time application of IFRS 9, please refer to the statements made under the disclosures on financial instruments, page **xx 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 “Revenue” and IAS 11 “Construction Contracts” and has a material effect on the presentation of Deutsche Telekom’s results of operations and financial position. Depending on the business model applied, the new provisions 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 ultimately 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 to 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 leased 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 for handset subsidies granted by third-party retailers that are explicitly or implicitly included in commission payments to these 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	Remeasure- ments	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	–	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	–	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	–	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	–	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 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, [page xx](#).

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

The following tables contain relevant items from the financial statements as of June 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 June 30, 2018	IAS 18/IAS 11 June 30, 2018	Change
ASSETS			
CURRENT ASSETS			
Trade and other receivables	8,921	9,269	(348)
Contract assets	1,715	0	1,715
Current recoverable income taxes	283	284	(1)
Other assets	2,020	2,093	(73)
NON-CURRENT ASSETS			
Capitalized contract costs	1,445	0	1,445
Deferred tax assets	3,299	3,952	(653)
Other assets	930	1,049	(119)
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Financial liabilities	6,708	6,728	(20)
Trade and other payables	8,924	8,930	(6)
Income tax liabilities	353	347	6
Other provisions	2,784	2,855	(71)
Other liabilities	2,823	4,593	(1,770)
Contract liabilities	1,861	0	1,861
NON-CURRENT LIABILITIES			
Deferred tax liabilities	7,500	7,440	60
Other liabilities	3,473	4,047	(574)
Contract liabilities	573	0	573
SHAREHOLDERS' EQUITY			
Retained earnings including carryforwards and net profit plus non-controlling interests	(24,366)	(26,261)	1,895

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, are 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 half of 2018.

millions of €

	IFRS 15 H1 2018	IAS 18/IAS 11 H1 2018	Change
NET REVENUE	36,291	36,362	(71)
Other operating income	711	711	(0)
Changes in inventories	1	1	(0)
Own capitalized costs	1,141	1,141	0
Goods and services purchased	(17,682)	(17,870)	188
Personnel costs	(8,219)	(8,280)	61
Other operating expenses	(1,418)	(1,411)	(7)
Depreciation, amortization and impairment losses	(6,302)	(6,302)	0
PROFIT (LOSS) FROM OPERATIONS	4,523	4,352	171
Finance costs	(953)	(945)	(8)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	(529)	(529)	0
Other financial income (expense)	(114)	(114)	0
PROFIT (LOSS) FROM FINANCIAL ACTIVITIES	(1,596)	(1,588)	(8)
PROFIT (LOSS) BEFORE INCOME TAXES	2,927	2,764	163
Income taxes	(864)	(818)	(46)
PROFIT (LOSS)	2,063	1,946	117

Without the effect of IFRS 15, revenue would have amounted to EUR 36.4 billion, EUR 0.1 billion higher than reported. This effect is attributable mainly to amortization of the contract assets/liabilities recognized in the statement of financial position over the (remaining) period of contract in the first half of 2018. This amortization is recognized as a reduction or an increase in revenue. It also includes, in the indirect sales channel, reimbursements for handset subsidies granted by third-party retailers that are included in commission payments to these retailers and that are no longer recognized as an expense, but as a reduction of the service revenues over the contract term.

Adjusted for the effects of IFRS 15, goods and services purchased and personnel costs would have come in at EUR 17.9 billion and EUR 8.3 billion, respectively, and would thus have been a total of EUR 0.2 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 half 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 the majority of leases for intangible assets.

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

- The lease payments largely relate to leases of cell sites (land, space in cell towers or rooftop surface areas), network infrastructure, and buildings used for administrative or technical purposes.
- In the future, payment obligations for operating leases – 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 the significant amount of liabilities from straight-line leases in accordance with IAS 17, which in accordance with IFRS 16 must be deducted from the right-of-use assets, the capitalized right-of-use assets under IFRS 16 will be lower than the lease liabilities under IFRS 16 by the amount of those straight-line lease liabilities (Note 14 "Other liabilities" 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 handsets 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 is still analyzing whether contracts related to services provided in data centers and in connection with wholesale fixed-network customers contain lease components or not.

The 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 half 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.

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. This distribution of the T-Mobile US shares, along with clear corporate governance rules, means that Deutsche Telekom will continue to be able to include T-Mobile US in its 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 additional buy-back authorization is subject to the business combination agreement with Sprint being terminated.

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.

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 a conclusion. 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 Federal Republic of Germany has announced that, on expiration of the operating agreement on August 31, 2018, it will exercise its option to purchase 100 percent of the shares in the operating company, Toll Collect GmbH. Even after the Federal Republic of Germany has acquired Toll Collect GmbH, the consortium Toll Collect GbR – comprising Deutsche Telekom AG, Daimler Financial Services AG and Compagnie Financière et Industrielle des Autoroutes S.A. (Cofiroute) – will continue 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 contract will remain in place until their scheduled expiration on October 15, 2018. In addition, the equity maintenance undertaking entered into by the aforementioned consortium members under the operating agreement will remain in place until the Federal Republic of Germany assumes full control of Toll Collect GmbH, but will be replaced as of August 31, 2018 by a guaranteed equity base of at least EUR 50 million for Toll Collect GmbH.

SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

TRADE AND OTHER RECEIVABLES

Trade and other receivables decreased by EUR 0.8 billion to EUR 8.9 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. In addition, the volume of receivables for terminal equipment sold under installment plans in the United States operating segment decreased. 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 xx et. seq.](#)

INVENTORIES

At EUR 1.6 billion, inventories were down EUR 0.4 billion compared with December 31, 2017, mainly due to lower inventories of terminal equipment (especially higher-priced smartphones) at T-Mobile US.

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 from EUR 62.9 billion to EUR 63.6 billion. Additions totaling EUR 1.7 billion increased the carrying amount and mainly related to capital expenditures in the United States and Germany operating segments. Changes in the composition of the Group in the amount of EUR 0.4 billion – mainly from the acquisition of online TV provider Layer3 TV in the United States operating segment – also increased the carrying amount. On the acquisition date, an identifiable intangible asset of EUR 0.1 billion in connection with technology developed by Layer3 TV, and goodwill of EUR 0.2 billion were recognized. Positive exchange rate effects, primarily from the translation of U.S. dollars into euros, increased the carrying amount by EUR 1.0 billion. Depreciation, amortization and impairment losses decreased the carrying amount by EUR 2.1 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 first-time application of the standard, please refer to the section "Accounting policies," page xx 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 then 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.

Compared with December 31, 2017, **property, plant and equipment** increased by EUR 1.0 billion to EUR 47.8 billion. Additions of EUR 5.0 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 0.5 billion was attributable to the capitalization of higher-priced mobile handsets in connection with the JUMP! On Demand business model introduced at T-Mobile US, under which customers do not purchase the device but lease it. Positive exchange rate effects, primarily from the translation of U.S. dollars into euros, decreased the carrying amount by EUR 0.3 billion. Depreciation, amortization and impairment losses in the amount of EUR 4.2 billion and disposals of EUR 0.3 billion – EUR 0.2 billion of which was accounted for by terminal equipment 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 in earlier reporting periods. The carrying amount had changed to EUR 1.4 billion as of June 30, 2018. For more information, please refer to the section "Accounting policies," page xx et seq.

OTHER FINANCIAL ASSETS

Other financial assets decreased from EUR 9.0 billion (as of December 31, 2017) to EUR 4.4 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 8.9 billion, mainly due to a seasonal reduction in procurement volumes, especially in the United States, Europe, and Germany operating segments. 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 2.0 billion to EUR 6.3 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 xx et seq.

FINANCIAL LIABILITIES

Current and non-current financial liabilities increased by EUR 3.7 billion to EUR 61.3 billion compared with the end of 2017.

In the first half 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 coupon of 4.500 percent and a 10-year bond with a volume of USD 1.5 billion and a coupon of 4.750 percent. In addition, Deutsche Telekom International Finance B.V. issued euro bonds with a total volume of EUR 3.1 billion and U.S. dollar bonds with a total volume of USD 1.75 billion (EUR 1.4 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 6.838 percent respectively.

In addition, euro bonds for a total amount of EUR 1.1 billion were repaid by the Group in the reporting period. The net change of EUR 0.4 billion in commercial paper also decreased the carrying amount of the financial liabilities.

The total increase of EUR 0.1 billion in liabilities to banks compared with the end of 2017 was mainly due to loans originated by the European Investment Bank in January 2018, for an amount 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 the financial liabilities by EUR 0.6 billion. For more information, please refer to the section "Other transactions that had no effect on the composition of the Group," [page xx 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 June 30, 2018:

millions of €

	June 30, 2018	Due within 1 year	Due >1 ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities	48,286	1,459	19,293	27,534
Liabilities to banks	5,082	1,327	3,084	671
Finance lease liabilities	2,646	864	1,233	549
Liabilities to non-banks from promissory notes	514	179	53	283
Other interest-bearing liabilities	2,234	1,323	778	133
Other non-interest-bearing liabilities	1,551	1,440	106	5
Derivative financial liabilities	950	117	109	724
FINANCIAL LIABILITIES	61,263	6,708	24,656	29,899

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 in relation to the initial recognition of contract liabilities, which would have resulted in the later recognition of revenue in earlier reporting periods 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 the end of the first half of 2018. For more information, please refer to the section "Accounting policies," [page xx 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 5.7 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 new life expectancy tables (Heubeck-Richttafeln 2018 G) were published. They take account of the latest 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 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 €

	H1 2018	H1 2017
Revenue from the rendering of services	30,088	31,406
Germany	8,751	9,130
United States	13,299	13,919
Europe	4,802	4,881
Systems Solutions	2,588	2,681
Group Development	619	717
Group Headquarters & Group Services	29	78
Revenue from the sale of goods and merchandise	5,571	5,312
Germany	987	765
United States	3,684	3,781
Europe	712	563
Systems Solutions	48	44
Group Development	141	141
Group Headquarters & Group Services	0	17
Revenue from the use of entity assets by others	633	818
Germany	238	210
United States	294	518
Europe	25	22
Systems Solutions	15	(8)
Group Development	-	-
Group Headquarters & Group Services	61	76
NET REVENUE	36,291	37,537

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 xx](#).

OTHER OPERATING INCOME

millions of €

	H1 2018	H1 2017
Income from the reversal of impairment losses on non-current assets	2	-
Of which: IFRS 5	-	-
Income from the disposal of non-current assets	165	105
Income from reimbursements	81	100
Income from insurance compensation	169	32
Income from ancillary services	14	16
Miscellaneous other operating income	281	997
Of which: income from divestitures and from the sale of stakes accounted for using the equity method	-	776
	711	1,250

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 half of 2018 for damage caused by hurricanes in 2017. Miscellaneous other operating income decreased by EUR 0.7 billion year-on-year. The main components of this item in the prior-year period were income of EUR 0.5 billion from the divestiture of Strato AG 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 €

	H1 2018	H1 2017
Impairment losses on financial assets ^a	(216)	n. a.
Gains (losses) from the write-off of financial assets measured at amortized cost	(20)	n. a.
Other	(1,182)	(1,596)
Legal and audit fees	(146)	(101)
Losses from asset disposals	(74)	(70)
Income (losses) from the measurement of factoring receivables	(62)	(62)
Income (losses) from measurement of receivables ^a	n. a.	(278)
Other taxes	(259)	(234)
Cash and guarantee transaction costs	(166)	(162)
Insurance expenses	(44)	(46)
Miscellaneous other operating expenses	(431)	(643)
	(1,418)	(1,596)

^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 6.3 billion, depreciation, amortization and impairment losses were on a par with the prior-year period. Neither reporting period included any major impairment losses on intangible assets or on property, plant and equipment.

PROFIT/LOSS FROM FINANCIAL ACTIVITIES

In the first half of 2018, the loss from financial activities decreased by EUR 1.4 billion year-on-year to EUR 1.6 billion. This was attributable in particular to the decrease of EUR 1.7 billion in other financial expense to EUR 0.1 billion. The figure for the prior-year period was mainly impacted by the EUR 1.1 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 xx et seq. In the first half 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 0.4 billion.

Finance costs of EUR 1.0 billion, which were EUR 0.2 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 merger 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 "Other transactions that had no effect on the composition of the Group," page xx et seq. The decision to distribute a dividend that was taken in March 2018 by the shareholders of the joint venture Toll Collect GmbH had a positive impact for Deutsche Telekom of EUR 0.1 billion.

INCOME TAXES

A tax expense of EUR 0.9 billion was recognized in the first half of 2018. The effective tax rate of 29.5 percent essentially reflects the shares of the different countries in the profit before income taxes and their respective national tax rates.

In the prior-year period, a tax expense of just EUR 0.6 billion was recognized on pre-tax income that was only marginally lower. The comparatively low tax rate in the prior-year period was attributable, in particular, to the recognition of deferred tax assets of EUR 0.2 billion on federal loss carryforwards in the United States and to tax reductions for a comparable amount for previous years in Germany.

OTHER DISCLOSURES

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Net cash from operating activities

Net cash from operating activities increased by EUR 0.1 billion year-on-year to EUR 8.7 billion, Exchange rate effects weighed on the continuing positive business trend in the United States operating segment. Factoring agreements – especially in the Systems Solutions and Germany operating segments – resulted in positive effects of EUR 0.3 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. In addition to a dividend payment of EUR 0.1 billion from BT – which was also included in the prior-year period – the profit distribution of EUR 0.1 billion from Toll Collect GmbH had a positive effect on net cash from operating activities. A EUR 0.6 billion decrease in net interest payments enhanced net cash from operating activities.

Net cash used in investing activities

millions of €

	H1 2018	H1 2017
Cash capex		
Germany operating segment	(2,108)	(2,057)
United States operating segment	(2,495)	(9,905)
Europe operating segment	(836)	(878)
Systems Solutions operating segment	(265)	(177)
Group Development operating segment	(141)	(138)
Group Headquarters & Group Services	(495)	(481)
Reconciliation	106	116
	(6,234)	(13,520)
Net cash flows for collateral deposited and hedging transactions	(81)	1,799
Cash inflows from the sale of the shares in Scout24 AG	–	319
Cash outflows for the acquisition of shares in Layer3 TV ^a	(258)	–
Proceeds from the disposal of property, plant and equipment, and intangible assets	304	209
Cash flows from the loss of control of subsidiaries and associates ^b	(61)	500
Reverse allocation under contractual trust agreement (CTA) on pension commitments	225	–
Other	(128)	(10)
	(6,233)	(10,703)

^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 Relates 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 by EUR 7.3 billion to EUR 6.2 billion. The prior-year figure included a total of EUR 7.3 billion for the acquisition of mobile spectrum licenses, predominantly for the United States operating segment. In the reporting period, on the other hand, mobile spectrum licenses were acquired for total cash of EUR 0.1 billion, primarily in 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 0.3 billion lower, primarily due to exchange rate effects. Adjusted for exchange rate effects, cash capex was higher than in the prior-year period.

Net cash used in financing activities

millions of €

	H1 2018	H1 2017
Repayment of bonds	(3,813)	(10,952)
Dividends (including to non-controlling interests)	(3,148)	(1,503)
Repayment of financial liabilities from financed capex and opex	–	(260)
Repayment of EIB loans	(80)	(79)
Net cash flows for collateral deposited and hedging transactions	147	30
Repayment of lease liabilities	(402)	(361)
Repayment of financial liabilities for media broadcasting rights	(262)	(143)
Cash flows from continuing involvement factoring, net	35	(14)
Loans taken out with the EIB	150	675
Promissory notes, net	24	–
Secured loans	–	(1,863)
Issuance of bonds	6,708	9,338
Commercial paper, net	(412)	2,358
Overnight borrowings from banks	(61)	–
Cash inflows from transactions with non-controlling entities		
T-Mobile US stock options	2	18
	2	18
Cash outflows from transactions with non-controlling entities		
T-Mobile US share buy-backs	(942)	(92)
Acquisition of T-Mobile US shares	(164)	–
Acquisition of OTE shares	(284)	–
Other	(26)	(1)
	(1,416)	(93)
Other	(266)	(121)
	(2,794)	(2,970)

Non-cash transactions in the consolidated statement of cash flows

In the first half of 2018, Deutsche Telekom chose financing options totaling EUR 0.2 billion under which the payments for trade payables from operating and investing activities primarily become due at a later point in time by involving banks in the process (H1 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 half of 2018, Deutsche Telekom leased network equipment (classified as a finance lease) for a total of EUR 0.4 billion (H1 2017: EUR 0.6 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 0.1 billion were recognized in the first half of 2018 for future consideration for acquired broadcasting rights (H1 2017: EUR 0.1 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 0.5 billion was recognized for mobile devices under property, plant and equipment in the reporting period (H1 2017: EUR 0.5 billion). These relate to the JUMP! On Demand business model at T-Mobile US, under which customers do not purchase the device but lease it. The payments are presented under net cash from operating activities.

Following transfer of the financial stake in 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 provides an overview of Deutsche Telekom's operating segments and the Group Headquarters & Group Services segment for the first half of 2018 and the first half of 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 xx et seq.](#)

Segment information in the first half of the year

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	H1 2018	9,976	672	10,648	1,889	(1,968)	–	35,337	26,594	12
	H1 2017	10,105	663	10,768	2,099	(1,882)	(6)	33,739	26,641	12
United States	H1 2018	17,276	1	17,277	2,338	(2,544)	–	65,777	41,494	155
	H1 2017	18,218	–	18,218	2,331	(2,690)	(5)	64,931	42,003	189
Europe	H1 2018	5,538	169	5,707	702	(1,109)	(1)	24,953	9,475	59
	H1 2017	5,467	174	5,641	681	(1,109)	(1)	25,746	10,206	62
Systems Solutions	H1 2018	2,651	688	3,339	(104)	(194)	–	5,730	5,146	22
	H1 2017	2,717	675	3,392	(37)	(195)	–	6,408	5,061	31
Group Development	H1 2018	760	303	1,063	297	(158)	–	6,572	5,829	310
	H1 2017	858	299	1,157	1,074	(143)	–	9,997	5,549	346
Group Headquarters & Group Services	H1 2018	91	1,327	1,418	(605)	(427)	(4)	48,824	57,339	11
	H1 2017	171	1,350	1,521	(544)	(319)	(22)	46,957	55,863	11
TOTAL	H1 2018	36,291	3,161	39,452	4,517	(6,400)	(5)	187,193	145,877	569
	H1 2017	37,537	3,161	40,697	5,604	(6,338)	(34)	187,778	145,323	651
Reconciliation	H1 2018	–	(3,161)	(3,161)	6	103	1	(47,444)	(47,531)	(1)
	H1 2017	–	(3,161)	(3,161)	(3)	22	3	(46,444)	(46,459)	–
GROUP	H1 2018	36,291	–	36,291	4,523	(6,297)	(4)	139,749	98,346	568
	H1 2017	37,537	–	37,537	5,601	(6,316)	(31)	141,334	98,864	651

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 a conclusion. 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 “Other transactions that had no effect on the composition of the Group,” [page xx](#).

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

Consent Fee 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 June 30, 2018:

millions of €

	June 30, 2018
Future obligations from operating leases	16,165
Purchase commitments regarding property, plant and equipment	4,173
Purchase commitments regarding intangible assets	437
Firm purchase commitments for inventories	4,310
Other purchase commitments and similar obligations	14,004
Payment obligations to the Civil Service Pension Fund	2,648
Obligations from the acquisition for interests in other companies	24,832
Miscellaneous other obligations	–
	66,569

Obligations from the acquisition of interests in other companies include the following items: The agreed business combination of T-Mobile US and Sprint results in obligations amounting to USD 26.5 billion (around EUR 22.7 billion), while the agreed acquisition of UPC Austria GmbH results in obligations of EUR 1.9 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 of the agreed corporate transactions, please refer to the section “Changes in the composition of the Group, transactions with owners and other transactions,” [page xx](#) 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 xx](#).

DISCLOSURES ON FINANCIAL INSTRUMENTS

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

millions of €

Amounts recognized in the statement of financial position in accordance with IFRS 9								
	Category in accordance with IFRS 9	Carrying amount June 30, 2018	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	Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value June 30, 2018 ^a
ASSETS								
Cash and cash equivalents	AC	2,943	2,943					-
Trade receivables								
At amortized cost	AC	3,943	3,943					-
At fair value through other comprehensive income	FVOCI	4,968			4,968			4,968
At fair value through profit or loss	FVTPL	11				11		11
Other financial assets								
Originated loans and other receivables								
At amortized cost	AC	2,681	2,681					2,712
Of which: collateral paid	AC	509	509					-
At fair value through other comprehensive income	FVOCI	-						-
At fair value through profit or loss	FVTPL	104				104		104
Equity instruments								
At fair value through other comprehensive income	FVOCI	284		284				284
Derivative financial assets								
Derivatives without a hedging relationship	FVTPL	997				997		997
Of which: termination rights embedded in bonds issued	FVTPL	189				189		189
Of which: energy forward agreements embedded in contracts	FVTPL							
Derivatives with a hedging relationship	n. a.	175			14	161		175
Lease assets	n. a.	148					148	-
Equity instruments within non-current assets and disposal groups held for sale	FVOCI	103		103				103
LIABILITIES								
Trade payables	AC	8,924	8,924					-
Bonds and other securitized liabilities	AC	48,286	48,286					51,774
Liabilities to banks	AC	5,082	5,082					5,139
Liabilities to non-banks from promissory notes	AC	514	514					604
Other interest-bearing liabilities	AC	2,234	2,234					2,285
Of which: collateral received	AC	546	546					-
Other non-interest-bearing liabilities	AC	1,551	1,551					-
Finance lease liabilities	n. a.	2,646					2,646	2,904
Derivative financial liabilities								
Derivatives without a hedging relationship	FVTPL	314				314		314
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	65				65		65
Derivatives with a hedging relationship	n. a.	636			101	535		636
Of which: aggregated by category in accordance with IFRS 9								
ASSETS								
Financial assets at amortized cost	AC	9,567	9,567					2,712
Financial assets at fair value through other comprehensive income with recycling to profit or loss	FVOCI	4,968			4,968			4,968
Financial assets at fair value through other comprehensive income without recycling to profit or loss	FVOCI	387		387				387
Financial assets at fair value through profit or loss	FVTPL	1,112				1,112		1,112
LIABILITIES								
Financial liabilities at amortized cost	AC	66,591	66,591					59,802
Financial liabilities at fair value through profit or loss	FVTPL	314				314		314

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

Trade receivables include receivables amounting to EUR 1.5 billion (December 31, 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 €

		Amounts recognized in the statement of financial position in accordance with IAS 39					Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31 2017 ^a
	Category in accordance with IAS 39	Carrying amount Dec. 31, 2017	Amortized cost	Cost	Fair value recognized directly in equity	Fair value through profit or loss		
ASSETS								
Cash and cash equivalents	LaR	3,312	3,312					-
Trade receivables	LaR	9,553	9,553					-
Originated loans and receivables	LaR/n. a.	3,507	3,354				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)	Reclassi- fication ^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		(312)		(38)	(350)	(38)
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	(38)
TOTAL CHANGE	21,544	(312)	(101)	(41)	21,090	(137)

^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 deducted from 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 recognized in other comprehensive income (gross).

^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 135 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	Loans and receivables (LaR)	Fair value through other comprehensive income (FVOCI)	9,400	4,919	4,919
At fair value through profit or loss		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	Financial liabilities held for trading (FLHFT)	Fair value through profit or loss (FVTPL)	337	337	-
Derivatives without a hedging relationship					
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	27		150
Disposals resulting from change in measurement category				(13)	(13)
Amount in accordance with IFRS 9 (Jan. 1, 2019)	1,327	433	27	6	1,794
DIFFERENCE IN RETAINED EARNINGS (DEBIT (CREDIT))	24	99	27	(13)	137

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 €

	June 30, 2018			Total
	Level 1	Level 2	Level 3	
ASSETS				
Trade receivables				
At fair value through other comprehensive income			4,968	4,968
At fair value through profit or loss			11	11
Other financial assets – originated loans and other receivables				
At fair value through other comprehensive income				-
At fair value through profit or loss	94		10	104
Equity instruments				
At fair value through other comprehensive income	10		377	387
Derivative financial assets				
Derivatives without a hedging relationship		808	189	997
Derivatives with a hedging relationship		175		175
LIABILITIES				
Derivative financial liabilities				
Derivatives without a hedging relationship		239	75	314
Derivatives with a hedging relationship		636		636

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 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)	111	11	0
Value decreases recognized in profit/loss (including losses on disposal)	-	(119)	(19)
Value increases recognized in profit/loss (including gains on disposal)	-	60	2
Value decreases recognized directly in equity	(25)	-	-
Value increases recognized directly in equity	31	-	-
Disposals	(17)	(118)	-
Currency translation effects recognized directly in equity	-	4	(2)
CARRYING AMOUNT AS OF JUNE 30, 2018	377	189	(65)

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 368 million measured using the best information available at the reporting date. As a rule, Deutsche Telekom considers executed transactions involving shares in those companies to have the greatest relevance. Transactions involving shares in comparable companies are also considered. The closeness of the transaction in question to the reporting date and the question of whether the transaction was at arm's length are relevant for the decision on which information will ultimately be used for the measurement. Furthermore, the degree of similarity between the object being measured and comparable companies must be taken into consideration. Based on Deutsche Telekom's own assessment, the fair values of the equity investments at the reporting date could be determined with sufficient reliability. Please refer to the table [above](#) for the development of the carrying amounts in the reporting period. No plans existed as of the reporting date to sell these investments. In the case of investments with a carrying amount of EUR 283 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 June 30, 2018. In the case of investments with a carrying amount of EUR 85 million, although the last at arm's length transactions relating to shares in these companies took place some time ago, based on the analysis of operational development (in particular revenue, EBIT, and liquidity), the previous carrying amount nevertheless corresponds to the fair value and, due to limited comparability, is preferable to measurement on the basis of transactions executed more recently relating to shares in comparable companies. As of the reporting date, there were no investments for which the latest at arm's length transactions relating to 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 9 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 189 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 1.2 and 2.3 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 2.5 and 3.4 percent for the remaining maturities of the bonds and between 1.5 and 2.3 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 below. In the reporting period, a net expense of EUR 15 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 [above](#). 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 liabilities at fair value through profit or loss: energy forward agreements embedded in contracts
Interest rate volatility ^b +1 %	24	-
Interest rate volatility ^b -1 %	(23)	-
Spread curve ^c +1%	(84)	-
Spread curve ^c -1 %	129	-
Mean reversion ^d +1 %	(4)	-
Mean reversion ^d -1 %	6	-
Future energy prices +10 %	-	35
Future energy prices -10 %	-	(35)
Future energy output +5 %	-	7
Future energy output -5 %	-	(7)
Future prices for renewable energy credits ^e +100 %	-	14
Future prices for renewable energy credits ^e from zero	-	(13)

^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. 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 65 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. 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 15 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 in 2019. 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 1,781 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 22.49/MWh and EUR 39.57/MWh when

translated into euros and off-peak prices of between EUR 15.09/MWh and EUR 28.80/MWh when translated into euros. An average on-peak/off-peak ratio of 56 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 19 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, page xx. The market-price changes in the reporting period were largely attributable to changes in observable and unobservable energy prices and to interest rate effects. 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 135 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 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)	23
Measurement amounts amortized in profit or loss in prior periods	–
Measurement amounts amortized in profit or loss in the current reporting period	(2)
Currency translation adjustments	(1)
MEASUREMENT AMOUNTS NOT AMORTIZED AS OF JUNE 30, 2018	132

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 546 million (December 31, 2017: EUR 569 million). The credit risk was thus reduced by EUR 546 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 983 million as of the reporting date (December 31, 2017: EUR 966 million) had a maximum credit risk of EUR 67 million as of June 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 509 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 487 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 June 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. For more information, please refer to the section "Other transactions that had no effect on the composition of the Group," [page xx](#).

Deutsche Telekom Trust e.V. 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.

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.

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 on March 15, 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 Bössinger 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 Seelemenn-Wandtke was court-appointed to the Supervisory Board of Deutsche Telekom AG effective July 5, 2018.

EVENTS AFTER THE REPORTING PERIOD (JUNE 30, 2018)

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. For more information, please refer to the section “Other transactions that had no effect on the composition of the Group,” [page xx](#).

Acquisition of UPC Austria GmbH. On December 22, 2017, T-Mobile Austria Holding GmbH agreed to acquire Austria's leading cable operator, UPC Austria GmbH, from Liberty Global HoldCo 2 B.V. The agreed purchase price was around EUR 1.9 billion in cash less net debt. On July 9, 2018, the European Commission approved, without conditions, T-Mobile Austria's acquisition of a 100 percent stake in UPC Austria under competition law. The transaction was closed on July 31, 2018.