

INTERIM GROUP MANAGEMENT REPORT

GROUP ORGANIZATION, STRATEGY, AND MANAGEMENT

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

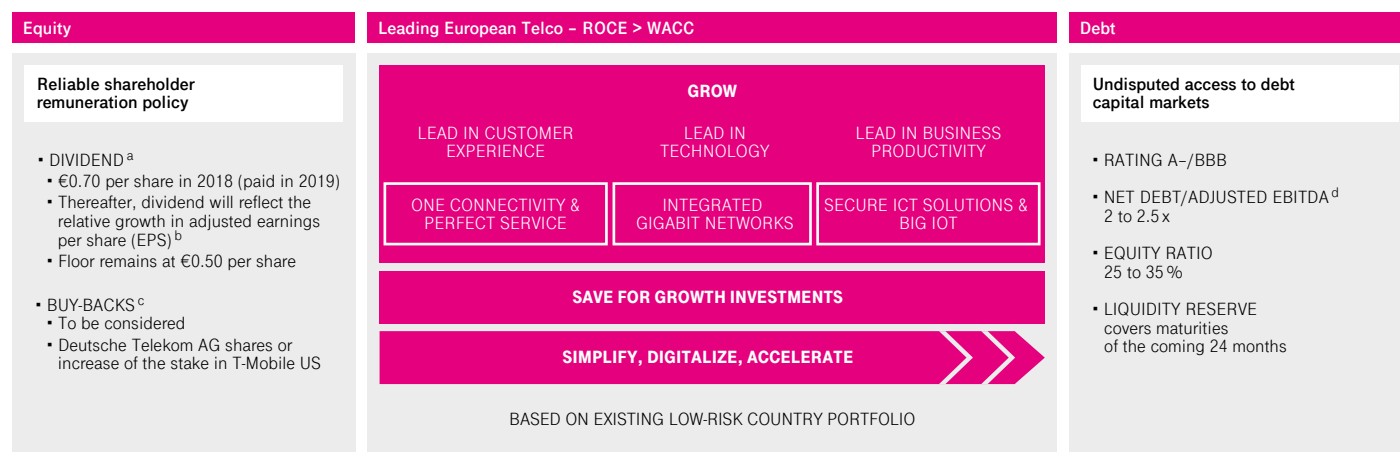
We assigned **Vivento Customer Services GmbH**, a provider of call center services, to our Germany operating segment as of January 1, 2018; previously it was part of our Group Headquarters & Group Services segment. Comparative figures have been adjusted retrospectively. For more information, please refer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

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

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

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

Our finance strategy until 2021



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

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

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

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

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

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

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

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

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

THE ECONOMIC ENVIRONMENT

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

MACROECONOMIC DEVELOPMENT

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

OUTLOOK

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

OVERALL ECONOMIC RISKS

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

REGULATION

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

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

AWARDING OF SPECTRUM

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

Main spectrum awards

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

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

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

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

DEVELOPMENT OF BUSINESS IN THE GROUP

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

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

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

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

RESULTS OF OPERATIONS OF THE GROUP NET REVENUE

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

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

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

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

Contribution of the segments to net revenue

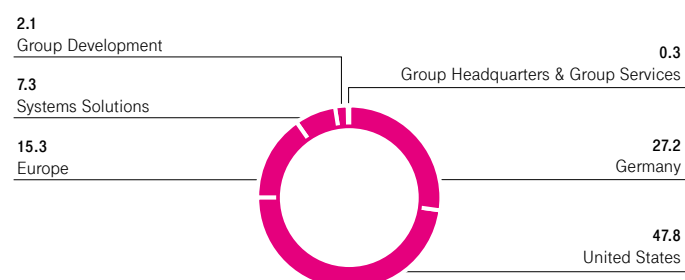
millions of €

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

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

Contribution of the segments to net revenue^a

%

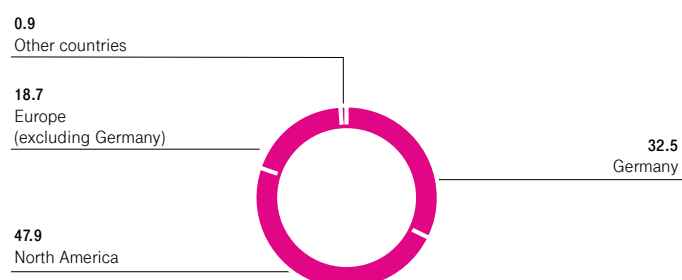


^a For more information on net revenue, please refer to the disclosures under segment reporting in the interim consolidated financial statements, pages 51 and 52.

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

Breakdown of revenue by region

%



EBITDA, ADJUSTED EBITDA

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

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

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

Contribution of the segments to adjusted Group EBITDA

millions of €

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

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EBIT

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

PROFIT/LOSS BEFORE INCOME TAXES

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

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

NET PROFIT

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

EMPLOYEES

Number of employees (at the reporting date)

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

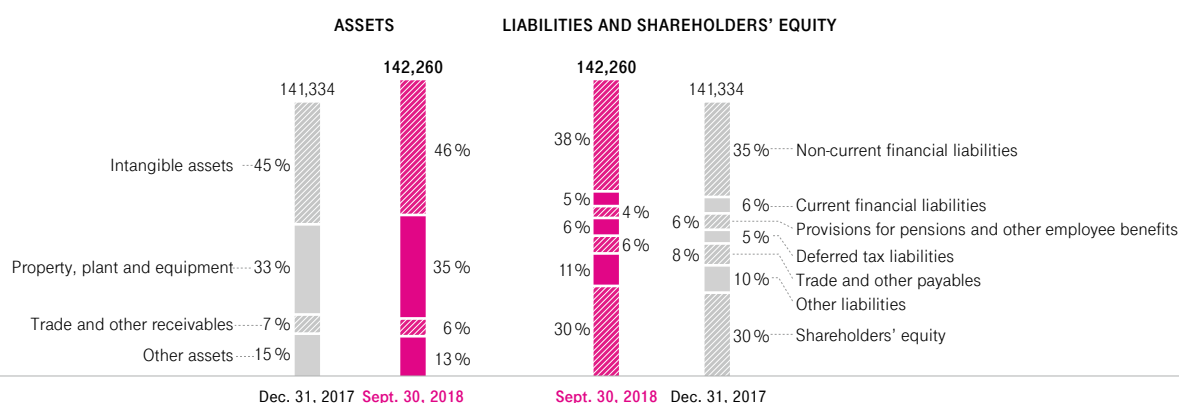
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The Group's headcount decreased by 0.3 percent compared with the end of 2017. In our Germany operating segment, the total number of employees had decreased by 2.1 percent at the end of the third quarter of 2018 as a result of efficiency enhancement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

FINANCIAL POSITION OF THE GROUP

Structure of the consolidated statement of financial position

millions of €



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

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

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

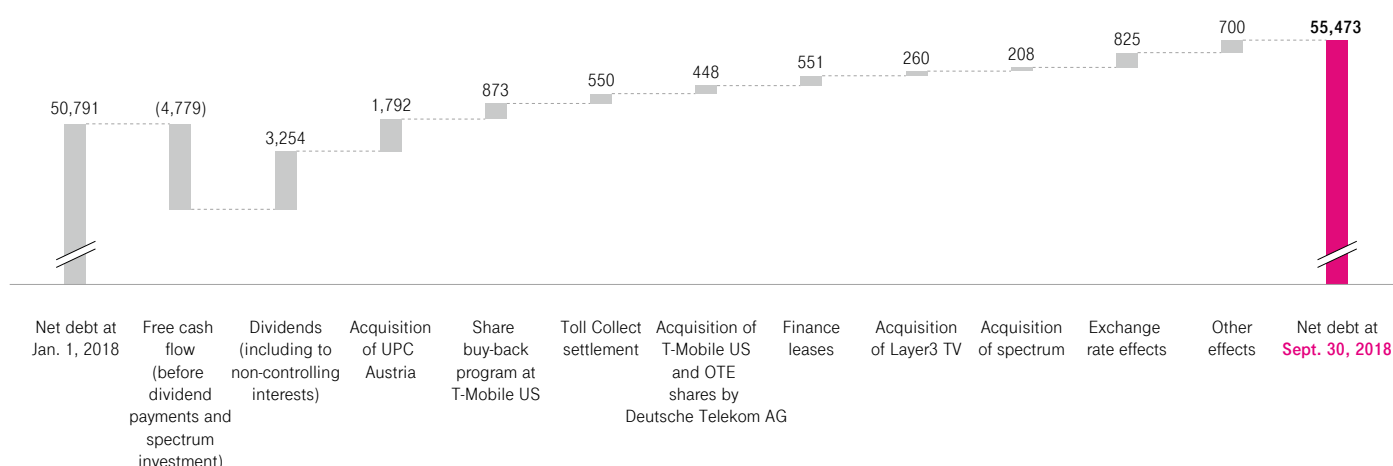
EUR 0.7 billion (USD 0.85 billion) also decreased the carrying amount of financial liabilities, as did the net change of EUR 0.7 billion in commercial paper. **Provisions for pensions and other employee benefits** decreased by EUR 3.0 billion compared with December 31, 2017, mainly due to the transfer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

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

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

Changes in net debt

millions of €



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

Free cash flow (before dividend payments and spectrum investment)

millions of €

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

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

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

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

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

DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

GERMANY

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

CUSTOMER DEVELOPMENT

thousands

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

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

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

Total

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

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

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

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

Mobile communications

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

Fixed network

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

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

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

Wholesale

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

DEVELOPMENT OF OPERATIONS

millions of €

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

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

Total revenue

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

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

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

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

EBITDA, adjusted EBITDA

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

UNITED STATES

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

CUSTOMER DEVELOPMENT

thousands

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

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

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

Total Customers

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

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

EBIT

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

Cash capex

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

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

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

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

DEVELOPMENT OF OPERATIONS

millions of €

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

Total revenue

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

EBITDA, adjusted EBITDA

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

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

EBIT

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

Cash capex

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

EUROPE

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

CUSTOMER DEVELOPMENT

thousands

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

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

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

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

Total

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

Mobile communications

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

Fixed network

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

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

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

FMC – fixed-mobile convergence

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

DEVELOPMENT OF OPERATIONS

millions of €

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

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

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

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

Total revenue

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

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

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

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

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

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

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

EBITDA, adjusted EBITDA

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

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

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

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

Development of operations in selected countries

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

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

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

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

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

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

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

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

EBIT

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

Cash capex

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

SYSTEMS SOLUTIONS ORDER ENTRY

millions of €

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

Development of business

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

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

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

DEVELOPMENT OF OPERATIONS^a

millions of €

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

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

Total revenue

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

EBITDA, adjusted EBITDA

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

EBIT, adjusted EBIT

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

Cash capex

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

GROUP DEVELOPMENT

CUSTOMER DEVELOPMENT

thousands

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

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

DEVELOPMENT OF OPERATIONS

millions of €

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

Total revenue

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

EBITDA, adjusted EBITDA

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

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

EBIT

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

Cash capex

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

GROUP HEADQUARTERS & GROUP SERVICES

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

DEVELOPMENT OF OPERATIONS

millions of €

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

Total revenue

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

EBITDA, adjusted EBITDA

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

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

EBIT

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

Cash capex

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

EVENTS AFTER THE REPORTING PERIOD (SEPTEMBER 30, 2018)

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

FORECAST

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

RISKS AND OPPORTUNITIES

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

REGULATION

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

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

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

LITIGATION

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

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

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

ASSESSMENT OF THE AGGREGATE RISK POSITION

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