



THE 2015 FINANCIAL YEAR

# ANSWERS FOR THE DIGITAL FUTURE

T...

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PROVIDES  
ANSWERS  
FOR THE DIGITAL  
FUTURE.**



## NAVIGATION AID



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Further information can be  
found in the Annual Report



Sustainability at  
Deutsche Telekom



You can view a film here


Glossary for  
definition of terms



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### TO OUR SHAREHOLDERS

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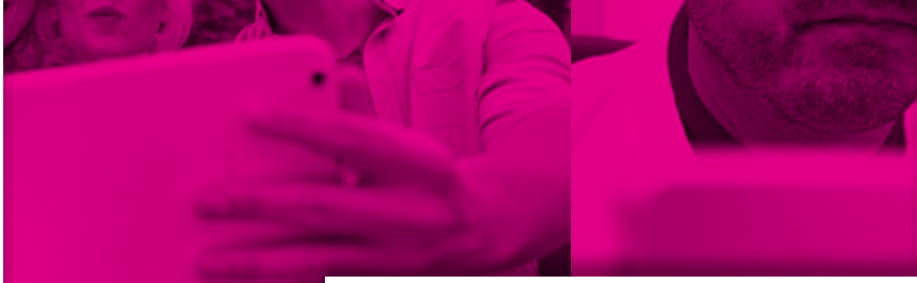
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# ACTS AND FIGURES



# 2015 FACTS AND FIGURES



LIFE IS FOR SHARING.



**ANSWERS**  
**FOR THE DIGITAL**  
**FUTURE**

**W**e need to talk. We want to talk. Communicating with others is part of our nature. Conversations give rise to new ideas and allow us to develop, discard, celebrate, or refine them. This is how we, as individuals and as a society, move forward. With our digital networks, we create one of the essential conditions for functioning

communication between people at all times and across even the largest distances. However, we don't just make the infrastructure available – we also take part in the discussion about the digital future. Digitization has an impact on everyone: It changes the way we work, communicate, and live our life. This development raises important questions for both

consumers and companies, to which there is no one right answer. That's why, in the present Annual Report, we gave various people the chance to voice their opinion – from Board members, through employees, and all the way to the customer. All of them have provided different “Answers for the digital future.”

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# DEUTSCHE TELEKOM AT A GLANCE

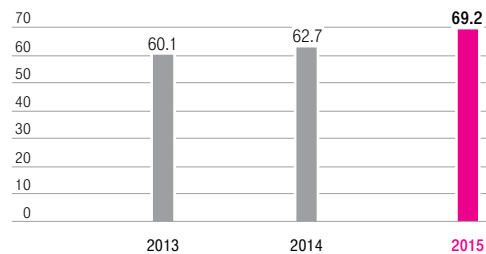
To get right to the point: We achieved all of our main targets in 2015. Net revenue increased substantially as planned. And with adjusted EBITDA of EUR 19.9 billion and free cash flow of EUR 4.5 billion, we even exceeded the respective targets of around EUR 18.3 billion and EUR 4.3 billion.

**Net revenue** in our Group grew by a substantial 10.5 percent in the reporting year. This growth is and continues to be driven by the U.S. business, which saw revenue increase by 29.1 percent: In addition to continuing strong customer additions, T-Mobile US also profited from the development of the U.S. dollar. Revenue in the Germany operating segment, which was still in slight decline in 2014, edged up in 2015, mainly due to higher mobile revenues. Business in our Europe operating segment continued to come under pressure owing to regulation and competition, but here too revenue performed better than in the prior year. The same applies for our Systems Solutions operating segment, where, after its successful realignment, revenue was almost at the prior-year level.

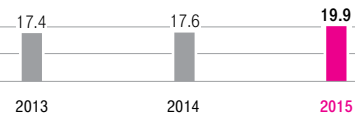
**Adjusted EBITDA** increased substantially by 13.3 percent compared with 2014. As with revenue, the growth driver was our U.S. business, which recorded an increase of 54.9 percent. The U.S. dollar/euro exchange rate had a significant impact here as well. But even without taking the exchange rate effect into account, growth still stood at an impressive 30 percent. In our Germany operating segment, adjusted EBITDA remained more or less stable against the prior year, while in our Europe operating segment it decreased due to a decline in revenue. In our Systems Solutions operating segment, adjusted EBITDA declined; but this was due entirely to the reduced contributions from Telekom IT; in the Market Unit, we maintained the increase in adjusted EBITDA.

The adjusted EBITDA margin of 28.8 percent was up on the prior-year level. The operating segments with the strongest margins are still Germany with 39.2 percent and Europe with 33.7 percent.

**Net revenue**  
billions of €



**Adjusted EBITDA**  
billions of €



Our **EBIT** declined slightly year-on-year, primarily due to income received in 2014 from the disposal of the Scout24 group (EUR 1.7 billion) and from the spectrum transaction with Verizon Communications (EUR 0.4 billion). In 2015, EBIT was increased by income from the disposal of part of our share package in Scout24 AG (EUR 0.3 billion) and from the sale of our online platform t-online.de and our digital marketing company InteractiveMedia (EUR 0.3 billion).

Despite the decline in EBIT, our **net profit** increased substantially by 11.3 percent, mainly driven by other financial income/expense. This primarily included dividend payments of EUR 0.4 billion which we received from the EE joint venture.

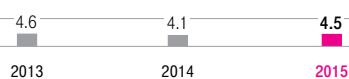
**Net debt** increased in the reporting year by EUR 5.1 billion to EUR 47.6 billion, mainly due to the acquisition of mobile spectrum for EUR 3.8 billion, currency effects of EUR 1.9 billion, dividend payments – including to non-controlling interests – of EUR 1.3 billion, and the

acquisition of the remaining shares in Slovak Telekom of EUR 0.9 billion. Free cash flow of EUR 4.5 billion only partially offset these effects.

**Cash capex** (including spectrum investment) increased to EUR 14.6 billion, mainly due to spectrum acquired for EUR 3.8 billion, primarily in the United States and in Germany. In the prior year, we had invested a total of EUR 2.3 billion in mobile spectrum. Cash capex (before spectrum investment) increased to EUR 10.8 billion, up EUR 1.3 billion in the reporting year against 2014. The focus was principally on our United States and Germany operating segments, where cash capex increased in connection with investments made in building out and modernizing our networks.

Although cash capex increased, **free cash flow** improved to EUR 4.5 billion, thus exceeding the value that we forecast in 2014 of around EUR 4.3 billion. The generally good business development – recognizable from increased adjusted EBITDA – was reflected in an improvement in net cash from operating activities; this more than offset the increase in cash capex.

**Free cash flow (before dividend payments, spectrum investment)<sup>a</sup>**  
billions of €



<sup>a</sup> And before AT&T transaction and compensation payments for MetroPCS employees.

Our key performance indicator **ROCE** (return on capital employed) declined by 0.7 percentage points in the reporting year to 4.8 percent. This decline was due to both the decrease in net operating profit after taxes (NOPAT) and the increase in the average value of assets tied up in the course of the year (net operating assets, or NOA). In 2014, NOPAT was positively impacted by income from the disposal of the Scout24 group and income from the spectrum transaction with Verizon Communications. Although the aforementioned income in connection with the disposal of part of our share package in Scout24 AG and sale of t-online.de and InteractiveMedia also had a positive impact on NOPAT in 2015, this effect was much smaller than in the prior year. The increase in average NOA is primarily attributable to the build-up of assets in our Germany and United States operating segments. In Germany, this is due to both investment under our integrated network strategy and the spectrum acquired through successful participation in the frequency auction. In the United States, the increase in NOA was down to currency effects as well as further network build-out and the acquisition of mobile licenses.

Our shareholders benefited from the business development as well: Apart from the dividend of EUR 0.50 per share paid out for the 2014 financial year, the value of the T-Share also increased by 26 percent as of December 31, 2015.

# SELECTED FINANCIAL DATA OF THE GROUP

T 001

billions of €

		Change compared to prior year % <sup>a</sup>	2015	2014	2013	2012
<b>REVENUE AND EARNINGS</b>						
Net revenue		10.5	69.2	62.7	60.1	58.2
Of which: domestic <sup>a</sup>	%	(3.7)	36.2	39.9	42.2	44.3
Of which: international <sup>a</sup>	%	3.7	63.8	60.1	57.8	55.7
Profit (loss) from operations (EBIT)		(3.0)	7.0	7.2	4.9	(4.0)
Net profit (loss)		11.3	3.3	2.9	0.9	(5.4)
Net profit (loss) (adjusted for special factors)		69.8	4.1	2.4	2.8	2.5
EBITDA <sup>b, c</sup>		3.2	18.4	17.8	15.8	18.0
EBITDA (adjusted for special factors) <sup>b, c</sup>		13.3	19.9	17.6	17.4	18.0
EBITDA margin (adjusted for special factors) <sup>a</sup>	%	0.8	28.8	28.0	28.9	30.9
<b>PROFITABILITY</b>						
ROCE	%	(0.7)	4.8	5.5	3.8	(2.4)
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets		11.3	143.9	129.4	118.1	107.9
Shareholders' equity		12.0	38.2	34.1	32.1	30.5
Equity ratio <sup>a</sup>	%	0.2	26.5	26.3	27.1	28.3
Net debt <sup>c</sup>		11.9	47.6	42.5	39.1	36.9
Relative debt (Net debt/EBITDA (adjusted for special factors)) <sup>a, b</sup>		n.a.	2.4	2.4	2.2	2.1
<b>CASH FLOWS</b>						
Net cash from operating activities		12.0	15.0	13.4	13.0	13.6
Cash capex		(23.4)	(14.6)	(11.8)	(11.1)	(8.4)
Free cash flow (before dividend payments, spectrum investment) <sup>d, e</sup>		9.8	4.5	4.1	4.6	6.2
Net cash used in investing activities		(39.5)	(15.0)	(10.8)	(9.9)	(6.7)
Net cash (used in) from financing activities		74.5	(0.9)	(3.4)	1.0	(6.6)
<b>EMPLOYEES</b>						
Average number of employees (full-time equivalents, without trainees)	thousands	(0.8)	226	228	230	232
Revenue per employee <sup>a</sup>	thousands of €	11.4	305.9	274.5	261.8	250.4
<b>T-SHARE - KEY FIGURES</b>						
Earnings per share (basic and diluted)	€	9.2	0.71	0.65	0.21	(1.24)
Dividend per share <sup>e</sup>	€	10.0	0.55	0.50	0.50	0.70
Total dividend <sup>f</sup>	billions of €	11.8	2.5	2.3	2.2	3.0
Total number of ordinary shares at the reporting date <sup>g</sup>	millions	1.6	4,607	4,536	4,451	4,321

	2011	2010	2009	2008	2007
	58.7	62.4	64.6	61.7	62.5
	44.9	43.7	43.4	46.8	49.1
	55.1	56.3	56.6	53.2	50.9
	5.6	5.5	6.0	7.0	5.3
	0.5	1.7	0.4	1.5	0.6
	2.9	3.4	3.4	3.4	3.0
	20.0	17.3	19.9	18.0	16.9
	18.7	19.5	20.7	19.5	19.3
	31.8	31.2	32.0	31.6	30.9
	3.8	3.5	3.9	-	-
	122.5	127.8	127.8	123.1	120.7
	40.0	43.0	41.9	43.1	45.2
	32.7	33.7	32.8	35.0	37.5
	40.1	42.3	40.9	38.2	37.2
	2.1	2.2	2.0	2.0	1.9
	16.2	14.7	15.8	15.4	13.7
	(8.4)	(9.9)	(9.2)	(8.7)	(8.0)
	6.4	6.5	7.0	7.0	6.6
	(9.3)	(10.7)	(8.6)	(11.4)	(8.1)
	(6.0)	(6.4)	(5.1)	(3.1)	(6.1)
	240	252	258	235	244
	244.0	247.2	250.8	262.5	256.5
	0.13	0.39	0.08	0.34	0.13
	0.70	0.70	0.78	0.78	0.78
	3.0	3.0	3.4	3.4	3.4
	4,321	4,321	4,361	4,361	4,361

<sup>a</sup> Calculated on the basis of millions for the purpose of greater precision. Changes to percentages expressed as percentage points.

<sup>b</sup> Deutsche Telekom defines EBITDA as profit/loss from operations before depreciation, amortization and impairment losses.

<sup>c</sup> EBITDA, EBITDA adjusted for special factors, net debt, and free cash flow are non-GAAP figures not governed by the International Financial Reporting Standards (IFRS). They should not be viewed in isolation as an alternative to profit or loss from operations, net profit or loss, net cash from operating activities, the liabilities reported in the consolidated statement of financial position, or other Deutsche Telekom key performance indicators presented in accordance with IFRS. For detailed information and calculations, please refer to the section "Development of business in the Group" in the combined management report in this Annual Report, PAGE 73 ET SEQ.

<sup>d</sup> And before PTC and AT&T transactions and compensation payments for MetroPCS employees.

<sup>e</sup> Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

<sup>f</sup> Subject to approval by the 2016 shareholders' meeting concerning the dividend payments for the 2015 financial year. For more detailed explanations, please refer to Note 28 "Dividend per share," PAGE 215.

<sup>g</sup> Including treasury shares held by Deutsche Telekom AG.

# KEY DATA OF THE GROUP

T 002

		2015	2014	2013
<b>GROUP</b>				
Mobile customers	millions	156.4	150.5	142.5
Fixed-network lines <sup>a</sup>	millions	29.0	29.8	30.8
Broadband lines <sup>a, b</sup>	millions	17.8	17.4	17.1
<b>GERMANY</b>				
Mobile customers	millions	40.4	39.0	38.6
Fixed-network lines	millions	20.2	20.7	21.4
Of which: retail IP-based	millions	6.9	4.4	2.1
Broadband lines	millions	12.6	12.4	12.4
Television (IPTV, satellite)	millions	2.7	2.4	2.2
Unbundled local loop lines (ULLs)	millions	8.1	8.8	9.3
Wholesale unbundled lines	millions	3.0	2.2	1.6
Wholesale bundled lines	millions	0.2	0.3	0.4
<b>UNITED STATES</b>				
Mobile customers	millions	63.3	55.0	46.7
<b>EUROPE</b>				
Mobile customers	millions	52.2	56.0	56.7
Fixed-network lines	millions	8.7	9.0	9.3
Of which: IP-based	millions	4.1	3.5	2.5
Retail broadband lines	millions	5.2	5.0	4.7
Television (IPTV, satellite, cable)	millions	3.9	3.7	3.5
Unbundled local loop lines (ULLs)/wholesale PSTN	millions	2.2	2.3	2.2
Wholesale bundled lines	millions	0.1	0.1	0.2
Wholesale unbundled lines	millions	0.2	0.1	0.1
<b>SYSTEMS SOLUTIONS</b>				
Order entry	millions of €	6,005	7,456	7,792
Computing & Desktop Services				
Number of servers managed and serviced	units	62,590	61,654	62,308
Number of workstations managed and serviced	millions	1.71	1.58	1.31
Systems Integration				
Hours billed	millions	5.3	6.1	6.6
Utilization rate	%	82.9	83.8	82.5

Totals were calculated on the basis of precise figures and rounded to millions.

	2012	2011	2010	2009
	127.8	125.1	124.6	130.6
	32.1	34.7	36.0	38.5
	16.9	16.9	16.4	15.4
	36.6	35.4	34.7	39.1
	22.4	23.4	24.7	26.2
	0.9	0.5	0.1	0.1
	12.4	12.3	12.0	11.5
	2.0	1.6	1.2	0.8
	9.4	9.6	9.5	9.1
	1.3	1.2	1.0	0.6
	0.5	0.7	1.0	1.6
	33.4	33.2	33.7	33.8
	57.4	56.0	56.2	57.7
	9.7	10.6	11.3	12.3
	1.6	1.1	n. a.	n. a.
	4.5	4.6	4.4	3.9
	2.9	2.7	2.4	1.9
	2.2	2.1	1.5	1.1
	0.2	0.2	0.2	0.2
	0.1	0.1	0.0	0.0
	8,737	7,396	9,281	9,305
	57,121	58,053	58,073	47,092
	1.93	2.00	1.95	1.86
	6.3	n. a.	n. a.	n. a.
	85.1	n. a.	n. a.	n. a.

#### Group

<sup>a</sup> The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the company. The comparatives for 2013 and 2012 have been adjusted accordingly.

<sup>b</sup> Excluding wholesale.

#### Germany

Stationary wireless solutions have been reported under mobile communications since October 1, 2011.

#### United States

On May 1, 2013, the number of prepaid customers increased by 8,918 thousand in connection with the acquisition of MetroPCS.

#### Europe

The Europe operating segment includes the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. The lines of the GTS Central Europe group have been included since May 30, 2014.

The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the companies. The comparatives for 2013 and 2012 have been adjusted accordingly.

The ICSS/GNF business of the local business units (LBUs), which had previously been organizationally assigned to the Systems Solutions operating segment, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic; they are reported in the Europe operating segment. The comparatives for 2013 and 2012 have been adjusted accordingly.

The customers of our national companies in Bulgaria have not been included in the Europe operating segment since August 1, 2013 following the sale of the shares held in the companies. The comparatives for 2012 and 2011 have been adjusted accordingly.

Since January 1, 2013, fixed-network lines have been broken down by technology. This change also includes the addition of broadband cable lines and the disclosure of wholesale PSTN lines together with the unbundled local loop lines (ULLs). The comparatives for 2012 and 2011 have been adjusted accordingly.

For better comparability, the customers of T-Mobile UK, who were transferred to the EE joint venture as of April 1, 2010 following the merger of T-Mobile UK and Orange UK, were subtracted from the 2009 customer figures.

#### Systems Solutions

The ICSS/GNF business of the local business units (LBUs), which had previously been organizationally assigned to the Systems Solutions operating segment, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic; they are reported in the Europe operating segment. With the exception of order entry for 2013, the figures for prior periods were not adjusted.

# PRINCIPAL SUBSIDIARIES

T 003

Name and registered office	Deutsche Telekom share	Net revenue <sup>c</sup>	Profit (loss) from operations <sup>c</sup>	Shareholders' equity <sup>c</sup>	Average number of employees
	December 31, 2015 %	2015 millions of €	2015 millions of €	2015 millions of €	2015
Telekom Deutschland GmbH, Bonn, Germany	100.00	21,891	4,633	4,345	12,568
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a, b</sup>	65.41	28,925	2,454	16,447	41,669
T-Systems International GmbH, Frankfurt/Main, Germany	100.00	6,367	(663)	1,133	20,091
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece <sup>a</sup>	40.00	3,903	226	3,497	21,216
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a, b</sup>	59.23	2,110	195	2,234	10,611
T-Mobile Netherlands Holding B.V., The Hague, Netherlands <sup>a, b</sup>	100.00	1,394	278	2,705	1,430
T-Mobile Polska S.A., Warsaw, Poland <sup>b</sup>	100.00	1,544	350	2,681	4,527
T-Mobile Czech Republic a. s., Prague, Czech Republic <sup>a, b</sup>	100.00	958	207	1,746	3,442
Hrvatski Telekom d. d., Zagreb, Croatia <sup>a, b</sup>	51.00	909	148	2,037	4,793
T-Mobile Austria Holding GmbH, Vienna, Austria <sup>a, b</sup>	100.00	829	96	1,062	1,064
Slovak Telekom a. s., Bratislava, Slovakia <sup>a, b</sup>	100.00	783	71	1,427	3,551

<sup>a</sup> Consolidated subgroup.

<sup>b</sup> Indirect shareholding of Deutsche Telekom AG.

<sup>c</sup> IFRS figures of the respective subgroup.


In accordance with § 313 HGB, the full statement of investment holdings, which forms part of the notes to the consolidated financial statements, is published in the Federal Gazette (Bundesanzeiger) together with the consolidated financial statements. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website ([www.telekom.com/investor-relations](http://www.telekom.com/investor-relations)). Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB and § 264b HGB. □



For information on our footprint, please visit [www.telekom.com/worldwide](http://www.telekom.com/worldwide)

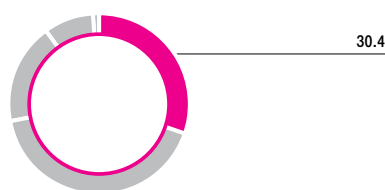
# THE OPERATING SEGMENTS

## GERMANY

Our strong position on the domestic market continued in 2015. We defended our fixed-network market leadership and extended our lead in mobile service revenues. In contrast to the slight decline in 2014, revenue in the reporting year grew by 0.7 percent. Adjusted EBITDA declined slightly by 0.2 percent to EUR 8.8 billion. The number of mobile customers as of the year-end was up 1.4 million year-on-year and our TV customer base grew by almost 10 percent to 2.7 million. The total number of optical fiber lines increased by 1.9 million to 4.4 million overall. 

### Contribution of the segment to net revenue

%




For further information, please refer to the section "Development of business in the operating segments" in the combined management report, PAGE 83 ET SEQ.

T 004

billions of €

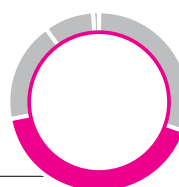
	Change %	2015	2014	2013	2012	2011
<b>TOTAL REVENUE</b>	<b>0.7%</b>	<b>22.4</b>	<b>22.3</b>	<b>22.4</b>	<b>22.7</b>	<b>23.2</b>
Profit from operations (EBIT)	(3.7)%	4.5	4.7	4.4	4.2	4.6
EBITDA (adjusted for special factors)	(0.2)%	8.8	8.8	8.9	9.2	9.6
Number of employees at the reporting date	(0.2)%	68,638	68,754	66,725	67,497	69,574

## UNITED STATES

In our United States operating segment, the strong growth in new customers continued unchanged: T-Mobile US increased its customer base to 63.3 million as of the end of 2015, representing a significant rise of 15 percent year-on-year. Customer numbers also developed pleasingly, with growth seen across all customer segments. Total revenue climbed 29.1 percent to EUR 28.9 billion. Adjusted EBITDA increased by 54.9 percent to EUR 6.7 billion compared to EUR 4.3 billion in 2014. 

### Contribution of the segment to net revenue

%



For further information, please refer to the section "Development of business in the operating segments" in the combined management report, PAGE 83 ET SEQ.


T 005

billions of €

	Change %	2015	2014	2013	2012	2011
<b>TOTAL REVENUE</b>	<b>29.1%</b>	<b>28.9</b>	<b>22.4</b>	<b>18.6</b>	<b>15.4</b>	<b>14.8</b>
Profit (loss) from operations (EBIT)	74.7%	2.5	1.4	1.4	(7.5)	(0.7)
EBITDA (adjusted for special factors)	54.9%	6.7	4.3	3.9	3.8	3.8
Number of employees at the reporting date	11.5%	44,229	39,683	37,071	30,288	32,868



## EUROPE

There was a varied picture in the development of customer numbers in our Europe operating segment. Once again we made significant gains in TV and broadband customers with the number of IP-based lines increasing by 17.6 percent to 4.1 million. TV business is and remains the growth driver, increasing 5.1 percent year-on-year. Business in our Europe operating segment remained under pressure from regulatory effects and strong competition, although the fall in revenues of 2.0 percent was less sharp than in the prior year. Total revenue amounted to EUR 12.7 billion. Adjusted EBITDA totaled EUR 4.3 billion. 

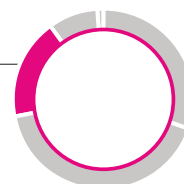


For further information, please refer to the section "Development of business in the operating segments" in the combined management report, PAGE 83 ET SEQ.

### Contribution of the segment to net revenue

%

17.9




T 006

billions of €

	Change %	2015	2014	2013	2012	2011
<b>TOTAL REVENUE</b>	<b>(2.0)%</b>	<b>12.7</b>	<b>13.0</b>	<b>13.7</b>	<b>14.4</b>	<b>15.1</b>
Profit from operations (EBIT)	(14.9)%	1.5	1.7	1.0	1.5	0.8
EBITDA (adjusted for special factors)	(3.2)%	4.3	4.4	4.5	5.0	5.3
Number of employees at the reporting date	(4.5)%	49,638	51,982	53,265	57,937	58,794

## SYSTEMS SOLUTIONS

Despite our corporate customer arm T-Systems concluding new deals in Germany and abroad in 2015, order entry was 19.5 percent lower than in the prior year. This was due in part to the realignment of the business model with the goal of ensuring sustained profitable growth. The Market Unit reported revenues of EUR 7.1 billion, up 2.6 percent from 2014. This increase largely offset the planned decline in revenues from the Telekom IT business unit; at EUR 8.6 billion, revenue in the reporting year was almost at the prior-year level. Adjusted EBITDA decreased by EUR 53 million, or 6.3 percent. 

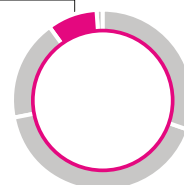


For further information, please refer to the section "Development of business in the operating segments" in the combined management report, PAGE 83 ET SEQ.

### Contribution of the segment to net revenue

%

9.0



T 007

billions of €

	Change %	2015	2014	2013	2012	2011
<b>TOTAL REVENUE</b>	<b>(0.1)%</b>	<b>8.6</b>	<b>8.6</b>	<b>9.0</b>	<b>9.6</b>	<b>10.0</b>
Loss from operations (EBIT)	(22.3)%	(0.5)	(0.4)	(0.3)	(0.3)	(0.4)
EBITDA (adjusted for special factors)	(6.3)%	0.8	0.8	0.8	0.7	0.7
Number of employees at the reporting date	(3.7)%	45,990	47,762	49,540	52,106	52,170

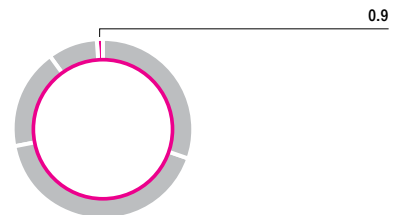
The ICSS/GNF business of the local business units (LBUs), which had previously been organizationally assigned to the Systems Solutions operating segment, was brought together as of January 1, 2014 and is now reported under the Europe operating segment. Furthermore, as of January 1, 2014, the local business customer units of T-Systems Czech Republic, which had previously been managed under the Systems Solutions operating segment, were merged with T-Mobile Czech Republic; they are reported in the Europe operating segment. The comparatives for 2013 and 2012 have been adjusted accordingly. For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements (PAGE 218 ET SEQ).

### GROUP HEADQUARTERS & GROUP SERVICES

Total revenue in our Group Headquarters & Group Services segment in 2015 decreased by 9.6 percent year-on-year. The decline was a result of efficiency measures, the revenue lost in connection with the sale of 70 percent of the shares in the Scout24 group, which was closed in 2014, the sale of our online platform t-online.de and our digital marketing company InteractiveMedia in November 2015, and the realignment of our Group Innovation+ unit. Adjusted EBITDA increased by EUR 0.1 billion year-on-year. 

#### Contribution of the segment to net revenue

%



For further information, please refer to the section "Development of business in the operating segments" in the combined management report, PAGE 83 ET SEQ.


T 008

billions of €

	Change %	2015	2014	2013	2012	2011
<b>TOTAL REVENUE</b>	<b>(9.6) %</b>	<b>2.3</b>	<b>2.5</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>
Profit (loss) from operations (EBIT)	n. a.	(0.9)	(0.1)	(1.6)	(1.8)	1.3
EBITDA (adjusted for special factors)	17.2 %	(0.6)	(0.7)	(0.7)	(0.7)	(0.6)
Number of employees at the reporting date	(14.7) %	16,747	19,631	21,995	21,858	21,726

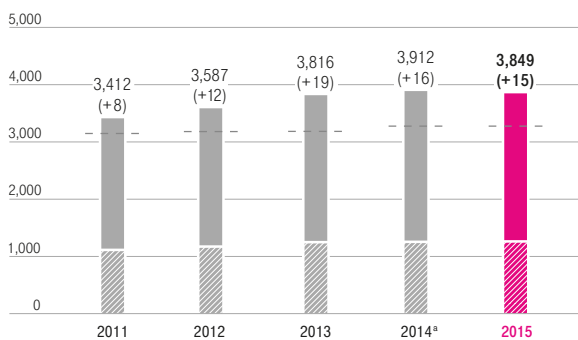
# ACT RESPONSIBLY, ENABLE SUSTAINABILITY

Deutsche Telekom is committed to acting sustainably along its entire value chain. The opportunities presented by digitization are changing society. We support this change and simplify and enrich people's lives in the long term. We play an important role in solving today's ecological, economic, and social challenges with our commitment and our products and services. 37 percent of our product portfolio already offers obvious sustainability benefits. This enables us to help our customers reduce their carbon footprint and guarantee confidential and secure handling of their data. We are working on making our supply chain more sustainable and transparent and were awarded the German CSR prize for this in 2015. We have developed key performance indicators to measure our success. To measure Deutsche Telekom's performance, for example, we use the CO<sub>2</sub> Emissions, Energy Consumption, and Sustainable Procurement ESG KPIs shown below (ESG: Environment, Social, Governance). 

 For further information on Deutsche Telekom's commitment to corporate responsibility, please refer to the section "Corporate responsibility" in the combined management report, PAGE 100 ET SEQ.

### CO<sub>2</sub> Emissions ESG KPI

CO<sub>2</sub> emissions in thousands of metric tons  
(Changes in %, compared against 2008 base year for the climate target)



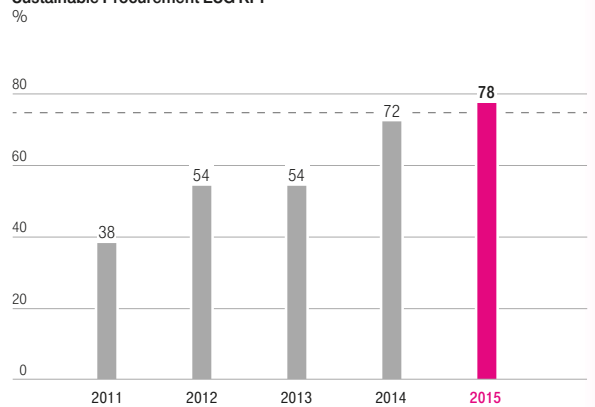
■ CO<sub>2</sub> emissions (Scopes 1 and 2). Emissions are measured in CO<sub>2</sub>-equivalent values based on energy and fuel consumption employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

▨ T-Mobile US share

--- Relevant base year for climate target (2008)

<sup>a</sup> Since data on energy and natural gas consumption had mistakenly been entered twice, CO<sub>2</sub> emissions and the ESG KPI were adjusted retrospectively (previously 3,872 and +18 percent respectively), in addition to the retrospective technical adjustment of the relevant base year for the climate target.

### Sustainable Procurement ESG KPI

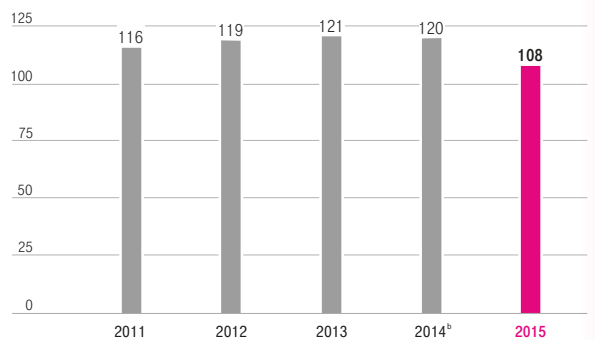


■ Procurement volume covered by supplier self-assessments and/or audits as a percentage of total sourcing volume.

--- Target value

### Energy Consumption ESG KPI<sup>a</sup>

Expressed as MPEI: electricity consumption (thousand MWh)/revenue (billions of €)



Revenue billions of €	55.4	55.7	57.8	61.9	68.6
Electricity consumption (thousand MWh)	6,409.4	6,624.7	6,992.9	7,424.0	7,421.5

■ Energy Consumption ESG KPI: Ratio of electricity consumption to relevant revenue, calculated as Monetary Power Efficiency Indicator.

<sup>a</sup> Calculated on the basis of appropriate estimates and extrapolations.

<sup>b</sup> Since data had mistakenly been entered twice, electricity consumption and the corresponding ESG KPI were adjusted retrospectively for 2014.

# FINANCIAL CALENDAR

## Financial calendar<sup>a</sup>

Press conference on the 2015 financial statements and publication of the 2015 Annual Report	February 25, 2016
Group report as of March 31, 2016	May 4, 2016
2016 shareholders' meeting (Cologne)	May 25, 2016
Dividend payout <sup>b</sup>	June 22, 2016
Group report as of June 30, 2016	August 11, 2016
Group report as of September 30, 2016	November 10, 2016
Press conference on the 2016 financial statements and publication of the 2016 Annual Report	March 2, 2017

All dates are subject to change.

<sup>a</sup>For more dates, an updated schedule, and information on webcasts, please go to [www.telekom.com/financial-calendar](http://www.telekom.com/financial-calendar).

<sup>b</sup>Deutsche Telekom is again considering paying out the dividend either in cash or in the form of shares. The cash dividend is expected to be paid out on June 22, 2016. Subject to approval by the relevant bodies and the fulfillment of other legal provisions.

The English version of these "2015 facts and figures" is a translation of the German version. The German version is legally binding.

## CONTACTS

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Our Annual Report is available online at:

[www.telekom.com/geschaeftsbericht](http://www.telekom.com/geschaeftsbericht)  
[www.telekom.com/annualreport](http://www.telekom.com/annualreport)



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# ANSWERS FOR THE DIGITAL FUTURE

**W**e need to talk. We want to talk. Communicating with others is part of our nature. Conversations give rise to new ideas and allow us to develop, discard, celebrate, or refine them. This is how we, as individuals and as a society, move forward. With our digital networks, we create one of the essential conditions for functioning communication between people at all times and across even the largest distances. However, we don't just make the infrastructure available – we also take part in the discussion about

the digital future. Digitization has an impact on everyone: It changes the way we work, communicate, and live our life. This development raises important questions for both consumers and companies, to which there is no one right answer. That's why, in the present Annual Report, we gave various people the chance to voice their opinion – from Board members, through employees, and all the way to the customer. All of them have provided different “Answers for the digital future”.



You can find more information on this topic on the Internet:

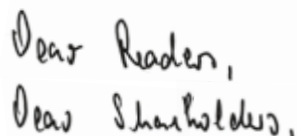
[Digital responsibility Strategy](#)

# ANSWERS FOR THE DIGITAL FUTURE



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Dear Readers,  
Dear Shareholders,

2015 was a good year for Deutsche Telekom: Our company is growing strongly again, and we are delivering what we promised you.

In 2015, we didn't just achieve our most important corporate goals, we actually exceeded them. Group revenue grew significantly, by 10.5 percent, to reach EUR 69.2 billion. Adjusted EBITDA reached EUR 19.9 billion, up 13.3 percent from the previous year. Even with constant exchange rates and taking into account several positive one-off effects, revenue increased by about three percent and adjusted EBITDA exceeded our forecast of EUR 18.3 billion by a clear margin.

As shareholders, you benefit directly from this positive business development, as our share price also rose last year – by about 26 percent. Including the dividend payment of EUR 0.50 per share for the 2014 financial year, the total yield reached around 30 percent in 2015. This put our share well ahead of the DAX once again.

I want to thank you most sincerely for the trust you place in our company and its stock as shareholders: With almost 49 percent of shares entitled to dividend, you have opted for our dividend in kind. This is of great help to the implementation of our strategy and the investments associated with it.

We are implementing this strategy consistently, and have been doing so for three years now – that is the basis of our success. We want to become the leading European telecommunications provider. To that end, we are investing in our networks and developing new products that our customers appreciate. In addition, we are collaborating with partners in many different areas. This allows us to offer our customers solutions that we cannot develop on our own, because we lack either the knowledge or the necessary agility in certain fields. That applies especially to the business customer segment, the fourth priority of our strategy. As you can see, our customers are clearly at the heart of everything we do.



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In Germany, for example, we have strengthened our position as market leader – not least because we invested in the right trends early on. Our customers value our good networks and our broad product range, because we offer them exactly what they need.

Take MagentaEins, for instance: We were the first operator in Germany to offer a combination product of fixed-line and mobile communications in the fall of 2014 – with great success. Since its launch, we have gained around 2.9 million customers in Germany and Europe. We are so successful with our combination products that our competitors are starting to copy us. Is there any greater compliment for the work we do?

However, the best products don't mean much without the networks to support them. That's why we are not making any compromises here. We are investing heavily – over EUR 4 billion just in the past year, more than any other telecommunications firm in Germany. We have been investing in fast fiber-optic lines in particular, with which we have already reached about 23 million households to date. This represents 55 percent of all German households, an 11-point increase from the end of 2014. The rollout is also making good progress in our European national companies.

We are not just expanding, however, but also modernizing – the keyword here is IP technology. In Germany alone, we had already migrated 9.5 million landlines, or roughly 40 percent of the total, by the end of 2015. That percentage is even higher in our European subsidiaries. Four of our national companies have already completed the migration to IP. With Hungary, the fifth and biggest national company so far will follow in their footsteps this year. This brings us a huge step closer to our goal of creating an international European network. No one else in Europe is further along than Deutsche Telekom when it comes to IP migration, and this is a competitive advantage that should not be underestimated.

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The fixed network is not the only area in which we invest in the best quality. You know this. You are benefiting from the full speed of our mobile networks, too. Our fast LTE network now covers 90 percent of the population in Germany alone. In Europe around 92 million people. In addition to their reach, we also increased the speed of our networks in 2015. Among other things, we already offer data transfer speeds of up to 300 megabits per second in Germany, Greece, and Hungary – and we are already working on even higher speeds. With 5G, the next technological leap is just around the corner.

Overall, it's fair to say that business is good at Deutsche Telekom – including in the USA, where we now have more than 63 million customers. Our U. S. subsidiary was able to gain more than 8 million (net) additional mobile communications customers for the second time in a row – that's more than any other company in the USA. T-Mobile US is now the third-biggest mobile communications provider in the USA measured by the number of customers. A few years ago, no one would have thought we were capable of such a success story.

At T-Systems, we have successfully completed the necessary restructuring measures. This gave new momentum especially to the cloud business of storing data in our secure data centers, which grew significantly. In particular, our standard solutions in the growth area of cloud computing have done well amidst stiff competition. In the area of cloud-based services, T-Systems' revenue increased by 24 percent to reach approximately EUR 1 billion.

Dear shareholders,

Our success proves us right. I am firmly convinced that our strategy puts us on the right path. And we will stick to it. However, I also know that we would not be able to implement all of this if we didn't have such dedicated employees working for the Group. I also want to take this opportunity to express my special gratitude to all 230,000 colleagues.

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Part of our strategy is to share the Group's success with you, our shareholders. We promised that the dividend would increase along with our free cash flow. That's why we are proposing a dividend of EUR 0.55 per share entitled to dividend – subject to the required Board resolutions and other statutory conditions – at the annual shareholders' meeting. In addition, we are once again considering giving our shareholders the possibility to either receive the dividend as a cash payment or convert it into shares.

I can promise you one thing: We will do everything in our power to maintain the dynamic development of this past financial year in 2016 and to continue to grow profitably. We want to increase our revenue, adjusted EBITDA, and free cash flow significantly again. We also want to raise annual revenue by one to two percent on average between 2014 and 2018. Adjusted EBITDA should increase by an average of two to four percent annually during this period, and free cash flow by about 10 percent on average.

With everything we have achieved in the past year, however, we must also mind that we do not become carefree or inattentive. Success doesn't fall from the sky; it is the result of hard work. That's why we will go about achieving and successfully implementing our goals for 2016 in the same down-to-earth, serious-minded, and professional manner as before. Nothing will change in this respect – nor will the fact that in the end, the question that matters will be: How can we serve our customers with our products in the best possible way?

Yours sincerely,



Tim Höttges

# THE 2015 BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG



Scan picture with the app  
or watch the video at:  
[www.annualreport.  
telekom.com](http://www.annualreport.telekom.com)



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# THE 2015 BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG

“Deutsche Telekom has a big responsibility – we are creating one of the most important conditions for the future opportunities of Europe.”



Scan pictures with the app  
or watch the videos at:  
[www.annualreport.  
telekom.com](http://www.annualreport.telekom.com)



**Timotheus Höttges**  
Chairman of the Board of Management



“In Germany, we drove forward the expansion of broadband access with every fiber there is in this company, and we will continue to do so.”



**Niek Jan van Damme**  
Board member for Germany



“In 2015, Germany clearly gathered momentum in the field of Industry 4.0.”



**Reinhard Clemens**  
Board member for T-Systems



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“We are investing heavily in the future to support our customers’ digitization even better.”



**Thomas Dannenfeldt**  
 Board member for Finance



“Our Pan-European network makes IT processes much simpler, and our customers have great advantages, for example faster introduction of new products.”



**Claudia Nemat**  
 Board member for Europe and Technology

“In the age of digitization, work will be completely reorganized. It will be important to put the human being at the center of our thinking.”



**Christian P. Illek**  
 Board member for Human Resources



“Digitization can only succeed with people, not against them. The basis for that is trust.”



**Thomas Kremer**  
 Board member for Data Privacy, Legal Affairs and Compliance



You can find our Board members’ profiles at:  
[www.telekom.com/management-board](http://www.telekom.com/management-board)

# TEN QUESTIONS FROM INVESTORS AND FINANCIAL ANALYSTS TO TIMOTHEUS HÖTTGES

XAVIER LEFRANC – UBS GLOBAL ASSET MANAGEMENT, INVESTOR: >



What do you find particularly remarkable about Deutsche Telekom as a company?



< **TIMOTHEUS HÖTTGES:**

I think Deutsche Telekom is a very ambitious company, as we expressed in our goal to be the “leading European telecommunications provider.” We invest in our network and in innovation to provide the market-leading customer experience. At the same time, we are also pragmatic – for example when one of our businesses no longer fits into the strategy and we identify a better owner for it.

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POLO TANG – UBS, ANALYST: >



In Germany and the USA in particular, you are making record-breaking investments – how do you intend to monetize these?



< **TIMOTHEUS HÖTTGES:**

These are times in which very heavy investments are necessary to give rise to the gigabit society. Among other things, we are investing in spectrum and network capacity in the USA, and connecting 10 additional percentage points of German households to our fiber-optic network each year. We are also migrating our networks across Europe to all-IP, to provide a better and more efficient service to our customers. Despite these investments, we still manage to grow our free cash flow and thereby create the basis for higher dividends. In addition, 2015 has been a good year in terms of improving the capacity utilization of the new networks. In the US, we acquired 8.3 million new customers. In Germany, our landline losses were the lowest in more than a decade and we gained almost 2 million new customers for our fiber-optic network.

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PAUL MARSCH – BERENBERG, ANALYST: >



**What does the future look like for your business in the USA?  
 Is your long-term goal to exit the market due to the intensity  
 of competition and high investments there?**



< **TIMOTHEUS HÖTTGES:**

Our goal is to maximize the value of our shares in T-Mobile US for our shareholders. I'm very pleased with the great progress T-Mobile US has made in the last few years. Despite intense competition, 2015 has been another very strong year. We support the company's plans to participate in the major auction for US broadcast-spectrum licenses. This shows that we strongly believe in the potential of T-Mobile US to achieve organic growth. At the same time, we believe that American consumers would benefit from a consolidation, and we remain open to value-enhancing deals.

ANNE MARIE FLEURBAAIJ – TOTAL RETURN GLOBAL, GIC (LONDON) PRIVATE LTD., INVESTOR: >



**What is your vision for Europe? Do we need a consolidation of the market,  
 and what will the role of Deutsche Telekom be?**



< **TIMOTHEUS HÖTTGES:**

We believe that the European telecommunications market is too fragmented in a global context, and that a consolidation would also be useful at an international level. Unlike many of its competitors, however, Deutsche Telekom already has a large US operation and a presence in many European countries beyond its home market. Therefore, our priority is to increase the value of our existing businesses and leverage synergies within our existing footprint: with our perennial Pan-Net project in Europe, for instance, through which we want to virtualize, simplify, and centralize our network production. We also work on a standardized IT platform, and have begun to centralize our administrative services.

HEIKE PAULS – COMMERZBANK AG, ANALYST: >



**What were the strategic reasons for selling t-online.de  
 and InteractiveMedia to Ströer?**



< **TIMOTHEUS HÖTTGES:**

We believe that Ströer, one of Germany's largest out-of-home and online advertising marketers, is the ideal partner for the long term. The idea is to combine digital content and advertising with the formats of outdoor advertising. This is a new business model in the competition. As the most important German portal, T-Online will become the main distributing brand for this and further strengthen our position on the market. We will benefit from the expected future value creation through our approximately 12-percent shareholding in Ströer. With this transaction, we prove that we are not dogmatic about ownership – especially when we see an opportunity to create value for our shareholders.

MANDEEP SINGH – REDBURN, ANALYST: >

**Do you feel that Deutsche Telekom and BT Group will grow closer together over time, and where do you see the greatest potential for cooperation? Should we interpret the large shareholding as strategic – as something that could grow over time?**



< **TIMOTHEUS HÖTTGES:**

We are very much looking forward to being the biggest shareholder in one of the best European telecommunications providers. We see many opportunities for enhancing value through the integration of the UK's strongest landline operator and leading mobile communications provider to form the country's largest integrated telecommunications firm. We can benefit from this indirectly through our 12-percent financial participation in BT. In addition, there are many areas in which we could cooperate. As we have demonstrated with our successful purchasing joint venture with Orange, many cooperation benefits can be achieved independently of any cross-shareholdings.

INGO SPEICH – UNION INVESTMENT, INVESTOR: >

**How significant do you think the issue of sustainable investment is?**



< **TIMOTHEUS HÖTTGES:**

Deutsche Telekom has an exceptional societal responsibility and a role model function. This includes social responsibility, conservation of resources, and digital responsibility. For many years now, we have been involved in an intense dialog with investors who base their capital investments on social aspects and environmental criteria. To date, they are still a minority among our investors, but we are seeing a growing interest for these topics among our traditional investors as well. On the one hand, sustainable products and services offer new business opportunities. On the other hand, looking at some of our DAX-30 peers clearly shows that neglecting major sustainability issues can have very negative repercussions on a company and, ultimately, on its stock price. This is why I personally think it makes sense to integrate a sustainability screening into any investment strategy. By the way, Deutsche Telekom is present in all of the major socially responsible investment (SRI) indices and keeps winning prestigious sustainability awards year after year. We also apply SRI criteria ourselves, for example in the investments of our own pension funds.

DOMINIK KLARMANN – HSBC, ANALYST: >

**Deutsche Telekom is investing heavily in fiber-optic networks and creating the basis for innovation and growth in an increasingly digital economy. What does the company need from policymakers and regulators to justify those investments to its own investors?**



< **TIMOTHEUS HÖTTGES:**

If regulation was mainly based on price cuts in the past, it now increasingly takes into account investment incentives as well. This is the right way to go about creating a digital gigabit society as the basis for future prosperity. We will seize this opportunity, and have already begun to build significantly faster mobile and fixed-line communications networks. In 2015, 1.9 million additional homes in Germany benefited from the rollout of our fiber-optic network. Over the next few years, we want to provide high-speed Internet to more than 80 percent of German households. Our market-leading LTE network is almost nationwide and faster than any other mobile communications network. Of course our shareholders expect a fair return on these investments. For this, we need regulation that is consistent and predictable, and which prioritizes risk-taking, innovation, and investment over opportunism and short-term price cuts.

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HEINRICH EY – ALLIANZ GLOBAL INVESTORS, INVESTOR: >



**How do you position yourself in the area of “data security and open platforms”?  
 Do you see it as a risk or as an opportunity?**



< **TIMOTHEUS HÖTTGES:**

Clearly as an opportunity. Firstly, winning with partners is a pillar of our strategy, and open platforms are essential for that. Secondly, Deutsche Telekom is internationally recognized for its high data security and privacy standards. This is an important value we can offer our customers, and hence a business opportunity. Of course, our partners have to commit to a common set of rules – which, in this case, means meeting our high standards. One highlight of 2015 was our agreement with Microsoft, which will see us become the German data trustee for its new Microsoft Cloud offer in Germany. Microsoft will offer Azure, Office 365, and Dynamics CRM Online from two data centers in Germany, under a unique model that uses a data trustee to control access to customer data. The customer data will only be stored in Germany. In addition, we consolidated our activities in the field of data security in a new unit, “Telekom Security”, at the start of 2016.

MATHIEU ROBILLIARD – BARCLAYS, ANALYST: >



**What is your strategy for the fiber-optic rollout?  
 Are you successful in this area, and is it even sustainable?**



< **TIMOTHEUS HÖTTGES:**

There are no good (“fiber-optic”) or bad (“copper cable”) technologies – there are only good and bad bandwidths! We have outstanding engineers who manage to achieve very high bandwidths with an economic and technological mix, by integrating our copper cable network into a fiber-optic infrastructure. The keyword here is super-vectoring: This enables speeds of over 250 megabits per second. The engineering prowess doesn’t even stop there – we are already achieving technical speeds of up to 11 gigabits per second at this time. Our strategy is to provide the highest speeds to the largest number of homes as quickly as possible, including in rural areas. We announced that we aim to reach four out of every five German households with our fiber-optic network by the end of 2018, but the recently announced public funding scheme should allow us to exceed this goal by a significant margin. With 1.9 million additional German homes in 2015 alone, we have now connected 4.4 million households to our fiber-optic network.






**ILL WE**  
**STILL BE THE SAME**  
**TOMORROW AS WE ARE**  
**TODAY?**

We will communicate with one another more and more. We will not just talk about our experiences – our friends, relatives, and significant other will be able to share them with us live. It will also become a matter of course for us to be online at all times, regardless of where we are.

**“DIGITIZATION IS CHANGING BUSINESS, AND DEUTSCHE TELEKOM IN THE PROCESS.”**



  
**Timotheus Höttges**  
 Chief Executive Officer,  
 Deutsche Telekom

The boundaries between people's work and personal lives will blur. New work models will emerge, which will make it easier to combine work and family life. Technology will also help people react more flexibly to the requirements of new work environments. In many jobs, the place of work and the location of colleagues will matter less and less.

**We are becoming more and more mobile, and we want to stay connected when we're on the move.**



**WHERE IS OUR DATA SECURE?**

We all produce large quantities of data on a daily basis. Many people are concerned about this:  
[Where is this personal data being stored? Who has access to it?](#)  
[Are secret services reading our correspondence?](#)  
[How can we protect ourselves against data theft?](#)

A groundbreaking verdict of the European Court of Justice has made these questions even more relevant. The latter found that the data of European citizens is not sufficiently protected in the USA, and subsequently declared the data privacy agreement with the USA to be void.  
[Our solution for data privacy: ENCRYPT, STORE IN GERMANY, TRANSFER SECURELY](#)  
 In Germany, we have particularly high data privacy standards. We are leveraging

this advantage to offer high-security data centers to our customers. [In addition](#), we are dedicated to providing comprehensive, end-to-end encryption to ensure that nobody can access any contents without permission. Finally, we make sure that data is sent from the sender to the recipient over the most direct route so as to avoid detours through other areas of legal jurisdiction. We explain how Internet users can additionally protect themselves at [www.sicherdigital.de](http://www.sicherdigital.de) (in German only).

  
 You can find more information on the following topics on the Internet:

- [Data protection](#)
- [Security](#)
- [Industry 4.0](#)
- [Networks](#)



Some people like being **online at all times**, others don't. Nevertheless, it has already become a normal part of life for many people – even when they get on-board a plane or a train. We modernize our networks every day to provide the best possible service to our customers. We are working on making the best network available to our customers everywhere and at all times.

**OUR GOAL** is to be able to provide the best connection everywhere and at all times.

Innovations to mobile terminals are coming thick and fast. Even the good old book is benefiting from them. In its electronic e-book form, it makes reading even more fun than before, so it's no wonder that e-readers are becoming ever more popular. In fact, the digital reading market is expected to grow by 30 percent over the next five years, and the toline e-reader we co-developed is among the front-runners. The toline combines the reading comfort of a modern e-reader with the competence and broad offer range of leading bookstores. The

**THE TOLINO E-READER WEIGHS LESS THAN 180 GRAMS, IS HANDIER THAN A POCKET BOOK, HAS SPACE FOR OVER 2,000 E-BOOKS, AND INCLUDES A BATTERY THAT LASTS LONGER THAN THE SUMMER HOLIDAYS.**

tolino brand is now three years old and we played a strategic role in its success story from the start, contributing to the toline alliance as a partner for technology and innovation. As part of this partnership, we are not just responsible for the design and production of the reading devices, but also provide the technical platform for the common open ecosystem that all of the partners use. Since its launch in the Netherlands in 2015, the toline has been introduced in six countries and is increasingly considered as the European solution with German roots.



# CHANCE

**Industry 4.0** is still an abstract notion for many people, but it holds the potential for a new industrial revolution: The Internet is increasingly connecting the physical world. Connecting machines, material, and people makes it possible for upstream and downstream production processes to happen in real time, which increases efficiency levels. In addition, the newly

acquired data – when analyzed correctly – provides insights that support product improvements and the development of completely new services. Instead of car tires, for example, customers can purchase a complete tire service. All of this leads to unsuspected collaborations between companies across entire value-creation chains, and requires a new conception of cooperation.





# “WE CHANGE ON A DAILY BASIS.”

Tom Weller brings the Internet to our customers. As a service technician in fiber optics, he makes sure that the broadband rollout moves forward in Germany, so that even rural areas can get access to fast Internet connections. Change is basically part of his daily routine. When his work is finished in a particular rollout area, DT customers' lives have gotten that little bit better.

# “I AM NOT AFRAID OF CHANGE.”



Franziska is training to be a saleswoman in office management in our Group. The main thing she is learning at the company is that learning never stops. Passing on work routines is a thing of the past – we want to show

all of our employees how to continue reinventing themselves at work all the time. Change is not a problem for Franziska, but rather a goal in her training.



## “I’M AN INTEGRAL PART OF THE CHANGE!”



Tanja Koch’s job is to help turn DT inside out. As an employee of the Customer Relations Management’s Strategy, Innovation, and Quality area at Telekom Deutschland, she contributes to setting new impulses so that our company will be different tomorrow from what it is today. Just like every other large corporation, we need constant change to avoid losing our connection to customers. Koch therefore

works on practical solutions for the use of large data volumes. These are completely customer-oriented and create tangible added value for both our customers and our company. The idea is to view the vast quantities of data that are created by digitization as an opportunity. Sensitive and intelligent use of this data will allow us to provide our customers with excellent service and optimal products.

## “EVERYTHING MAY CHANGE, BUT I’LL REMAIN MYSELF.”



Vladimir Trajanoswki works as Head of a T-Shop in our national company Makedonski Telekom, and is responsible for getting customers excited about Deutsche Telekom’s latest offers. He

knows our products just as well as daily life in Macedonia. Therefore, he knows that it’s not only about having the latest terminals and the best network on offer. Trust in Deutsche Telekom and in the

people behind the brand is the best selling point of all, and trust is born out of continuity in times of major change.



▶ Scan pictures with the app  
or watch the videos at:  
[www.annualreport.  
telekom.com](http://www.annualreport.telekom.com)

# HOW IS DIGITIZATION CHANGING WORK?

WILL THERE BE  
**EQUAL SPEED**  
FOR ALL ON THE WEB?

CAN I PLEASE  
KNOW **EVERYTHING**  
ABOUT YOU?





**WHAT**  
IF THERE WERE NO MORE  
**INTERNET**  
TOMORROW?



**WILL**  
**DIGITIZATION**  
MAKE OUR LIVES  
FASTER – OR BETTER?

**HOW**  
MUCH INTERNET  
IS GOOD FOR  
**CHILDREN?**







**HAT CAN  
WE  
ACHIEVE  
TOGETHER?**

# CONNE

**MagentaEins** is a resounding success in Germany: The package deal for mobile communications, fixed-line communications, and DT's "Entertain" television service has already delighted 2 million customers since its launch. This is why we have extended

the offer to our European markets and introduced it to five additional countries to date: MagentaEins is becoming internationally known as **MagentaOne**.

# DIFFER

In our innovation lab "5G:haus" we are bringing together major players to define the architecture and characteristics of to-morrow's networks with them. However, 5G:haus is not an actual building in a physical location. The innovation lab is actually active at various European locations. In the process, we leverage both the possibilities of our Group's European infrastructure and the advantages of agile development. **Universities, startups, manufacturers of network infrastructure, and customers** take part in the conversation with us at 5G:haus, as we discuss how the next communications standard should be designed so it can be established worldwide.

**THE PROBLEM:**

ON BUSINESS TRIPS, PEOPLE USE THEIR COMPANY MOBILE PHONE TO MAKE BUSINESS CALLS. HOWEVER, THE RECIPIENT OF THE CALL OFTEN CANNOT ATTRIBUTE THIS NUMBER TO THE RELEVANT PERSON AS EASILY AS THEIR USUAL OFFICE NUMBER.

the future. In research projects with various manufacturers, for example, we were able to increase the data transfer rates of existing mobile communications networks and make our own mobile network ready for the "Internet of Things."

**We are continuously investing in our networks.**

Now it's paying off, as tests by independent specialized magazines confirmed again last year. We are cooperating with other technology companies to drive technological development and make sure that we can keep offering the best network in

**THE SOLUTION:**

WITH OUR "ONE NUMBER" OFFER, THE NUMBER OF THE BUSINESS LANDLINE ALWAYS APPEARS ON THE CALL RECIPIENT'S SCREEN - EVEN WHEN THE CALL IS COMING FROM THE MOBILE NUMBER.

# WOW

You can find more information on the following topics on the Internet:


- Partnerships
- Creation Center
- 5G:haus
- Network of the future
- Awards: network and innovations
- Internet of Things

# ECTING RENT

**IP** **migration in our markets:** We are currently carrying out one of the most ambitious technological projects in Europe. We are converting existing lines to IP, the Internet Protocol, in all of our markets. It's a technological revolution as radical as the automobile replacing the horse-drawn carriage. Although this complex process wasn't entirely seamless in the beginning, the benefits for our customers make it worth the trouble. With this technology, we are paving the way for innovative services, improving customer service and optimizing the management of our networks.

**Much more than just a telephone line** Macedonia was the first country in which we successfully completed the IP migration. Our customers there have lots of new options now: They can book additional services on demand, precisely when they need them. At the touch of a button, they can activate Internet access, higher data transfer rates, or the use of a personal cloud. We have now completed the migration to the new IP technology in a total of four countries, as Slovakia, Montenegro, and Croatia followed hot on the heels of Macedonia. In Germany, we had already converted 10 million of our customers' lines to the new technology at the start of 2016, and about 70,000 additional lines are being migrated each week.

“  
With StadiumVision, we are transforming a soccer stadium into a multimedia experience space. Fans will be able to access information, live streams, videos, entertainment offers, and interactive campaigns by partners directly during the game. We are bringing the events inside the stadium to the outside world and bringing the outside world into the stadium.  
”

  
**Michael Hagspühl**  
Director Consumer,  
Telekom Deutschland

**940 WI-FI ANTENNAS**

turn the Allianz Arena into a stadium of the future.

# RLL

**Be close to the customer:** In Product Development, we take this mission to heart. We develop new ideas together with our customers in our Creation Center, look over their shoulder in their everyday life, and consciously focus on the seemingly small things that make life easier. We then develop product and service ideas in interdisciplinary teams and assess their economic viability, feasibility, and marketability.

# S!

# REMOTELY WELL CARED FOR

Demographic change is having a double negative impact on the healthcare system: Because the population is ageing, the need for medical care is increasing. At the same time, fewer and fewer qualified doctors and nurses are available – especially in rural areas. This means that patients have to travel increasingly large distances to obtain adequate medical care. Our **Deutsche Telekom Healthcare Solutions** area develops

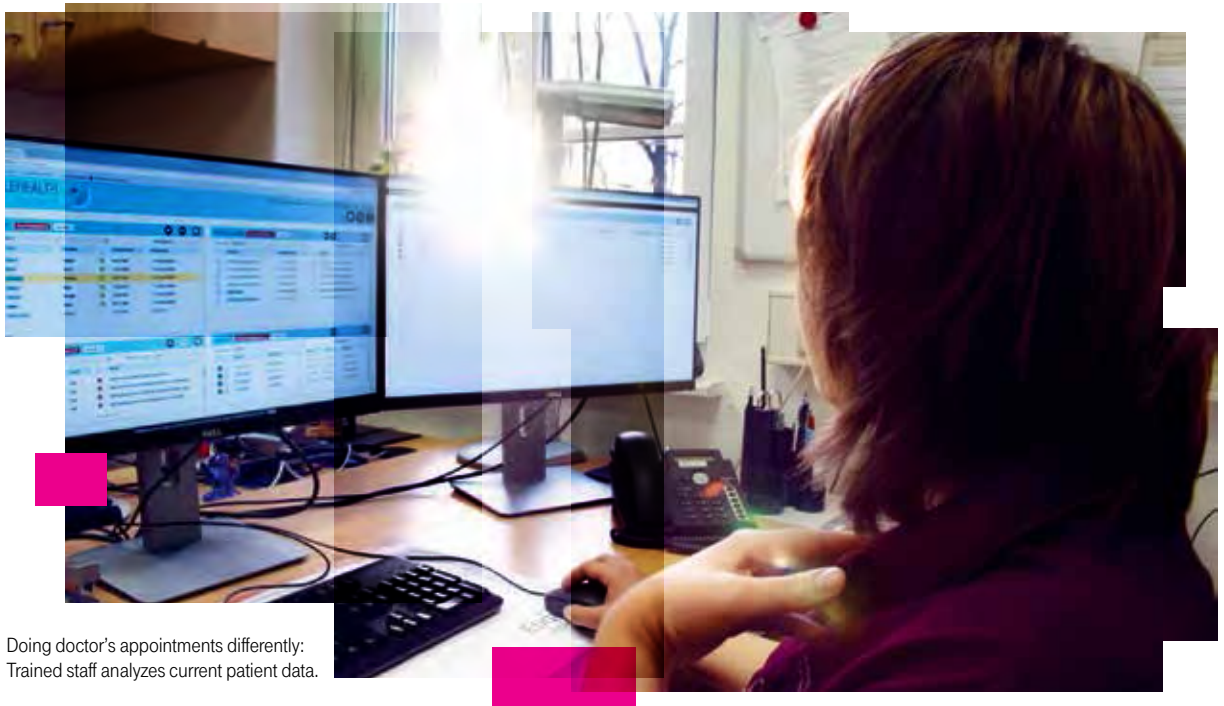
solutions to bridge the distance between patients and doctors and maintain or even improve the quality of care. The keyword in this area is “telemedicine”: remote medical care and cooperation. We are working on this with Carus Consilium Sachsen, a subsidiary of the Carl Gustav Carus University Clinic in Dresden, as part of the collaboration project “CCS Telehealth Ostsachsen”, which is unique in Europe.

**“THANKS TO OUR COMMON TELEMEDICINE SYSTEM, SAXONY HAS ALREADY ARRIVED IN THE FUTURE OF HEALTHCARE.”**



**Axel Wehmeier**

Head of the Health corporate business area,  
Deutsche Telekom



Doing doctor's appointments differently:  
Trained staff analyzes current patient data.



You can find more information on the following topics on the Internet:

[Deutsche Telekom Healthcare Solutions](#)

[Carus Consilium Sachsen GmbH](#)  
(in German only)





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[www.annualreport.  
telekom.com](http://www.annualreport.telekom.com)

Thanks to telemedicine, doctors always have an eye on their patients.

A central aspect of this project is that when patients are discharged from the clinic and return home after having a heart attack, for example, they remain in contact with specially trained nurses over a tablet computer for the aftercare. At the same time, the patients' vital signs are transmitted to the hospital over the tablet. Laptops and a fully equipped IT workspace support the doctors and nurses in the care of stroke patients. Telemedicine also means that doctors can communicate faster and better: That's why, as part of the project, doctors of the participating clinics have access to high-definition scans of tissue samples. This directly benefits the patients, because a second expert opinion can be called in for difficult cases even if the experts work in

different clinics or labs. Previous approaches to telemedicine were mostly conceived as independent solutions, making it difficult to connect different clinics, data centers, and specialists with one another. This is why in Saxony, an open platform was chosen deliberately to allow communication between a variety of different IT systems. This allows as many doctors as possible to contribute, regardless of the hardware and software they use. Another challenge in this kind of large-scale cooperation is the security of patient data. A specially secured data network for exchanging information was set up for this purpose, and the servers for the patient information also comply with the highest German data privacy standards.

**1.6 MILLION**

people live in the area covered by the telemedicine project "CCS Telehealth Ostsachsen."

# WE ARE CONNECTING EUROPE IN-FLIGHT



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Mario Franci, EAN Program Manager at Inmarsat, is bringing the Internet into airplanes together with Deutsche Telekom.

There is a lot going on in the skies. Flight traffic over Europe is constantly increasing. Although the potential for adding more flights seems limited, the European airspace's economic potential is far from having been fully tapped. In fact, new business prospects are emerging for us above the clouds.

□ You can find more information on this topic on the Internet:

[EAN](#)

We already made **Internet connections** available on international flights with our "Inflight" offer in 2011. Our next goal is to offer a broadband connection of up to 75 megabits per second on-board European flights, and we are getting support from space to do so. Together with Inmarsat, a leading provider of satellite communication, we are currently developing the **European Aviation Network (EAN)** thanks to which airplanes

will receive an Internet connection both from the ground and from space. We are building a Pan-European mobile communications network of around **300 LTE base stations** for this purpose. These stations have a significantly greater range than existing LTE antennas, which means they can reach planes traveling at high altitude and speed.

Each LTE station covers a radius of approximately

**80 km**

at normal flying altitude, which means we can supply most of the European airspace with **300 base stations**.

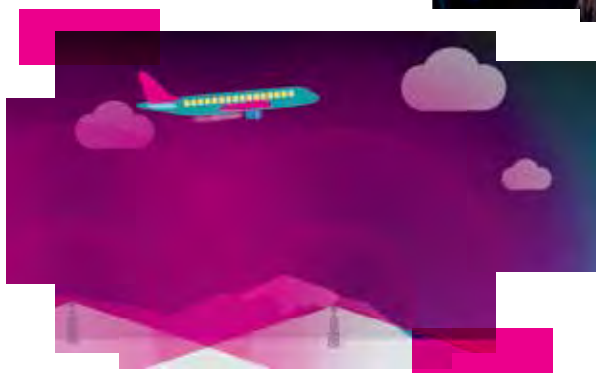
▶ Scan picture with the app or watch the video at: [www.annualreport.telekom.com](http://www.annualreport.telekom.com)

Great for business travelers: Internet access on European flights.



The ground station of the Inmarsat satellite, which serves as a basis for the EAN connections, is being operated by our Greek subsidiary OTE, while the system as a whole is being steered by Inmarsat in Amsterdam.

As part of a partnership with Inmarsat, the German airline Lufthansa will carry out the first test flights with the combined technology starting in 2017. We want to make broadband connections available across most of the European airspace by early 2018.





The electronic tag – quick, easy, and convenient.

## THE BEST SERVICE BEGINS AT CHECK-IN

We don't just want to be at our customers' side once they are on the plane, however, because we can start making their life easier as soon as they are on their way to the plane – for example with an innovative solution that simultaneously benefits the airlines.

It's a familiar problem: Checking in your luggage at the airport takes up time that you don't necessarily have. As a consequence, many passengers take more carry-on luggage on-board than necessary.

This, in turn, wastes time during boarding and debarking. Airbus launched an innovation project in cooperation with

**THE PAPER TAG ON YOUR SUITCASE WILL SOON BE OBSOLETE - HERE COMES THE ELECTRONIC TAG.**

T-Systems and luggage manufacturer RIMOWA, which has now resulted in a clever **mobility solution.** RIMOWA is

offering luggage with an integrated screen, the so-called **electronic tag,** which was also created in collaboration with T-Systems. Flight passengers can transfer their digital luggage data onto the electronic tag as soon as they check in online. The stopover at semi or fully automated luggage check-in counters will then take the passengers just a few seconds. Additional services, such as an integrated pick-up service for luggage with an electronic tag, are already planned.

### 2015

Deutsche Telekom and Inmarsat announce their cooperation to build the **European Aviation Network.**

### 2017

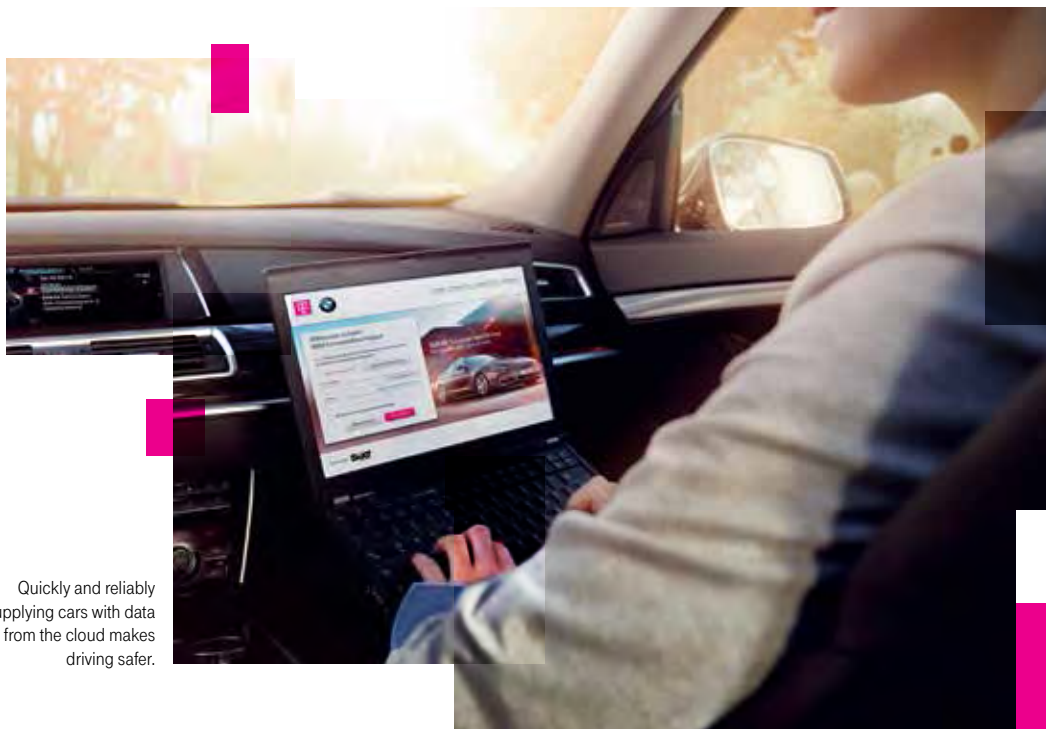
The combination of satellite signals and **LTE base stations** is tested in Lufthansa airplanes.

### 2018

**Our goal** is for the European Aviation Network to be available across most of the European airspace.



# FUTURE PROSPECTS: CLOUDY AND SAFE



Quickly and reliably supplying cars with data from the cloud makes driving safer.

The cloud makes digital life easier. Data, computing power, and IT programs are all going online and can be accessed there as needed – almost as easily as getting electricity from the socket. We are specialists for cloud-based services. T-Systems, our corporate customer segment, offers professional IT services and our national companies operate the network infrastructure for speedy and reliable data transmissions.

We already have a leading position on the cloud market thanks to our tailored solutions for large

companies, practical solutions for SMEs, and free offers for consumers. We operate data centers around the world, including the largest and most cutting-edge in Germany (in Biere/Magdeburg). We also make a unique promise to our customers: to provide them with all services from a single source, from the server center, through the network, software offers, 24-hour service, and all the way to invoicing.

All of this puts us in a good position to succeed in a seminal area. According to our estimates, the global market for cloud-based ser-

vices is growing by about 25 percent annually and is set to reach a volume of 230 billion euros in 2017. Socially relevant projects like connected driving, e-health, the energy transition, and Industry 4.0 are not feasible without cloud-based services. To realize their full potential, we have made the cloud a strategic priority and reorganized our T-Systems segment.

You can find more information on the following topics on the Internet:

[Connected car](#)  
[Zero outage](#)  
[Cloud](#)  
[Data protection](#)

## WE DON'T BACK UP THE DATA. WE BACK UP THE ENTIRE DATA CENTER.

**The security of our customers' data is always a top priority for us.** It starts with the construction of our data centers, which have the strongest possible protection against physical and hacker attacks. To be completely safe, we build twin data centers in which the data is mirrored and synchronized continuously. This allows the information to remain

available even if one server suffers an outage. Beyond all construction measures, however, the key to our security guarantee is that 600 experts are constantly working on protecting the infrastructure and customer data at T-Systems.

That's why even international firms trust us to operate their

IT landscape. To meet these corporate customers' special speed, security, and availability requirements, we offer them the "private cloud". This is where all of their data is encrypted and transmitted over insular lines. In addition, all the data lines are redundant and we guarantee an agreed-upon connection quality in the private cloud.

### ZERO OUTAGE.

Our customers appreciate this quality control program, as the third consecutive increase in customer satisfaction shows.

More information available online at: <https://quality.t-systems.com>

## LOCATION, LOCATION ... DATA PRIVACY

**M**any people in Europe are worried about whether their user data stored on foreign servers is sufficiently protected. Our location is a real advantage in this regard, because our cloud-based offers are "made in Germany." In practice, this means that our services run over German data centers that comply with strict German data privacy regulations at the customer's

request. That's why groups like Microsoft store the data of their German customers with us, and we act as custodians of this information. If a cloud-based application we offer is not operated in Germany, we advise our customers of this fact.

### All key players under one roof

Our cloud offer is made even stronger by our cooperation with high-profile partners. Companies like SAP, Microsoft, and Salesforce offer their software over our cloud platform. Solutions from Informatica and our AppAgile platform help us provide a virtual IT infrastructure to our business customers. We also extended our offer range with the new "Open Telekom Cloud", a competitive public cloud service that is available on the public Internet, in cooperation with Huawei.

We provide around **3,000,000,000** users with cloud-based SAP services.

In the Fort Knox of data security: T-Systems employee Benjamin Fischer takes care of the data center in Biele.



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# ILL ?

**THERE STILL  
BE OFFICES IN THE  
FUTURE**

# MY

**“TRADITIONAL WORK-PLACES AND WORKING HOURS ARE BECOMING A THING OF THE PAST.”**

“Megatrends in future digital work – 25 theses” is the result of an expert survey that we carried out in collaboration with St. Gallen University. We surveyed 60 experts worldwide, including top business managers, researchers, association representatives, and trade unionists. The survey’s finding is that digitization is having a dramatic effect on the way we work.

**“THE DEMISE OF PHYSICALLY LOCATED WORK-PLACES IS ASSOCIATED WITH A CHANGE FROM A PRESENCE TO A RESULTS CULTURE.”**

Many of our employees can already form virtual teams worldwide in an independent manner. For instance, colleagues from different national companies work together on projects for months at a time. Instead of “real” meetings, video chats and phone conferences are increasingly becoming the preferred modes of communication. Every employee within the Group benefits from these international collaborations – especially colleagues in smaller national companies or segments that cannot implement their specialized agendas alone. Our customers, in turn, benefit from solutions that would never even have been designed without virtual collaboration.


# O

**“HANDS-OFF MANAGEMENT – MANAGERS MUST LEARN THAT THEY WILL NEED TO MOTIVATE RATHER THAN CONTROL WORKERS.”**




# IS

“The future of work is already part of my daily routine. I am able to decide for myself when and where I work. I don’t mind checking my e-mails on my work phone at 7:00 a.m. as long as I can have breakfast in peace with my one-year-old son afterwards. What matters is not my presence in the office, but the results I achieve.”

”  
  
**Csaba Eisenbacher**  
 T-Systems, Bonn

Of course, international virtual collaboration requires a seamless, integrated IT infrastructure, the basis of which is a standardized Wi-Fi network at all of our central locations in Europe. An overarching Web-conference system makes it possible to hold virtual meetings, a **softphone solution** that lets employees make calls with their laptop is replacing the landline, and a cloud-based database allows them to easily share documents with all of their project colleagues. As part of this process, the standardization of our e-mail and calendar platforms ensures seamless communication and makes it easier to organize appointments.

 You can find more information on this topic on the Internet:

[25 theses](#)



# ICE

Our employees, our customers, our shareholders – everyone benefits when we successfully reorganize work within our company. It makes us more attractive as an employer, more flexible as a service provider and more efficient as a Group. We call the transformation of the work environment **“Future Work.”**

### Trust. Share. Create.

Future Work means that we will rely more on virtual collaboration than on physical presence going forward, that trust will be more important than control, that it will often be less “my office” than **“our work environment”** and that we will be able to achieve a better work-life balance.

# WHEREVER AAM

**E**mployee communications as a dialog: We have replaced our intranet with a social collaboration platform. This allows our employees to get in touch with each other more easily, work together in groups, and access available knowledge. Communication on the platform is direct, authentic, and fast – hierarchies and functional or national boundaries are

crossed. More than 103,000 DT employees in over 30 countries already use the platform, making it one of the largest in-house social collaboration platforms worldwide. Our offer is in line with current trends: In a survey, two thirds of respondents from medium-sized and large companies in Germany stated that they believe the significance of social intranet platforms is likely to increase.

# WE ARE RESTRUCTURING –



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A spontaneous conversation around a high table replaces a formal meeting in the conference room.

## ON A DAILY BASIS

Our employees at certain locations are already experiencing a reality that we want to establish in an increasing number of offices going forward: flexible workspace design. This means that each employee from a given area can choose his or her workplace freely according to the task at hand. From mobile working, through a quiet single-person workspace, a communicative team project office, and all the way to the lounge area, the place of work is determined by the activity that is undertaken. It therefore makes

sense for us to equip the relevant employees with a mobile phone and a laptop. For many people, the aspect that takes some getting used to is that there is no assigned seating in the new office ecosystems anymore. Instead, employees choose the workspace that provides them with the best environment for their task on any given day. Personal items can be stashed in pilot cases, for example, which can be “locked away” during employees’ absence.

## EVERYONE BENEFITS FROM LESS SPACE

This may sound like a contradiction, but it actually describes a situation that has advantages for everyone involved: Both the employer and employees benefit from flexible workplace design. Our employees can achieve a better work-life balance. We provide them with spaces that are better suited for their tasks, and the greater level of independence increases their well-being and

motivation. In fact, our experiences from pilot projects even indicate that flexible workplace design can improve the quality of their results. Finally, we require less office space due to

**“FLEXIBLE JOBS WHICH ALSO AFFORD INDIVIDUAL RESPONSIBILITY AND AUTONOMY ARE ASSOCIATED WITH HIGHER MOTIVATION AND PERSONAL FULFILLMENT.”**



**Alessio J. G. Brown**

Director of Strategy and Research Management,  
Institute for the Study of Labor

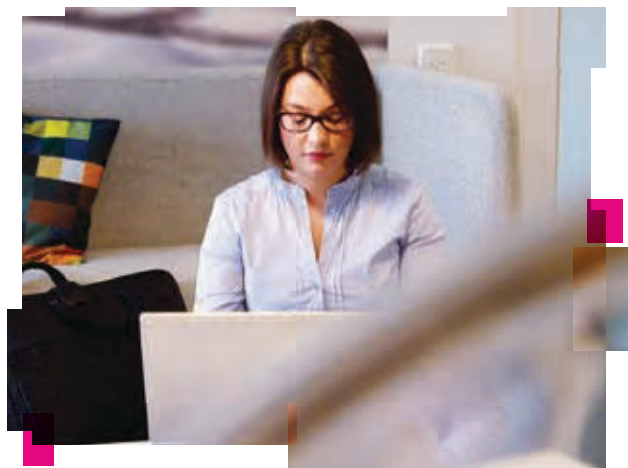
our employees' vacation time, home-office arrangements, and business trips. This is also an important step towards more efficient resource allocation, as it can help to increase the average workspace occupancy rate.



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The transition towards this new way of working also requires everyone involved to adapt their understanding of collaboration. Leadership will have less to do with control, and performance will be less associated with presence. Of course, it is also clear that

many activities will remain tied to a specific location. After all, our customers rightfully expect to find competent advisers in the Telekom Shops and the Service units at all times. New fiber-optic lines are not likely to lay themselves, either.



Need to concentrate, but enjoy working in a relaxed setting?  
Our new work environments have it covered.

## SUPERVISORY BOARD'S REPORT TO THE 2016 SHAREHOLDERS' MEETING

The 2015 financial year was characterized by the development and implementation of the Group strategy and the Group's transformation in an age of digitization and technological change. Strong development on the domestic German market, excellent business development in the United States, the ongoing difficult macroeconomic situation in southern and eastern Europe and continued high competitive and regulatory pressure were major features in 2015. Despite these ongoing challenges, the Group generated good results in the 2015 financial year and fulfilled the expectations. The Supervisory Board exercised its statutory functions as an advisory and supervisory body and gave the Board of Management its full support.



## SUPERVISORY BOARD ACTIVITIES IN THE 2015 FINANCIAL YEAR

We continually monitored the Board of Management's activities in managing the business and the Group as a whole. Specifically, this supervisory role consisted of ensuring that these activities were lawful, compliant, appropriate, and efficient.

The primary prerequisites for fulfilling this role were the Board of Management's written and oral reports. The Board of Management kept us regularly informed in good time on corporate strategy, planning, business development of the Group and its segments, the risk situation, risk management, compliance, and any deviations in the business development from original plans, as well as significant business transactions involving the Company and its significant subsidiaries and associates.

The Board of Management fulfilled its duties to inform quickly and in full. The Board of Management's reports met all statutory requirements, the standards of good corporate governance, and the criteria imposed on them by us with regard to both content and scope. In addition to the reports, we requested and received supplementary information. We reviewed, critically analyzed and verified the plausibility of these reports and other information.

A catalog prepared by the Supervisory Board lists types of transactions and other measures of fundamental importance for which the Board of Management has to obtain approval from the Supervisory Board. This catalog is an integral part of the Rules of Procedure of the Supervisory Board and the Board of Management. We met with the Board of Management to discuss and thoroughly review the business transactions and measures presented to us in 2015 for approval in line with the aforementioned document. We approved the transactions and measures submitted for resolution.

The frequency of plenary and committee meetings mean that we are in close contact with the Board of Management. The Board of Management also reports on individual issues in writing or in discussions between the meetings. In addition, the Chairman of the Supervisory Board is in contact with the Chairman of the Board of Management at regular appointments at which current business transactions, strategy issues, planning, business development, the risk situation, risk management, and compliance, as well as other significant events, are discussed.

A total of seven Supervisory Board meetings took place in the 2015 financial year, consisting of four regular and two extraordinary meetings, in addition to a one-day off-site conference in which the Company's strategy was discussed with the Board of Management. The average participation rate at these meetings was 91 percent. Written votes were used where resolutions were required between the meetings.

The focal topic at our extraordinary meeting on February 4, 2015, was the resolution on the sale of the EE joint venture with Orange to British Telecommunications (BT), following which our Company now in turn holds a 12-percent stake in BT. We also approved the Board of Management target achievement for 2014. In addition, we discussed the current political and financial situation in Greece, and obtained information in particular on the effects on our Company of a potential Greek exit from the euro zone.

In the regular meeting on February 25, 2015, in the presence of the external auditor, we dealt with the Company's 2014 annual financial statements and consolidated financial statements, as well as the Group management report, which is combined with the management report of Deutsche Telekom AG. Our approval of the 2014 annual financial statements was based on the recommendation of the Audit Committee, which had previously analyzed the documents in detail. We agreed to the Board of Management's proposal on the appropriation of net income. We also appointed Dr. Christian P. Illek to the position of Chief Human Resources Officer, set out the key content of his employment contract, and approved the agenda for the 2015 shareholders' meeting. The Board of Management reported comprehensively on the current situation and the most important financial and operational KPIs for the Company and its segments, and on Capital Markets Day, which was to take place the following day. In addition, the Board of Management provided information in particular on the upcoming spectrum auction in Germany. We approved the creation of a temporary special committee to support the auction procedure.

In the extraordinary meeting on April 29, 2015, we approved the acquisition of the remaining 49 percent of shares in Slovak Telekom that Deutsche Telekom did not yet own at that time. After Ms. Kolmsee resigned her supervisory board mandate effective April 8, 2015, and Prof. Kaschke was court-appointed at short notice as a member of the Supervisory Board on April 22, 2015, a resolution on the appointment of members to the Audit Committee also took place at this meeting.

In the meeting before the shareholders' meeting on May 20, 2015, the Board of Management reported in detail on the current situation and the financial and operational KPIs of the Company and its segments in the first quarter of 2015. We obtained information on the most important business developments and on the current status of a variety of portfolio topics, such as the process of selling EE to BT and the acquisition of shares in Slovak Telekom, as well as the development of the service situation in Germany with regard to IP migration. In addition, we looked at the development of T-Mobile US and the situation of the market in the United States.

In the meeting on September 1, 2015, we dealt with the implementation of amendments to the law and the German Corporate Governance Code and set out target figures for the number of women on the Board of Management. We also approved a regular limit on terms of office and an adjustment to the regular age limit for the Supervisory Board, and stated that the Supervisory Board will continue to ensure that candidates can dedicate the required amount of time to their Supervisory Board tasks in our Company. The Board of Management reported on the current situation and the financial and operational KPIs in the Company and its segments in the second quarter of 2015, and on the situation in Greece. We dealt in depth with business development in Europe with a particular focus on the strategic, economic and competitive situation of those national companies that exclusively provide mobile communications services. We also approved the sale of the remaining shares in Scout24 as part of an IPO.

During the one-day off-site conference of the Supervisory Board and the Board of Management that took place the following day, we dealt with the Company's strategy. We debated the status of the strategy, discussed individual aspects, and agreed on focal topics for the coming year. In addition, the management of Magyar Telekom illustrated the importance

of our Hungarian company and reported on prior development and future challenges.

In our meeting on December 16, 2015, we voted on a variety of Board of Management remuneration topics and on the reappointment of Ms. Nemat. The Board of Management reported on the current situation and the financial and operational KPIs in the Company and its segments in the third quarter of 2015. A further focus of the meeting was the resolution on the budget for the 2016 financial year and on the annual financial plan. In addition, we acknowledged the medium-term planning 2017–2019. We then dealt with the acquisition of spectrum in the United States in 2016.

In our plenary meetings and in the Audit Committee in particular, we also regularly verified that the Board of Management acted lawfully and ensured compliance with legal provisions and internal standards and policies, for example by setting up a Group-wide compliance organization. We also regularly met with the Board of Management to discuss the Group-wide risk management and risk controlling systems that had been introduced. Having conducted our own reviews and discussed the matter with the external auditors, we came to the conclusion that both the internal control and risk management system and Group-wide risk controlling are functional and effective.

#### ORGANIZATION OF THE SUPERVISORY BOARD'S ACTIVITIES

To increase the efficiency of our work, and in consideration of the specific requirements we have to fulfill, we have set up the committees listed below, all of which have an equal number of shareholders' and employees' representatives, with the exception of the Nomination Committee. In regard to committee membership, our aim is to achieve regular rotation among the Supervisory Board members. Our objective is also to ensure that the chairperson roles on the committees are occupied by different people. The committees' chairpersons regularly informed us at our plenary meetings of the content and results of committee meetings.

#### SUPERVISORY BOARD COMMITTEES

##### General Committee

Prof. Dr. Ulrich Lehner (Chairman)  
Josef Bednarski (as of January 1, 2016)  
Johannes Geismann  
Waltraud Litzemberger (until December 31, 2015)  
Lothar Schröder

##### Finance Committee

Dr. Ulrich Schröder (Chairman)  
Josef Bednarski (until December 31, 2015)  
Dr. Wulf H. Bernotat  
Monika Brandl  
Klaus-Dieter Hanas (as of January 1, 2016)  
Sylvia Hauke  
Karl-Heinz Streibich

##### Audit Committee

Dr. h. c. Bernhard Walter (Chairman; deceased January 11, 2015)  
Dagmar P. Kollmann (Chairwoman as of February 4, 2015; previously member)  
Josef Bednarski (as of January 1, 2016)  
Johannes Geismann  
Hans-Jürgen Kallmeier  
Prof. Dr. Michael Kaschke (as of November 1, 2015)  
Ines Kolmsee (February 4 – April 8, 2015)  
Petra Steffi Kreusel  
Prof. Dr. Ulrich Lehner (April 29 – October 31, 2015)  
Waltraud Litzemberger (until December 31, 2015)

##### Staff Committee

Lothar Schröder (Chairman)  
Josef Bednarski (as of January 1, 2016)  
Dagmar P. Kollmann  
Prof. Dr. Ulrich Lehner  
Waltraud Litzemberger (until December 31, 2015)

##### Nomination Committee

Prof. Dr. Ulrich Lehner (Chairman)  
Johannes Geismann  
Dagmar P. Kollmann

##### Mediation Committee

Prof. Dr. Ulrich Lehner (Chairman)  
Josef Bednarski (as of January 1, 2016)  
Dr. Hubertus von Grünberg  
Waltraud Litzemberger (until December 31, 2015)  
Lothar Schröder

##### Technology and Innovation Committee

Dr. Hubertus von Grünberg (Chairman)  
Sari Baldauf  
Lars Hinrichs  
Hans-Jürgen Kallmeier  
Lothar Schröder  
Michael Sommer

##### Special Committee for u. s. Business

Prof. Dr. Ulrich Lehner (Chairman)  
Josef Bednarski  
Dr. Wulf H. Bernotat  
Sylvia Hauke  
Lothar Schröder  
Dr. Ulrich Schröder

##### Special Committee on the Acquisition of Spectrum in Germany (April 1 – June 19, 2015)

Prof. Dr. Ulrich Lehner (Chairman)  
Waltraud Litzemberger  
Lothar Schröder  
Dr. Ulrich Schröder

The **General Committee** met seven times in 2015, one meeting of which was held jointly with the Finance Committee. The committee focused mainly on preparing the recommendations for decision for the plenary meetings in regard to all of the decisions on Board of Management and Supervisory Board matters. In 2015, this included the matter of the appointment of Dr. Christian P. Illek as Board member responsible for Human Resources and the reappointment of Claudia Nemat as Board Member for Europe & Technology. The committee also reviewed the remuneration system and the appropriateness of Board of Management remuneration as scheduled, and revised and updated the reporting obligations of the Board of Management to the Supervisory Board.

The **Finance Committee** held five meetings. One of these meetings was held as a joint meeting with the General Committee. The subject of the meetings was to discuss and hold resolutions throughout the year on the Group investment budget in regard to major projects, such as the spectrum auction in Poland and the introduction of handset leasing at T-Mobile US, both of which took place in 2015. In addition, the Finance Committee also resolved the sale of t-online.de and InteractiveMedia to Ströer SE, following appropriate delegation by the full Supervisory Board.

The **Audit Committee** held a total of five meetings in 2015, one of which was an extraordinary meeting. The external auditor was present at all regular meetings. The Audit Committee's area of responsibility is defined by German legislation and the German Corporate Governance Code. These include, in particular, the quarterly monitoring of the accounting process, the effectiveness of the internal control system, risk management and the internal auditing system, compliance and data privacy. The Audit Committee also handled matters relating to the audit of the Company's financial statements, verified the independence of the external auditor, and monitored the additional services provided by the external auditor, the commissioning of the external auditor, the stipulation of the main focuses of the audit and the agreement on fees. After thorough discussion, the Audit Committee issued a recommendation to us about our suggestion of external auditor to be nominated by the 2015 shareholders' meeting. The Audit Committee also regularly discussed the quarterly report on business development. In the 2015 financial year, the Audit Committee again held its extraordinary meeting on fundamental Group issues in addition to its regular meetings. The agenda for this year's extraordinary meeting mainly dealt with the effectiveness of risk management, new developments in compliance, in data privacy and data security, new audit standards that are of relevance to the Group, e.g., IFRS 15, new responsibilities of the Audit Committee, and current legal developments at German and European level. Dagmar P. Kollmann, Chairwoman of the Audit Committee, is an independent member and has expert knowledge of accounting and auditing (§ 100 (5) of the German Stock Corporation Act (Aktiengesetz – AktG)). She is also particularly knowledgeable and experienced in the application of accounting standards and internal control procedures.

The **Staff Committee** held three meetings in 2015 and mainly discussed matters relating to headcount and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on budget planning. The committee also dealt with the new strategic focus of the HR department, on which Dr. Christian P. Illek reported as new Chief Human Resources Officer.

The **Nomination Committee** held a total of five meetings in 2015 and dealt with the appointment of a successor to Dr. h. c. Bernhard Walter. Later in the year, the committee dealt with the appointment of a successor to Dr. Hubertus von Grünberg, who is to step down from the Supervisory Board at the close of the 2016 shareholders' meeting.

The **Mediation Committee** to be formed in accordance with § 27 (3) of the Codetermination Act did not meet in 2015.

The **Technology and Innovation Committee** held three meetings in 2015 and dealt with a very broad range of topics from a variety of areas. The committee supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas.


The **Special Committee for U.S. Business**, formed in May 2014, held one meeting in 2015. In this meeting it dealt in depth with the spectrum auction that is to be held in 2016 in the United States, and what this means for T-Mobile US.

The **Special Committee on the Acquisition of Spectrum in Germany** existed from April 1 to June 19, 2015, and held two meetings in that period. At the meetings, the committee was informed by the Board of Management on the current situation in the auction procedure at that time, and advised the Board of Management.

#### CONFLICTS OF INTEREST

Johannes Geismann is a member of the Supervisory Board of Deutsche Telekom AG and, at the same time, State Secretary at the Federal Ministry of Finance. Dr. Ulrich Schröder is a member of the Supervisory Board of Deutsche Telekom AG and is also Chairman of the Executive Board at Kreditanstalt für Wiederaufbau (KfW). We are aware that Deutsche Telekom AG is involved in various legal disputes in which the Federal Republic of Germany is the opposing party. There were no conflicts of interest requiring action with any of the aforementioned members of the Supervisory Board. Should a conflict of interest arise, the Supervisory Board members will discuss how to proceed with the Chairman of the Supervisory Board.

#### CORPORATE GOVERNANCE

The Supervisory Board and Board of Management are aware that good corporate governance is essential for corporate success. The provisions of the German Corporate Governance Code are hence reflected in the Company's statutes. The Board of Management and the Supervisory Board last issued their declaration of conformity with the Corporate Governance Code on December 30, 2015. 

#### CHANGES IN THE COMPOSITION OF THE BOARD OF MANAGEMENT

Dr. Christian P. Illek was appointed as the new Member of the Board of Management responsible for Human Resources and Labor Director, effective from April 1, 2015. Claudia Nemat was reappointed as Member of the Board of Management responsible for Europe and Technology, effective October 1, 2016, as per a resolution of December 16, 2015.



The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (PAGES 43 ET SEQ.).

For detailed information on the Supervisory Board members, please refer to Deutsche Telekom AG's website: [www.telekom.com/company/supervisory-board/15692](http://www.telekom.com/company/supervisory-board/15692)

### CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Shareholders' representatives: Dr. h. c. Bernhard Walter passed away on January 11, 2015. Ines Kolmsee was court-appointed to the Supervisory Board effective January 31, 2015 and resigned her position effective April 8, 2015. Prof. Michael Kaschke, who had been court-appointed to the Supervisory Board with effect from April 22, 2015, was elected to the Supervisory Board by the shareholders' meeting on May 21, 2015. Due to the short notice of his appointment, he was able to take part in less than half of the meetings during his period of office in the 2015 financial year. The shareholders' meeting on May 21, 2015, elected Dr. Wulf H. Bernotat to the Supervisory Board for another term of office. □

Employee representatives: There were no changes on the employee representative side in the 2015 financial year. Waltraud Litzenberger resigned her position effective midnight December 31, 2015. Nicole Koch was court-appointed to the Supervisory Board effective January 1, 2016.

The Supervisory Board would like to thank all of the former members for their valuable support. In particular, we would like to thank Ms. Litzenberger for her many years of valuable activities in the interests of the Company.

### REVIEW OF ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2015 FINANCIAL YEAR

The Board of Management submitted the annual financial statements and the management report, the consolidated financial statements, and the Group management report of Deutsche Telekom AG, which was combined with the management report, together with its proposal for the appropriation of net income, to us in good time.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, which was appointed as auditor of the single-entity financial statements and auditor of the consolidated financial statements ("external auditor") for the 2015 financial year by the shareholders' meeting on the recommendation of the Audit Committee and proposed for appointment by the entire Supervisory Board, audited the annual financial statements as of December 31, 2015, which were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB), and the management report, which was combined with the Group management report, as well as the consolidated financial statements as of December 31, 2015, which were prepared in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and the Group management report, which was combined with the management report, and issued an unqualified audit opinion for each document.

Before the Audit Committee passed a resolution on its recommendation to the Supervisory Board for the proposal for election to be submitted to the shareholders' meeting, the external auditor confirmed that there are no business, financial, personal or other relationships between itself, its executive bodies and audit managers on the one hand and the Company and its executive body members on the other that may cast doubt on its independence. The auditor also stated to what extent other services were rendered for the Company in the previous financial year and to what extent such services have been contracted for the following year. On this basis, the Audit Committee verified and confirmed the external auditor's requisite independence. It informed us of the outcome of this

review before we prepared our resolution to propose to the shareholders' meeting the appointment of said independent auditor.

The external auditor also confirmed to the Audit Committee and the Supervisory Board in their financial statement review meetings on February 23 and 24, 2016, respectively, that there are no circumstances that may give rise to doubts about the external auditor's impartiality. In this context, the auditor also reported on any services rendered in addition to auditing services. In the Supervisory Board meeting on February 24, 2016, the Audit Committee informed us about its monitoring of the auditor's independence while taking account of the non-audit services provided and about its conclusion that the auditor continues to be independent as necessary.

The external auditor submitted its reports on the nature and extent as well as the result of its audits (audit report) to us. The documentation on the aforementioned financial statements, the external auditor's audit report, and the Board of Management's proposal for the appropriation of net income were made available to the members of the Supervisory Board in good time.

We conducted our own review of the documents submitted by the Board of Management and the external auditor's audit reports.

In preparation, the Audit Committee had conducted a thorough review of the aforementioned documents. The annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income were explained in detail by the Board of Management to the members of the Audit Committee at its meeting on February 23, 2016. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor explained its audit, in particular the key audit areas defined in agreement with the Audit Committee and the Supervisory Board, the main results of its audit, and its audit report. The external auditor did not identify any material weaknesses in the internal control system at Group level, in the risk management system, or in the accounting process. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, its members had assured themselves that the audit report and the audit conducted by the independent auditor met the legal requirements. The Audit Committee agrees with the external auditor that there are no material weaknesses, in particular with regard to the accounting process, in the internal control or risk management systems at Group level. The Audit Committee recommended that we approve the results of the audit conducted by the external auditor and, since it had no objections to the documents submitted by the Board of Management, that we approve the annual financial statements and the consolidated financial statements, as well as the combined management report and Group management report, and support the Board of Management's proposal for the appropriation of net income.



We performed the final review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income on February 24, 2016, taking into account the report and recommendations of the Audit Committee and the external auditor's audit report. The members of the Board of Management attended this meeting, explained the documents they had submitted, and answered our questions. The external auditor also attended this meeting and reported on its audit and the main findings of its audit, explained its audit report, and answered our questions, in particular relating to the nature and extent of the audit and the audit findings. Based on this and the report presented by the Audit Committee, we were satisfied that the audit and the audit report were compliant. We followed the Audit Committee's recommendation and approved the result of the external auditor's audit.

Based on the final outcome of our review of the annual financial statements, the consolidated financial statements, and the combined management report and Group management report, as well as the Board of Management's proposal for the appropriation of net income, no objections need be raised. The same applies to the Corporate Governance Statement even insofar as it is not to be audited by the external auditor. We followed the Audit Committee's recommendation and approved the annual financial statements and the consolidated financial statements.

The approval of the Supervisory Board constitutes formal approval of the annual financial statements.

The Supervisory Board's assessment of the position of the Company and the Group is the same as that which the Board of Management presented in its combined management report and Group management report. It followed the Audit Committee's recommendation and approved these documents.

When dealing with the budget and medium-term planning on December 16, 2015, we conducted an in-depth examination of financial and investment plans, discussing in particular the development of earnings, free cash flow, and balance sheet ratios. The Board of Management's proposal concerning the appropriation of net income was examined by the Audit Committee on February 23, 2016 and by the Supervisory Board on February 24, 2016. The external auditor was present at both meetings. We followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 2,522.8 million and to carry forward EUR 1,775.3 million to unappropriated net income.

## REVIEW OF THE DEPENDENT COMPANY REPORT

The Board of Management presented its dependent company report for the 2015 financial year to us in good time.

The external auditor audited the dependent company report and issued the following audit opinion:

"Based on the results of our statutory audit and our judgment we confirm that

1. the actual information included in the report is correct;
2. the Company's compensation with respect to the legal transactions listed in the report was not inappropriately high."

The external auditor submitted the audit report to us. The dependent company report and the associated audit report were made available to all members of the Supervisory Board in good time.

We reviewed the dependent company report of the Board of Management and the audit report of the external auditor.

Prior to the review and resolution by the Supervisory Board, the Audit Committee conducted a thorough review of the aforementioned documents. At its meeting on February 23, 2016, the Audit Committee asked the members of the Board of Management to explain the details of the dependent company report. The members of the Board of Management also answered the committee members' questions. Moreover, the external auditor, who also attended the meeting, reported on its audit, in particular its key audit areas and the significant results of its audit, and explained its audit report. The members of the Audit Committee acknowledged and critically reviewed the audit report and audit opinion, and discussed them, as well as the audit itself, with the external auditor. The review included questions about the nature and extent of the audit and about the audit findings. The Audit Committee satisfied itself that the audit and the audit report were compliant. In particular, its members had assured themselves that the audit report and the audit conducted by the independent auditor met the legal requirements. The Audit Committee recommended that we approve the results presented by the external auditor and, as the committee saw no grounds for objections to the Board of Management's declaration on the dependent company report, that we pass a corresponding resolution.

We performed the final review at our meeting on February 24, 2016, taking into account the resolution and the Audit Committee's recommendation as well as the external auditor's report. The members of the Board of Management also attended this meeting, explained the dependent company report, and answered our questions. The external auditor also attended this meeting and reported on its audit of the dependent company report and the main findings of its audit, explained its audit report, and answered our questions, in particular relating to the nature and extent of the audit of the dependent company report and the audit findings. Based on this and the report presented by the Audit Committee, we were satisfied that the audit of the dependent company report and the audit report were compliant. In particular, we were satisfied that the audit report and the audit conducted by the independent auditor met the legal requirements. We did not find any indications of discrepancies, incompleteness, or any other objections as part of our review. We were also satisfied that the group of dependent companies had been defined with due care and that the necessary systems had been put in place for recording legal transactions and measures subject to disclosure. We followed the Audit Committee's recommendation and approved the result of the external auditor's audit of the dependent company report. Based on the final result of our review of the dependent company report, we have no objections to the Board of Management's declaration on the dependent company report.

We would like to thank the members of the Board of Management, the members of the works councils and all of Deutsche Telekom's employees for their commitment and dedication in the 2015 financial year.

Bonn, February 24, 2016  
The Supervisory Board



Prof. Dr. Ulrich Lehner  
Chairman

# CORPORATE GOVERNANCE REPORT

In the following text, the Board of Management and the Supervisory Board report on corporate governance at Deutsche Telekom AG in accordance with Section 3.10 of the German Corporate Governance Code. This Corporate Governance Report is published together with the Corporate Governance Statement in accordance with § 289a HGB, which is published on Deutsche Telekom's website. □

Sound, systematic corporate governance is particularly important for an international group such as Deutsche Telekom with its many subsidiaries and associates. The Company complies with legal requirements, national provisions, such as the recommendations of the Government Commission on the German Corporate Governance Code, as well as with international standards. The Supervisory Board and the Board of Management are convinced that sound corporate governance, taking company and industry-specific issues into account, is an important building block for the future success of Deutsche Telekom AG. Accordingly, responsibility for compliance with the principles of sound corporate governance is vested in senior management.

In the 2015 financial year, the Board of Management and Supervisory Board once again carefully examined the corporate governance of Deutsche Telekom AG and the Deutsche Telekom Group as well as the contents of the German Corporate Governance Code. During the reporting period just ended, as in prior years, Deutsche Telekom AG again fulfilled all of the Code's recommendations. The Supervisory Board and Board of Management of Deutsche Telekom AG therefore issued an unqualified Declaration of Conformity with the German Corporate Governance Code on December 30, 2015:

## Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG)

- I. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare that, in the period since the issuance of the most recent declaration of conformity pursuant to § 161 AktG on December 30, 2014, Deutsche Telekom AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code announced by the Federal Ministry of Justice and Consumer Protection on September 30, 2014 in the official section of the Federal Gazette (Bundesanzeiger), without exception.
- II. The Board of Management and Supervisory Board of Deutsche Telekom AG hereby declare further that Deutsche Telekom AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette (Bundesanzeiger) on June 12, 2015, without exception.

The Declaration of Conformity can be found on the website of Deutsche Telekom AG. □ This website also provides access to the Declarations of Conformity from previous years.

**Cooperation between the Supervisory Board and the Board of Management.** The Supervisory Board and the Board of Management work closely together for the good of the Company and maintain regular contact. The Supervisory Board of Deutsche Telekom AG holds four regular meetings a year. In 2015 there were also two extraordinary meetings and one in-depth conference on the strategic alignment of the Company. In addition, 30 Supervisory Board committee meetings were held. The Board of Management keeps the Supervisory Board fully and regularly informed in good time on corporate strategy, planning, business developments, the risk situation, risk management, compliance, and any deviations in the business developments from original plans, as well as significant business transactions involving the Company and major Group companies. The Board of Management regularly submits written and oral reports. Between meetings, the Board of Management also informs the Supervisory Board of the current business development of the Group and its segments on a monthly basis. The Board of Management reports to the Supervisory Board on individual issues in writing or in discussions. The reporting obligations of the Board of Management have been specified by the Supervisory Board and go beyond statutory requirements. These obligations were most recently revised in summer 2015. The activities of the Board of Management and the Supervisory Board are specified in separate Rules of Procedure. Those that govern the Board of Management provide guidance on its schedule of responsibilities and the majorities required for resolutions, among other issues. The Chairmen of the two Boards also exchange information regularly in person. □

**Composition of the Board of Management.** In accordance with the Board of Management's schedule of responsibilities, there are seven Board departments: the department of the Chairman of the Board of Management; Finance; Human Resources; Data Privacy, Legal Affairs and Compliance; T-Systems; Germany; and Europe and Technology. Each Board of Management member is individually responsible for managing his or her respective business areas. Certain matters are subject to approval by the full Board of Management. Furthermore, every Board member can submit matters to the full Board of Management for decision. As a rule, members of the Board of Management should not be older than 62 years of age (standard age limit). In September 2015, the Supervisory Board set out target figures for the number of women on the Board of Management. The Supervisory Board set a short initial deadline for implementation at the end of 2015 within which the current proportion of women on the Board of Management (1 of 7) was to remain stable. The Supervisory Board also resolved that the proportion of women should increase to 2 of 7 within the second implementation period by the end of 2020. □

An Executive Committee was established in January 2014, consisting of the members of the Board of Management and the following heads of Group units: Chief Technology Officer, Chief Product and Innovation Officer, Chief Information Officer, Head of Group Corporate Development and Head of the Corporate Operating Office. The Executive Committee supports the cross-segment management and transformation of the Group. The Executive Committee normally meets on a weekly basis and acts in an advisory capacity. The responsibilities of the Board of Management remain unaffected by the establishment of the Executive Committee.

□ <http://www.telekom.com/289aGermanCommercialCode>


□ For details about cooperation between the Board of Management and Supervisory Board, please refer to the section "Supervisory Board's report to the 2016 shareholders' meeting," **PAGE 36 ET SEQ.** of the Annual Report.

□ For further details on the women's quota please refer to the Corporate Governance Statement at: <http://www.telekom.com/289aGermanCommercialCode>

□ [www.telekom.com/declaration-of-conformity](http://www.telekom.com/declaration-of-conformity)



For details about changes to the composition of the Supervisory Board during the reporting period, please refer to the Supervisory Board's report to the shareholders' meeting on **PAGE 36 ET SEQ.** of the Annual Report.

**Composition of the Supervisory Board.** The Supervisory Board of Deutsche Telekom AG consists of twenty members, ten representing the shareholders and ten representing the employees. The Supervisory Board members representing the shareholders are elected by the shareholders' meeting by simple majority. As in previous years, elections to the Supervisory Board were held at the last shareholders' meeting on May 21, 2015. The approximately five-year terms of office of the individual Supervisory Board members representing the shareholders end on different dates. This ensures continuity regarding the Supervisory Board's composition. The Supervisory Board members representing employees were most recently elected at the delegates' assembly on November 26, 2013 according to the provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG). 

As for its composition, the Supervisory Board has set itself the following objectives:

- Taking into account the Company's specific situation, the Supervisory Board resolves to consider the aspect of diversity in addition to the requisite expertise of a candidate when issuing recommendations for future appointments to the Supervisory Board to the competent election bodies.
- The Supervisory Board has to be composed in such a way that its members as a group possess the knowledge, ability and expert experience required to properly perform its tasks.
- The Supervisory Board supports an appropriate degree of female representation on the Supervisory Board. Its aim was to have a proportion of 30 percent women on the Supervisory Board, the Company's intended proportion of women in management positions, by the end of 2015.
- In view of the Company's international focus, candidates with an international background are to be given appropriate consideration in future appointments to the Supervisory Board.
- Conflicts of interest are to be avoided in appointments to the Supervisory Board.
- The term of office for members of the Supervisory Board shall end no later than the close of the shareholders' meeting after the Supervisory Board member reaches the age of 75 unless there are special reasons for this not to be the case (standard age limit).
- A regular limit of three terms of office shall apply for membership on the Supervisory Board. Appointments by court order that are limited until the next shareholders' meeting shall not, however, be considered a term of office.
- The Supervisory Board shall include at least sixteen members who are independent within the meaning of Section 5.4.2 of the German Corporate Governance Code. It is assumed that those Supervisory Board members elected in accordance with the Codetermination Act are independent in principle as defined. On the shareholders' representative side, at least six members of the Supervisory Board shall be independent.

Furthermore, the Supervisory Board will continue to ensure that potential candidates to be proposed for election at the shareholders' meeting can dedicate the required amount of time to their Supervisory Board tasks at Deutsche Telekom AG.

Regarding the achievement level of the Supervisory Board membership target:

The proportion of women on the Supervisory Board was 35 percent most of the time – 40 percent during Ines Kolmsee's membership – in the 2015 financial year, meaning the target of bringing the proportion to 30 percent by the end of 2015 had already been fulfilled. If the shareholders' meeting approves the Supervisory Board's proposal to elect Dr. Helga Jung as Dr. Hubertus von Grünberg's successor to the Supervisory Board, the proportion of women would increase to 40 percent.

The Supervisory Board is composed in such a way that its members as a group possess the knowledge, ability, and expert experience required to properly perform its tasks. The members of the Supervisory Board represent various different professions and many of them have a multinational background. The avoidance of conflicts of interest and compliance with the standard age limit and the regular limit on terms of office were taken into consideration in the appointments to the Supervisory Board.

The appointment of Prof. Michael Kaschke, CEO of Carl Zeiss AG, at the 2015 shareholders' meeting means that the Supervisory Board of Deutsche Telekom AG has gained an esteemed financial expert with many years of experience in key management positions. His expertise is recognized at both national and international level and he also has extensive knowledge of the innovation management and technology fields.

In addition, Dr. Wulf Bernotat, Managing Director and Partner of Bernotat & Cie GmbH, Essen, and member of the Supervisory Board of Deutsche Telekom AG since 2010, was re-elected at the 2015 shareholders' meeting. He is an expert in finance and regulation, a business management specialist and has extensive national and international experience in key management positions. His experience and expertise have made him a valuable advisor and Supervisory Board member.

The Supervisory Board is convinced that – in accordance with the recommendation of the German Corporate Governance Code – it has a sufficient number of independent members to provide impartial advice to and monitor the Board of Management.


**Tasks assigned to the Supervisory Board.** The Supervisory Board appoints the members of the Board of Management, advises the Board of Management on issues concerning the operations of the Company and supervises its activities. The Supervisory Board is directly involved in all decisions of strategic importance to the Company. The work of the Supervisory Board is specified in Rules of Procedure. To clarify the reporting obligations on the part of the Board of Management, the Supervisory Board has drawn up a catalog of transactions subject to approval. This catalog forms an integral part of the Rules of Procedure for the Supervisory Board and the Board of Management, respectively. The Supervisory Board and Audit Committee assess the efficiency of their work every two years, which provides new impetus for their work on a regular basis. The self-assessment carried out to this end is based on a comprehensive questionnaire followed by intense discussion and consultation on the results by the Supervisory Board and Audit Committee.


The Audit Committee's last assessment was carried out in the 2014 financial year. The Supervisory Board carried out its last efficiency audit in the 2015 financial year.

The members of the Supervisory Board take on the necessary training and development measures required for their tasks on their own and are supported by Deutsche Telekom AG in doing so. The Company offers new Supervisory Board members a customized program to introduce them to the industry and the situation of the Company. Furthermore, an annual special meeting is held to inform the members of the Audit Committee about the latest changes in the law, new accounting and auditing standards and any changes in corporate governance issues. In addition, a one-day seminar on selected accounting issues and the content and impact of the EU audit reform legislation package was held for the members of the Audit Committee in the 2015 financial year. The members of the Supervisory Board are also kept up to date about any new requirements for work on the Supervisory Board at the regular committee and Supervisory Board meetings.


In order to perform its tasks more effectively, the Supervisory Board has eight standing committees. The General Committee deals with personnel matters relating to the Board of Management and prepares the meetings of the Supervisory Board. The Staff Committee deals with general personnel matters not relating to the Board of Management. The Finance Committee mainly deals with complex financial and business management topics within the Company. The Audit Committee performs the tasks required by law and in accordance with the German Corporate Governance Code. These include, in particular, monitoring the accounting process, the effectiveness of the internal control system, the risk management and internal auditing system, the audit of financial statements, compliance, and data privacy. The Technology and Innovation Committee supports and promotes innovation and technological developments at infrastructure and product level and supports the Board of Management with advice on how to tap new growth areas. Furthermore, the Supervisory Board has formed a Nomination Committee, which consists exclusively of shareholders' representatives. The Nomination Committee is responsible in particular for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. Finally, there is a Mediation Committee, which was formed in accordance with § 27 (3) of the Codetermination Act. In addition, a Committee for U. S. Business was established in May 2014. A Special Committee on the Acquisition of Spectrum in Germany was in place from April 1 to June 19, 2015. 

The committees' chairpersons report to the Supervisory Board on a regular basis on the work of the committees. The Chairwoman of the Audit Committee, Dagmar P. Kollmann, is particularly knowledgeable and experienced in the fields of accounting, auditing and internal control procedures. Dagmar P. Kollmann never served on the Board of Management of the Company. She satisfies the requirements of § 100 (5) AktG.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and presides over its meetings. In addition to the organizational tasks relating to the Supervisory Board, he maintains regular contact with the Chairman of the Board of Management and the members of the Board of Management to discuss issues relating to the Company's strategy, its plans, the development of its business, the situation in terms of risks and risk management as well as compliance, and is informed of the general business situation and significant events. In this context, the Chairman of the Board of Management in particular informs the Chairman of the Supervisory Board of all events that are significant to the situation, development, and governance of the Company. 

**Avoiding conflicts of interest.** Board of Management members and Supervisory Board members are obliged to disclose immediately any conflicts of interest to the Supervisory Board. Any functions assumed by members of the Board of Management that are not covered by their Board of Management mandate are subject to approval by the General Committee of the Supervisory Board. 

**Risk and opportunity management.** The Board of Management and the Supervisory Board consider the approach to the management of opportunities and risks arising in connection with the Company's business activities to be of fundamental importance for professional corporate governance. The Board of Management receives regular reports from the Risk Management department of the Company concerning current risks and their development. In turn, it reports to the Supervisory Board on the risk exposure and the risk management system. The risk management system in place at Deutsche Telekom AG is evaluated by the external auditor and is constantly being expanded and improved. In addition to the responsibilities assigned by law and those recommended by the German Corporate Governance Code, the Audit Committee also deals with risk management, including the monitoring of the effectiveness of the internal risk management system. The system is designed to manage a variety of risks, including financial risks and risks to the Company's reputation. 

**Compliance.** Compliance involves the observance of legal requirements and internal Group rules. Deutsche Telekom AG has a Group-wide compliance organization that is continuously being improved (for details, please refer to the 2014 Corporate Responsibility Report ). There is also a Compliance Committee that supports the Board of Management in further developing the framework for an effective compliance management system. The members of the Compliance Committee are experienced managers in the areas of compliance, legal affairs, security, internal auditing, and human resources. The Chief Compliance Officer, appointed by the Board of Management, chairs the Compliance Committee. A compliance officer has been appointed for each of the operating segments. Individual business units have additional compliance officers/ contacts depending on their respective size and risk situation. Clear reporting structures have been implemented throughout the Group. The significance attached to compliance is underlined by the decision to pool all compliance activities in the Board of Management department for Data Privacy, Legal Affairs and Compliance.



For further details of the members of the Supervisory Board and any seats they hold on the supervisory boards of other companies, please refer to **PAGE 244 ET SEQ.** of the Annual Report.



For details on conflicts of interest that have arisen, please refer to the Supervisory Board's report to the shareholders' meeting on **PAGE 36 ET SEQ.** of the Annual Report.



For more information, please refer to the section "Risk and opportunity management" on **PAGE 125 ET SEQ.** of the Annual Report.



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For details about the composition and working methods of the committees, please refer to the Supervisory Board's report to the shareholders' meeting on **PAGE 36 ET SEQ.** of the Annual Report.





For detailed information about the compliance management system, please refer to Deutsche Telekom AG's website:

[www.telekom.com/company/compliance](http://www.telekom.com/company/compliance)




The Code of Conduct and the Code of Ethics are published on Deutsche Telekom AG's website:

[www.telekom.com/governance](http://www.telekom.com/governance)

Deutsche Telekom AG has implemented a comprehensive compliance management system. According to this system, a compliance program is set up based on a structured risk assessment process performed once a year throughout the Group.  The compliance management system also includes the Code of Conduct, the Code of Ethics, and various policies. The Code of Conduct defines how employees and management should practice value-based and legally compliant conduct in their daily business activities. The Code of Ethics addresses the members of the Board of Management of Deutsche Telekom AG and persons within the Group who carry special responsibility for financial reporting. It obliges these individuals to comply with the principles of honesty, integrity, transparency, and ethical conduct.  The compliance management system in place at Deutsche Telekom AG and other selected national and international companies was certified as being appropriate and effectively implemented by an external auditor in stages from 2012 through 2014 in accordance with IDW audit standard 980 with the focus on anti-corruption.

**Internal controls over financial reporting.** Deutsche Telekom AG has implemented a process to systematically assess the effectiveness of its internal controls over financial reporting. This process again provided evidence of the controls' effectiveness throughout the Group for the 2015 financial year. The Audit Committee assumes the task of monitoring the accounting and financial reporting processes on behalf of the Supervisory Board. The system of internal controls over financial reporting is updated on an ongoing basis and monitored separately by Internal Audit and external auditors.

The Audit Committee also monitors the effectiveness of the internal control system, which goes beyond financial reporting. 



For a description of the main features of the accounting-related internal control system, please refer to the section "Accounting-related internal control system" in the Group management report on **PAGE 140 ET SEQ.** of the Annual Report.

**Accounting and audit of financial statements.** An agreement has been reached with the external auditor of Deutsche Telekom AG that the Chairman of the Supervisory Board/the Audit Committee shall be advised immediately of any issues uncovered during the audit that might give rise to statements of exclusion or reservation in the external auditors' report, unless these issues can be resolved forthwith. Moreover, it has been agreed that the external auditor shall immediately report any findings and issues that emerge during the audit and that have a direct bearing upon the tasks of the Supervisory Board. According to this agreement, the external auditor undertakes to inform the Supervisory Board or make a note in the audit report of any facts discovered during the audit that might indicate a discrepancy in the Declaration of Conformity submitted by the Board of Management and Supervisory Board with the German Corporate Governance Code. The Audit Committee assesses the independence of the external auditor.

**Transparent shareholder communication.** We are committed to providing institutional investors, retail shareholders, financial analysts and the general public with regular, comprehensive, transparent and up-to-date information about the Company's position at the same time and on an equal basis to ensure a high level of transparency and equality of information. Significant information, such as press releases, ad-hoc notifications, presentations from analyst conferences, all financial reports and the financial calendar, is made available on the Company's website.

**Share ownership by members of the Board of Management and the Supervisory Board.** Total direct or indirect holdings of shares in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

Bonn, February 24, 2016

The Supervisory Board and the Board of Management

# THE T-SHARE

T 009

## T-Share information

		2015	2014
<b>XETRA CLOSING PRICES</b>			
Share price on the last trading day	€	16.69	13.25
Year high	€	17.60	13.71
Year low	€	12.63	10.35
<b>TRADING VOLUME</b>			
German exchanges	billions of shares	3.0	3.0
Market capitalization on the last trading day	billions of €	76.9	60.1
<b>WEIGHTING OF THE T-SHARE IN MAJOR STOCK INDEXES ON THE LAST TRADING DAY</b>			
DAX 30	%	5.9	5.1
Dow Jones Euro STOXX 50®	%	2.5	2.1
<b>T-SHARE - KEY FIGURES</b>			
Earnings per share (basic and diluted)	€	0.71	0.65
Proposed dividend	€	0.55	0.50
Number of shares issued	millions at year-end	4,607	4,536

## CAPITAL MARKETS ENVIRONMENT

The global economy continued to show moderate growth in 2015. The International Monetary Fund's current estimate from January 2016 assumes global economic growth of around 3.1 percent for 2015, slightly down on the prior year. Contrasting trends were apparent: While growth rates stagnated in emerging economies, they increased in the Western industrialized nations, driven by the expansive monetary policy, lower oil prices, and the moderate recovery in the eurozone.

Thanks to the ongoing expansive monetary policy of the central banks and the persistently low level of interest, investors' focus remains on the stock markets, generating considerable liquidity in Europe in particular. This trend peaked in spring 2015 before tapering off again.

## DEVELOPMENT OF INTERNATIONAL INDEXES

The DAX climbed for the fourth year in a row, rising by around 10 percent in the course of the year, closing at 10,743 points. It reached an annual high of 12,375 points on April 10, 2015. The low of 9,428 points was reached on September 24, 2015.

The Dow Jones Euro STOXX 50® also performed well. The index increased by around 6 percent year-on-year on a total return basis (share price performance plus reinvested dividend, i. e., similar to the DAX), closing the year at 6,226 points. The year high of 7,144 points was reached on April 13, 2015, the year low of 5,593 points on January 6, 2015.

While growth on the Japanese stock market was also robust, the U.S. market weakened considerably, closing the year down slightly.

In the United States, the Dow Jones fell by around 2 percent in the course of the year, closing the year at 17,425 points. The index reached its low for the year at the end of August, trading at 15,666 points on August 25. The high of 18,312 points was recorded on May 19, 2015.

Japan's Nikkei ended the year up around 9 percent, closing 2015 at 19,034 points. The annual high of 20,868 points was recorded on June 24, 2015, the low of 16,796 points on January 14, 2015.

## T-SHARE PERFORMANCE

The European telecommunications sector once again outperformed the already positive trend on the overall market: The sector index Dow Jones EURO Stoxx® 600 Telecommunications increased by around 14 percent on a total return basis in 2015, still much faster than the DAX or the Dow Jones Euro STOXX 50®. Consolidation, relatively high dividend yields, and improvements in the regulatory framework in Europe lent positive momentum to the share price performance.

Our T-Share ended the year at a closing price of EUR 16.69, or plus 26 percent.

On a total return basis (share price performance plus reinvested dividend, i. e., similar to the DAX), our share recorded growth of around 30 percent, thereby substantially outperforming both the broader European stock market indexes and the sector index.

The foundation stone for the successful share price performance was laid in the first half of 2015. The corporate strategy for the next four years explained at a Capital Markets Day in late February 2015 and the strong financial figures for the first quarter that were released at the beginning of May lent sustainable momentum to the share price performance. This was dampened to a certain extent by the publication of the figures for the first half-year at the beginning of August, when share prices witnessed a temporary dip caused in particular by the perceived increase in the intensity of competition on the German mobile market. This effect did not last long, however. Up until publication of the financial figures for the third quarter at the beginning of November, Deutsche Telekom's share price rallied, remaining around this level until the end of the year.

Shareholders were again granted the option of drawing their dividend for 2015 in the form of shares instead of cash. There was an acceptance rate of some 49 percent. The exercising of the option results in an increase in the number of shares issued by 71 million to around 4,607 million.

**SHARE OWNERSHIP BY MEMBERS OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD**

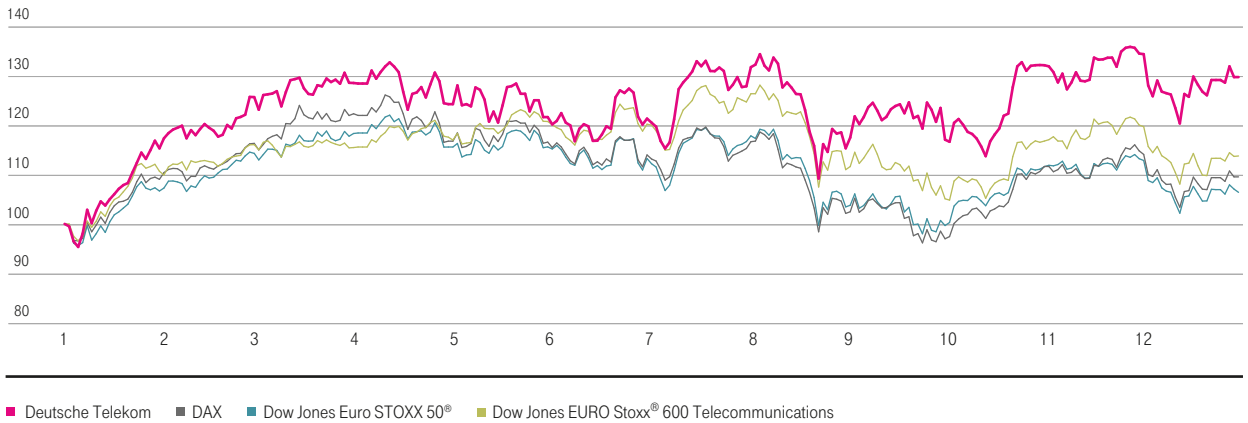
Members of the Board of Management and Supervisory Board bought a total of 158,255 shares in Deutsche Telekom AG, and sold 73,816 shares in 2015. Total direct or indirect holdings in the Company or associated financial instruments by members of the Board of Management and the Supervisory Board do not exceed 1 percent of the shares issued by the Company.

**DIVIDEND**

The Board of Management and Supervisory Board of Deutsche Telekom AG propose to this year's shareholders' meeting, to be held on May 25, 2015, the distribution of a dividend of EUR 0.55 per share.

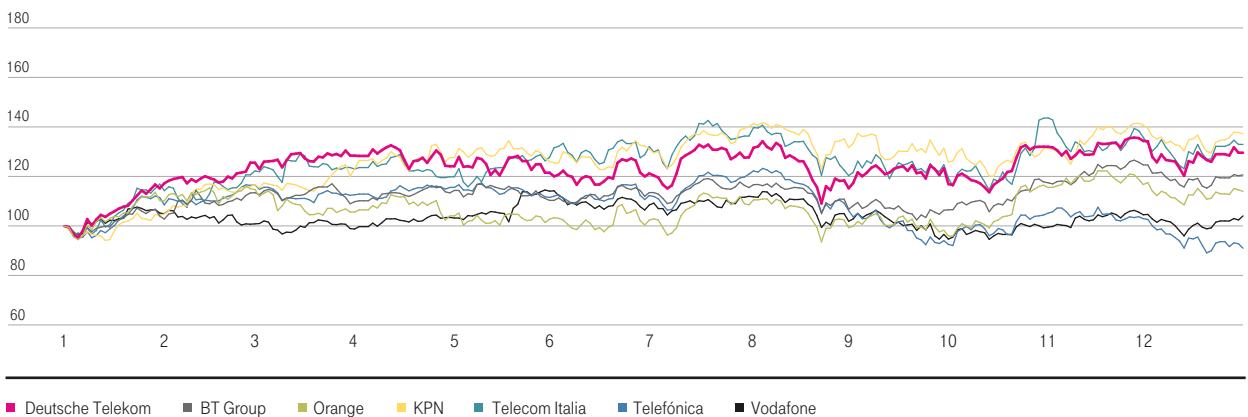
G 01

**T-Share as compared to DAX, Dow Jones Euro STOXX 50®, and Dow Jones EURO Stoxx® 600 Telecommunications**  
January 1 to December 31, 2015 (based on total shareholder return<sup>a</sup>)



G 02

**T-Share as compared to other European telecommunications companies**  
January 1 to December 31, 2015 (based on total shareholder return<sup>a</sup>)



<sup>a</sup>Total shareholder return measures the value performance of a shareholding over a specific period. It takes into account dividends paid during the investment period along with any changes in share price.



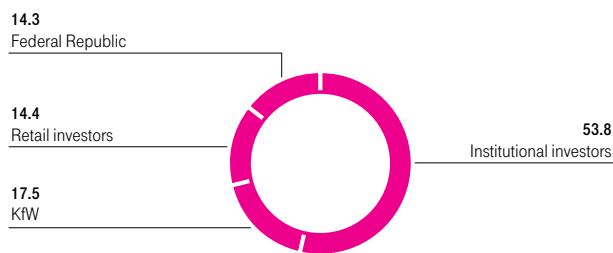
**SHAREHOLDER STRUCTURE**

The Federal Republic's shareholding including that of KfW, Kreditanstalt für Wiederaufbau, stands at approximately 32 percent. The proportion of institutional investors increased to 54 percent of share capital, while the share of retail investors decreased to 14 percent. As a result, the percentage of shares in free float remains at 68 percent of share capital.

G 03

**Shareholder structure**

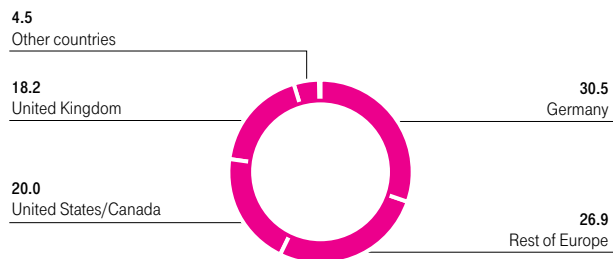
% (as of December 31, 2015)



G 04

**Geographical distribution of free float**

% (as of December 31, 2015)



**INVESTOR RELATIONS**

In the 2015 financial year, Deutsche Telekom continued its intensive dialog with institutional investors, retail investors, and financial analysts as in the years before. Activities focused on individual and group discussions with institutional investors during roadshows and participation in conferences in the international financial centers in Europe, the United States, and Asia.

The annual and quarterly figures were presented to the public in conference calls and web conferences.

The Capital Markets Day on February 26/27 had an especially important function in our communication with shareholders. During this event, the Board of Management of Deutsche Telekom explained the Company's strategic alignment for the next four years. □

The IR team provides retail investors with a direct point of contact on +49 (0) 228 181 88880 (fax +49 (0) 228 181 88339) or via e-mail (investor.relations@telekom.de) for questions relating to Deutsche Telekom or the T-Share.

We actively exploit the opportunities of social networks. All live recordings of our quarterly presentations and investor events are available on YouTube and can also be viewed conveniently on mobile devices using the corresponding apps. The number of subscribers to our offer on Twitter has increased further.

Deutsche Telekom's Investor Relations team and management team gained recognition through the results of the Extel Survey. Each year, this extensive poll conducted by Thomson Reuters surveys around 15,000 investors and analysts who rate various aspects of good investor relations work. This year, Deutsche Telekom performed especially well as the best IR team in Europe.

□  
 For information on the 2015 Capital Markets Day, please go to: [www.telekom.com/cmd15](http://www.telekom.com/cmd15)



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## DEUTSCHE TELEKOM AT A GLANCE

To get right to the point: We achieved all of our main targets in 2015. Net revenue increased substantially as planned. And with adjusted EBITDA of EUR 19.9 billion and free cash flow of EUR 4.5 billion, we even exceeded the respective targets of around EUR 18.3 billion and EUR 4.3 billion.

**Net revenue** in our Group grew by a substantial 10.5 percent in the reporting year. This growth is and continues to be driven by the U. S. business, which saw revenue increase by 29.1 percent: In addition to continuing strong customer additions, T-Mobile US also profited from the development of the U. S. dollar. Revenue in the Germany operating segment, which was still in slight decline in 2014, edged up in 2015, mainly due to higher mobile revenues. Business in our Europe operating segment continued to come under pressure owing to regulation and competition, but here too revenue performed better than in the prior year. The same applies for our Systems Solutions operating segment, where, after its successful realignment, revenue was almost at the prior-year level.

**Adjusted EBITDA** increased substantially by 13.3 percent compared with 2014. As with revenue, the growth driver was our U. S. business, which recorded an increase of 54.9 percent. The U. S. dollar/euro exchange rate had a significant impact here as well. But even without taking the exchange rate effect into account, growth still stood at an impressive 30 percent. In our Germany operating segment, adjusted EBITDA remained more or less stable against the prior year, while in our Europe operating segment it decreased due to a decline in revenue. In our Systems Solutions operating segment, adjusted EBITDA declined; but this was due entirely to the reduced contributions from Telekom IT; in the Market Unit, we maintained the increase in adjusted EBITDA.

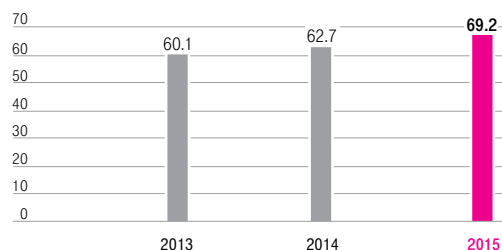
The adjusted EBITDA margin of 28.8 percent was up on the prior-year level. The operating segments with the strongest margins are still Germany with 39.2 percent and Europe with 33.7 percent.

Our **EBIT** declined slightly year-on-year, primarily due to income received in 2014 from the disposal of the Scout24 group (EUR 1.7 billion) and from the spectrum transaction with Verizon Communications (EUR 0.4 billion). In 2015, EBIT was increased by income from the disposal of part of our share package in Scout24 AG (EUR 0.3 billion) and from the sale of our online platform t-online.de and our digital marketing company InteractiveMedia (EUR 0.3 billion).

Despite the decline in EBIT, our **net profit** increased substantially by 11.3 percent, mainly driven by other financial income/expense. This primarily included dividend payments of EUR 0.4 billion which we received from the EE joint venture.

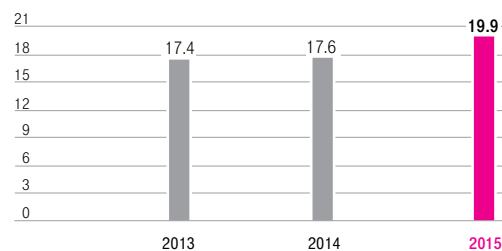
G 05

**Net revenue**  
billions of €



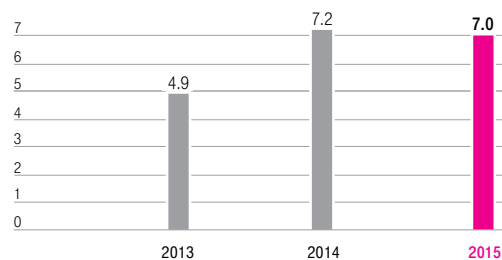
G 06

**Adjusted EBITDA**  
billions of €



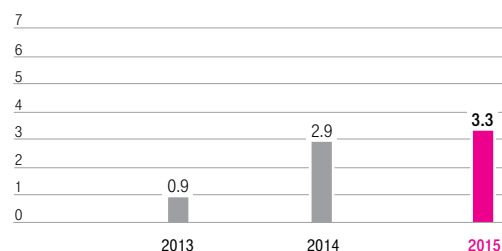
G 07

**EBIT**  
billions of €



G 08

**Net profit/loss**  
billions of €



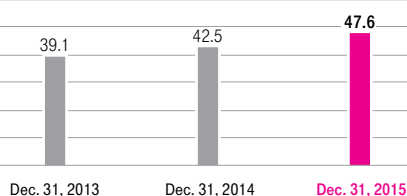
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## G 09

**Net debt**

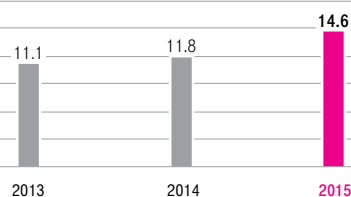
billions of €



## G 10

**Cash capex**

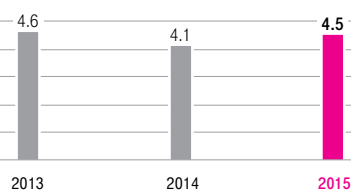
billions of €



## G 11

**Free cash flow (before dividend payments, spectrum investment)<sup>a</sup>**

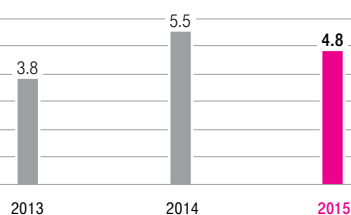
billions of €



## G 12

**ROCE**

%




**Net debt** increased in the reporting year by EUR 5.1 billion to EUR 47.6 billion, mainly due to the acquisition of mobile spectrum for EUR 3.8 billion, currency effects of EUR 1.9 billion, dividend payments – including to non-controlling interests – of EUR 1.3 billion, and the acquisition of the remaining shares in Slovak Telekom of EUR 0.9 billion. Free cash flow of EUR 4.5 billion only partially offset these effects.

**Cash capex** (including spectrum investment) increased to EUR 14.6 billion, mainly due to spectrum acquired for EUR 3.8 billion, primarily in the United States and in Germany. In the prior year, we had invested a total of EUR 2.3 billion in mobile spectrum. Cash capex (before spectrum investment) increased to EUR 10.8 billion, up EUR 1.3 billion in the reporting year against 2014. The focus was principally on our United States and Germany operating segments, where cash capex increased in connection with investments made in building out and modernizing our networks.

Although cash capex increased, **free cash flow** improved to EUR 4.5 billion, thus exceeding the value that we forecast in 2014 of around EUR 4.3 billion. The generally good business development – recognizable from increased adjusted EBITDA – was reflected in an improvement in net cash from operating activities; this more than offset the increase in cash capex.

Our key performance indicator **ROCE** (return on capital employed) declined by 0.7 percentage points in the reporting year to 4.8 percent. This decline was due to both the decrease in net operating profit after taxes (NOPAT) and the increase in the average value of assets tied up in the course of the year (net operating assets, or NOA). In 2014, NOPAT was positively impacted by income from the disposal of the Scout24 group and income from the spectrum transaction with Verizon Communications. Although the aforementioned income in connection with the disposal of part of our share package in Scout24 AG and the sale of t-online.de and InteractiveMedia also had a positive impact on NOPAT in 2015, this effect was much smaller than in the prior year. The increase in average NOA is primarily attributable to the build-up of assets in our Germany and United States operating segments. In Germany, this is due to both investment under our integrated network strategy and the spectrum acquired through successful participation in the frequency auction. In the United States, the increase in NOA was down to currency effects as well as further network build-out and the acquisition of mobile licenses.

Our shareholders benefited from the business development as well: Apart from the dividend of EUR 0.50 per share paid out for the 2014 financial year, the value of the T-Share also increased by 26 percent as of December 31, 2015. 



For a more detailed explanation, please refer to the section "Development of business in the Group," **PAGE 73 ET SEQ.**

<sup>a</sup> And before AT&T transaction and compensation payments for MetroPCS employees.

## HIGHLIGHTS IN THE 2015 FINANCIAL YEAR

### DEVELOPMENTS AT SENIOR MANAGEMENT LEVEL

Dr. Christian P. Illek was appointed as the new Member of the Board of Management responsible for Human Resources and Labor Director, effective from April 1, 2015.

### DIVIDEND

Our shareholders made even greater use than in previous years of the option of converting the dividend for the 2014 financial year into shares instead of receiving it as a cash payment. The acceptance rate stood at almost 49 percent of dividend-bearing shares in the reporting year after a good 45 percent in the prior year. Overall, 71.1 million new shares were issued, pushing up the total number of shares to just under 4,607 million. The cash dividend paid out to our shareholders who did not choose this option totaled around EUR 1.2 billion. We are considering offering our shareholders this choice again for the 2015 financial year.

### CORPORATE TRANSACTIONS

**Agreement on the sale of the EE joint venture.** On February 5, 2015, we and the French telecommunications operator Orange reached an agreement with the British telecommunications operator BT on the sale of the EE joint venture. The transaction was approved by the United Kingdom's Competition and Markets Authority (CMA) in January 2016, unconditionally and without remedies. Since closing of the transaction on January 29, 2016 at a purchase price of GBP 13.2 billion, we are the largest shareholder in BT with a financial stake of 12 percent. The EE joint venture, which was part of our Group Headquarters & Group Services segment, had been reported under non-current assets and disposal groups held for sale until the transaction was closed.

**Acquisition of residual non-controlling interest in Slovak Telekom.** On May 19, 2015 we signed a purchase agreement for the acquisition of the remaining 49 percent of shares in Slovak Telekom which we did not yet own, for a purchase price of EUR 0.9 billion. Previously, the shares had been held by the National Property Fund of the Slovak Republic. As part of the agreement, EUR 0.1 billion of the purchase price was paid into a trust account for a certain period to hedge certain risks. The transaction was closed on June 18, 2015. It did not require approval from the supervisory authorities. The acquisition of the remaining shares in Slovak Telekom is in line with our Group strategy of becoming the leading European telecommunications provider. Slovak Telekom had already been fully consolidated in our Europe operating segment.

**Scout24 AG initial public offering (IPO).** In connection with the IPO of Scout24 AG on October 1, 2015, we sold a total of 13.3 million shares in the company at EUR 30.00 per share, for which we received around EUR 0.4 billion in cash. Income from the sale of this share amounted to around EUR 0.3 billion and is disclosed in other operating income. Our stake of around 13.4 percent in Scout24 AG will allow us to continue profiting from any growth in value. Our remaining stake in Scout24 AG continues to be included in the consolidated financial statements using the equity method and is still part of our Group Headquarters & Group Services segment.

**Sale of our online platform t-online.de and our digital marketing company InteractiveMedia.** On November 2, 2015, we consummated the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer. The transaction took the form of a capital increase of Ströer in return for the non-cash contribution by us of the online platform t-online.de and InteractiveMedia. In return, we received newly issued shares in Ströer worth some EUR 0.3 billion: This corresponded to a stake of around 11.6 percent of the increased share capital after all closing conditions had entered into force. The total income from the divestitures amounted to EUR 0.3 billion; it was reported in other operating income. Our stake in Ströer is included in the consolidated financial statements using the equity method and is part of our Group Headquarters & Group Services segment.

### EXPANSION OF BRAND PRESENCE

With the **international brand campaign** "We connect people in Europe" we are now converging the communication used for our markets in Europe. This integrated campaign which was launched in twelve European countries supports our Group strategy on the road to becoming the leading European telecommunications provider. In addition to the broadcast of a TV commercial and publication in print media, the campaign is also complemented by a campaign website with all the information on our strategy.

Our subsidiaries in the F.Y.R.O. **Macedonia**, Makedonski Telekom and T-Mobile Macedonia, became one company as of July 1, 2015. For this purpose, we merged T-Mobile Macedonia into Makedonski Telekom. Our **Albanian** subsidiary Albanian Mobile Communications (AMC) was renamed Telekom Albania in July 2015. With Albania, the 12th country in our European footprint has now turned "magenta" and taken on the identity and values of the Deutsche Telekom brand – innovation, competence and simplicity.

### INVESTMENTS IN NETWORKS AND NEW SPECTRUM

We systematically forged ahead with the build-out of our network in 2015:

- We increased **fiber-optic** coverage in **Germany** from over 44 percent to just under 55 percent in the reporting year, which corresponds to around 23 million households. Our **LTE** network now covers 90 percent of the population and we now have more than 8 million LTE customers. These achievements form the basis for our bundled offers: Since the launch of MagentaEINS in fall 2014, we have acquired around 2 million MagentaEINS customers. We have also picked up the pace in the **IP** transformation: At the end of 2015, 9.5 million **fixed-network lines** (retail and wholesale) were already IP-based, which corresponds to a rate of 40 percent.
- In June 2015, we successfully participated in the **frequency auction in Germany**. Of the total 270 MHz from four ranges between 0.7 and 1.8 GHz that the Federal Network Agency put up for auction, we secured 100 MHz at a price of just under EUR 1.8 billion. The purchased frequencies will help us further advance digitization in Germany. We will primarily use the frequencies in the 1.5 and 1.8 GHz bands to expand broadband coverage in cities and metropolitan areas. The blocks acquired in the 0.7 GHz band will mainly be used for coverage in rural areas with mobile bandwidths. As a result, the goal of offering bandwidths of up to 50 Mbit/s in all of Germany is moving closer. We paid a deposit of EUR 0.6 billion to the Federal Network Agency in the course of the frequency auction. We made a further payment of EUR 1.0 billion at the end of June 2015. The remaining amount of



For further information on the closing of the transaction, please refer to the section "Significant events after the reporting period," PAGES 115 and 116.




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EUR 0.2 billion is scheduled to be paid by mid-2017 in accordance with the award rules.

- In our **Europe** operating segment, we increased the reach of our LTE coverage to 71 percent as of the end of 2015; overall, we now reach around 92 million inhabitants. Since September 2015, we have been offering 4G/LTE in all our European mobile markets: Telekom Albania kicked off with the market launch of 4G+ with speeds of up to 225 Mbit/s initially in seven major cities. In total, investments of some EUR 29 million were made in spectrum, primarily in Albania. Household coverage with optical fiber has reached 19 percent in the respective national companies, compared with only 15 percent a year ago. The number of mobile contract customers increased as well as the number of broadband lines and TV customers. Five national companies have adopted the MagentaONE logic, others are to follow.
- As part of our integrated pan-European **IP network strategy**, we connected the first three of our national companies with each other in March 2015: customers in Croatia, Hungary, and Slovakia can now buy standardized products via the centralized production model, with the business customer service Cloud VPN being the first product available. New TV services were added for our consumers in the course of 2015. As of the end of the year, 47.1 percent of all lines, i. e., 4.1 million lines, were IP-based. Our national companies in Croatia and Montenegro completed the IP migration in 2015.
- **T-Mobile US** picked up the pace in its network build-out. The T-Mobile US 4G/LTE network covered 304 million people at the end of the reporting year, up from 265 million at the end of 2014. Wide-band LTE was already available in 268 market regions as of the end of 2015. Tests of the download speeds of millions of users prove that T-Mobile US's 4G/LTE network is the fastest in the country.
- In January 2015, the U.S. Federal Communications Commission (FCC) announced that T-Mobile US was the winning bidder of **AWS-3 spectrum licenses** covering approximately 97 million people for an aggregate bid price of EUR 1.6 billion. T-Mobile US paid the FCC EUR 1.3 billion for the AWS spectrum licenses in the first quarter of 2015, which is in addition to a deposit of EUR 0.3 billion provided in connection with the auction in 2014. The FCC formally assigned the AWS-3 frequencies acquired at auction to us on April 8, 2015.

## REGULATORY DECISIONS

The Federal Network Agency intends to allow **vectoring** roll-out in all local areas. On November 23, 2015, the Federal Network Agency published a draft ruling on our application, which grants us largely exclusive rights to roll-out vectoring in all local areas, thereby enabling broadband roll-out for another approximately 6 million households. This draft is currently out for consultation and is expected to take effect in the first quarter of 2016. 

## PARTNERSHIPS

Partnerships are key to the success of our Group. In 2015, we entered into and expanded a large number of partnerships. We would like to present some of them in detail:

- In February 2015, we entered into a Europe-wide partnership with **Airbnb** – the established online marketplace for booking and letting accommodation. This alliance advances our strategic approach of also pursuing innovation through partnerships.
- At the Mobile World Congress in Barcelona in early March 2015, we announced our partnership with **Intel Security**. Now we can offer the True Key™ password and identity management solution to our customers across Europe. In June 2015, we joined with **Intel Security** to announce a research alliance for early-warning sensors for detecting cyber attacks – with the aim of developing even better sensors. These sensors, which are also known as “honeypots,” give users detailed, real-time information about attacks in the network.
- We also announced at the Mobile World Congress the expansion of our strategic partnership with **Microsoft**: We are now working together across Europe on sales and marketing of Lumia smartphones and intend to extend this collaboration to also include Microsoft online services. In addition, in November 2015, Microsoft named us as data trustee for its cloud offering. We control and monitor access to customer data that is hosted in Germany.
- We will work together with our partner **Huawei** not only on network components as hitherto, but also in the field of information technology. In March 2015 we extended our globally valid framework agreement to include IT infrastructure components and to develop new cloud solutions together. In addition, in October 2015, we signed another partnership agreement with Huawei for the development of a new public cloud platform: the Open Telekom Cloud is set for launch at CeBIT 2016.
- We won important new national and international partners for our e-reader **tolino** in 2015. In the Netherlands, for example, Libris is offering toline in its bookshops and via its webshops. We also expanded our toline alliance in Germany to include Mayersche, the biggest bookshop in North Rhine-Westphalia, and the Osiander chain in the South of Germany. Just in time for the Frankfurt book fair, two new e-readers were unveiled in October 2015: toline vision 3 HD and toline shine 2 HD.
- At the start of July 2015, we entered into a major partnership with **Readly**, the magazine flat rate that gives customers access to more than 1,100 national and international magazines in a single app. Readly can directly be subscribed to as an add-on to our mobile contracts.
- In September 2015, we entered into a new strategic partnership with **Inmarsat**, a provider for satellite communications. Together we intend to develop the European Aviation Network so that, in the future, we can offer passengers in European airspace broadband Internet access on board. Lufthansa will be the first European airline to use the new access options.



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For more details on regulatory decisions in the reporting year, please refer to the section “The economic environment,” **PAGE 67 ET SEQ.** Further regulatory developments, which we are not yet able to assess, are discussed in the section “Risk and opportunity management,” **PAGE 125 ET SEQ.**

- Together with our new partner **Wandera**, we are expanding our product portfolio in the area of enterprise mobility. Wandera is a leading provider of Enterprise Mobility Management (EMM) solutions. The partnership will enable us to provide our business customers with Wandera's Secure Mobile Gateway: the EMM solution from the cloud enables companies to protect, control, and manage their employees' mobile data usage across all devices.
- To further expand our network portfolio, in November 2015, T-Systems signed a partner agreement with **Akamai**, the world's largest provider of Content Delivery Network (CDN) services. The new offerings are aimed at globally operating business customers that are not connected to high-performance digital networks for voice and data and hence want to use Internet infrastructures. We have developed a solution that, with the help of technology from Akamai, constantly seeks out short-cuts on the data highways and thus provides much better data transmission quality.
- We won further partners from a range of sectors for our smart home platform **QIVICON** in 2015: including Assa Abloy, partner for building security solutions; Bosch Junkers, provider of efficient and resource-saving heating and hot water solutions; and Logitech, manufacturer of peripheral equipment such as cameras and universal remote controls. We also won our first international partner with the eww group, an Austrian utilities company, which launched a QIVICON-based product in Austria.
- At the end of 2015, **Union Investment** concluded a major service agreement with T-Systems for some EUR 350 million spread over a maximum of ten years, to migrate the traditional IT systems to the secure German cloud, strictly in accordance with the provisions of German data protection law. We are responsible for the IT infrastructure, for incorporating it into the existing system landscape, and for operating the applications.
- At the end of 2015, we signed a major contract in the clear double-digit millions with **Tech Data**, a global distributor of technology products and services. Under the contract, we will transfer the existing European IT systems from Tech Data to the cloud.

### NEW PRODUCTS AND RATE PLANS

We again launched new products, services, and rate plans on the market in the reporting year, some of which are presented below:


- Following a pilot with almost 10,000 customers, the new **mobile TV offering** from T-Mobile Polska was launched commercially in February 2015. Our customers in Poland can choose from two rate plans, with either 17 or 32 TV channels. We also offer a video service comprising a wide range of films. Customers can even use the TV offering on two devices at the same time, on a smartphone and a tablet, for instance.
  - With the new family app **myKIDIO**, we showcased for visitors of the Mobile World Congress how an entertainment program can be integrated in a car's infotainment system: The app provides access to high-quality audio books, films, and TV shows. The entertainment program is available for smartphones and tablets as well as in BMWs via BMW ConnectedDrive. BurdaNews markets myKIDIO and takes care of customer relationships. We are responsible for the app's functionality, operate the platform, and develop the technology for use in the car.
  - At CeBIT in March 2015, we presented five digitization packages specially designed for small and medium-sized enterprises (SMEs) under the motto "**Wirtschaftswunder 4.0 – Digitization made in Germany.**" Apart from MagentaEins Business, one of these packages is Industry 4.0 which allows small and medium-sized enterprises to connect their machines quickly and easily, and monitor production. This makes processes more efficient and productive; the energy requirement and resource consumption tend to fall. The package includes everything a machine needs to go online: hardware, **SIM card** with data rate plan, and access to the Cloud of Things platform, which records and processes equipment and sensor data. ☒
- NEW DEALS WITH CORPORATE CUSTOMERS**
- We continued our streak of success in the area of cloud services in the reporting year. But we also succeeded in concluding, extending and expanding various contracts in other areas in Germany and abroad. Examples of new corporate customer contracts:
- In May 2015, T-Systems consolidated the **SAP ERP** systems of the elevator and escalator manufacturer **KONE** in our cloud: To this end, T-Systems is providing globally standardized SAP applications from the cloud on a dynamic SAP platform.
  - In the same month, **Jet Aviation**, a subsidiary of the aircraft manufacturer General Dynamics, extended its agreement for SAP from the cloud with T-Systems by another four years; we have been managing all of Jet Aviation's SAP applications since 2007.
  - **The Swiss national railways (SBB)** commissioned T-Systems in Switzerland to migrate its IT services to the cloud. An agreement with a term until 2020 was concluded for this purpose, concerning the provision of Virtual Infrastructure Application Services. The two companies have enjoyed a successful trust-based partnership for more than 17 years.





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- T-Mobile US kicked off a range of Un-carrier initiatives in 2015. In March 2015, Un-carrier 9.0 Business Freedom was launched: a simple, transparent and low-cost rate plan for business customers. At the same time, T-Mobile US launched two major initiatives for consumers: Un-contract and Carrier Freedom. **JUMP! On Demand** was launched in June 2015: A monthly payment covers the cost of a new device and gives customers the freedom to upgrade their device up to three times per year at no extra cost. In November 2015, T-Mobile US launched Phase 10.0 of its Un-carrier value proposition: The **Binge On™** option enables customers with a Simple Choice rate plan to use unlimited video services, e. g., from Netflix, HBO NOW, Hulu and many others, without additional costs and without using up their data volume. Additionally, Binge On™ allows customers to watch up to three times more video from their data plan.
- In May 2015, the green light was given to the new end-to-end encryption of **De-Mails** based on the globally recognized Pretty Good Privacy (PGP) standard. De-Mail providers Deutsche Telekom, Francotyp-Postalia and United Internet simplified PGP to such an extent that De-Mail users can give confidential messages and documents end-to-end protection against third-party access very easily and without specific previous knowledge.
- In May 2015, we launched a **Mobile Device Management (MDM)** solution specifically for smaller SMEs in collaboration with MobileIron and EBF: The "hosted MDM basic" software allows companies to manage their smartphones and tablets, including apps, on a central platform, upload new applications centrally, and protect stored data. The MDM solution is provided from the cloud and backed up in our protected data centers.
- Our new service **One Number** will allow our business customers in Germany to decide for themselves in the future which phone number – mobile or fixed network – is displayed when they call. One Number can be easily activated and deactivated, configured and customized, either online or using an app.
- The new **Enterprise Mobility Management Suite (EMM Suite)** from T-Systems allows companies not only to configure mobile devices, but also to manage applications and data securely. This comprehensive solution from the cloud enables employees, for example, to securely access company resources, and read, edit and share data from their mobile devices.
- Our new tablet **PULS** has been available since October 2015: It serves as a convenient control center for the Deutsche Telekom world in the home, offering our customers an overview of their fixed-network calls, voice messages, program information, and smart home applications at all times. One single log-in provides access to 14 pre-installed Deutsche Telekom apps.
- Since November 2015, we have been offering large and medium-sized companies defensive protection against industrial espionage: **Lauschabwehr** [counterespionage]. Our specialist technicians sweep offices and conference rooms for eavesdropping technology and check for vulnerabilities. We also offer training to improve the way sensitive information is handled, and tailored concepts to optimize information protection and protection against tapping and eavesdropping.
- In November 2015, our **TelekomCloud** portal opened its doors: This is where we bundle all of our cloud offerings for business customers. The portfolio includes select solutions from renowned partners for software, platforms, and infrastructure as services from the cloud. TelekomCloud is a compact solution providing our customers with all cloud services and expertise from a single source – including consultation and support services from our cloud specialists. Our portal meets the strict German data protection standards and is certified by TÜV Rheinland.
- Our new Android-based app **Message+** has been offering our mobile customers new call functions since December 2015: Before making a call, for example, users can notify the person they are calling of the urgency or subject of the call or send photos of their location and even during the call can share photos, videos, notes or their location.
- At the start of December 2015, we got the green light for our secure European **public cloud** on the basis of a Cisco cloud platform. T-Systems is in charge of operating and selling the new infrastructure service from its highly secure data center in Biere/Magdeburg. The offering is aimed at all of our business customers and can be ordered on our TelekomCloud portal.

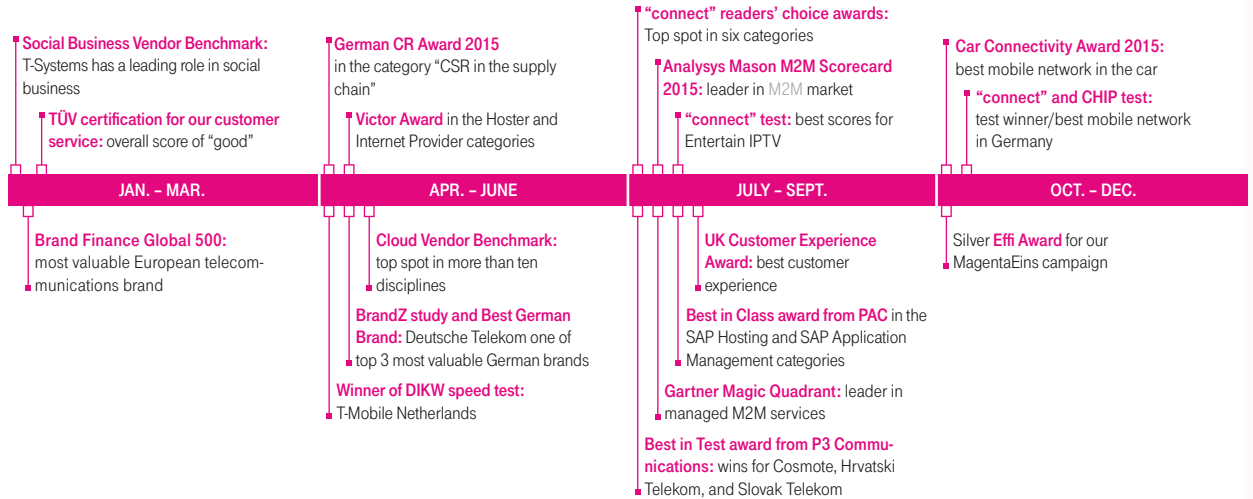
**AWARDS**

We received a large number of awards again in the reporting year – among other things for our outstanding networks, our excellent service, our innovative marketing concepts, and for our extremely valuable Telekom brand. GRAPHIC 13 summarizes the main awards from 2015. 

 For details on more awards, please go to [www.telekom.com/awards](http://www.telekom.com/awards)

 For information on awards received for our HR activities, please refer to the section "Employees," **PAGE 111 ET SEQ.**

## Major awards in 2015



## GROUP ORGANIZATION

- Business activities and organization
- Management and supervision

### BUSINESS ACTIVITIES AND ORGANIZATION

We want to continue to be successful in future. That's why we are making the transition from a traditional telephone company to a service company with completely new prospects. All the while, our goal remains clearly in view: to be the leading European telecommunications provider. The basis for this is and remains our core business: setting up, operating, and marketing networks and communication services. At the same time we are intensively exploiting business areas that offer new growth opportunities.

The digital age is changing us fundamentally. A "gigabit society" is developing around us, in which high-speed Internet is taken for granted both at home and on the move. In technical terms, this means that increasingly large volumes of data need to be transported at increasingly fast speeds. But this calls for ever more powerful networks. We are building these networks – networks that will not only cover the rapidly growing need for bandwidth, but that are also intelligent enough to open up new business areas for entire sectors. We at Deutsche Telekom want to make this possible. In addition, we have set ourselves the goal of offering our customers fixed network, mobile communications, Internet, and Internet-based television from a single source, ensuring they have secure access to all private data – no matter where they are and what device they are using.

But it is about more than that: Many areas will see agenda-setting developments for society. Our understanding of responsible corporate governance requires us to play a role in these developments. We believe that economic, social, and ecological aspects can be reconciled, and place sustainability at the heart of all we do. A range of sector-specific

and general conditions are crucial to the success of business activities. These include qualified staff and excellent working conditions within our own Group but also at our suppliers, as well as first-rate quality at reasonable costs – with regard to data protection and security, customer service, network build-out, and in materials procurement. It is also important to consider the potential consequences of climate change for our business activities: for example, to construct our network infrastructure in such a way that it is protected from severe weather conditions, changes in temperatures, and higher wind speeds. We also help our customers to reduce their carbon footprint with innovative products and services. Furthermore, we are cutting back our own energy consumption. Beyond our core business, we do everything we can to ensure that our actions are socially acceptable. For us, this means conducting ourselves in a way that is ethical and compliant with the law and informing and involving our stakeholders in a transparent way. 

Our responsible corporate governance and business success are based on our shared corporate values and Guiding Principles, which are as follows:

- Customer delight and simplicity drive our action
- Respect and integrity guide our behavior
- Team together – Team apart
- Best place to perform and grow
- I am T – count on me

In other words, we want to be a sustainably growing company that delights its customers, creates value for its investors, and in which employees enjoy their work.

**Business activities: leading integrated telecommunications provider.** With more than 156 million mobile customers, 29 million fixed-network and around 18 million broadband lines, we are one of the leading integrated telecommunications companies worldwide. We offer our



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customers fixed-network/broadband, mobile communications, Internet, and Internet-based TV products and services for consumers, and ICT solutions for business and corporate customers. We have an international focus and are represented in more than 50 countries. □ In the 2015 financial year, we generated around 64 percent of net revenue, i. e., EUR 44.2 billion, outside Germany. Overall, we employ around 225,200 people (December 31, 2015).

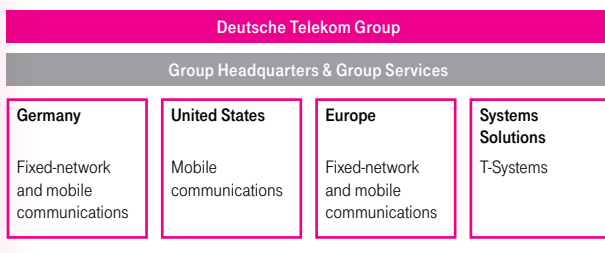
The fixed-network business encompasses all voice and data communications activities based on fixed-network and broadband technology. This includes the sale of terminal equipment and other hardware, as well as the sale of services to resellers. Our mobile communications business offers mobile voice and data services to consumers and business customers. When marketing these services, we also sell mobile handsets and other hardware. In addition, we also sell mobile services to resellers and to companies that buy network services and market them independently to third parties (mobile virtual network operator, or MVNOS). Drawing on a global infrastructure of data centers and networks, our corporate customer arm, T-Systems, operates information and communication technology (ICT) systems for multinational corporations and public-sector institutions.

**Organization: four operating segments.** Our financial reporting conforms with our Group strategy and is based on the following organizational structure. Our Group is broken down into four operating segments whose business activities are assigned in three segments by region and in one segment by customer and product.

GRAPHIC 14 provides an overview of the organizational structure of our Group, which we will explain in detail.

G 14

**Organizational structure**



Our **Germany** operating segment comprises all fixed-network and mobile activities for consumers and business customers in Germany. In addition, it provides wholesale telecommunications services for the Group's other operating segments.

Our **United States** operating segment combines all mobile activities in the U. S. market.

Our **Europe** operating segment comprises all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. In addition to consumer business, most of our national companies also offer ICT solutions to business customers. We have further expanded our business customer operations, in particular through the takeover of the GTS Central Europe group (GTS) in 2014. The units International Carrier Sales &

Solutions (ICSS), Group Technology, and Global Network Factory (GNF) also belong to the Europe operating segment: ICSS primarily provides wholesale telecommunications services for the operating segments in our Group. Group Technology ensures efficient and customized provision of technologies, platforms, and services for mobile and fixed-network communications. GNF designs and operates a global network for providing wholesale customers with voice and data communication.

Drawing on a global infrastructure of data centers and networks, our **Systems Solutions** operating segment operates information and communication technology (ICT) systems for multinational corporations and public sector institutions. In this way, T-Systems provides customers all over the world with integrated solutions for the digital age. But the operating segment also offers ICT solutions tailored to the needs of small and medium-sized enterprises. The offering primarily includes services from the cloud, M2M, and security solutions, complementary, highly standardized mobile and fixed-network products, as well as solutions for virtual collaboration and IT platforms. They form the basis for the digital business models of corporate customers. The Systems Solutions operating segment comprises two business areas: Market Unit and Telekom IT. Telekom IT focuses on the Group's internal national IT projects. The Market Unit mainly comprises business with external customers and since October 2015 has been divided into three divisions: the IT Division, the TC Division (Telecommunications), and the Digital Division. The new roles and responsibilities are more closely aligned to address the needs of our customers and enable us to grow as we improve efficiency and profitability.

**Group Headquarters & Group Services** comprises all Group units that cannot be allocated directly to one of the operating segments. As the organization that sets the direction and provides momentum, it defines strategic aims for the Group, ensures they are met, and becomes directly involved in selected Group projects. Group Services acts as service provider for the Group; in addition to typical services such as financial accounting, human resources services, and operational procurement, Group Services also includes Vivento, our personnel service provider. On the one hand, it is in charge of securing external employment opportunities for civil servants and employees predominantly in the public sector. On the other, Vivento also seeks to strategically place them internally, with the aim of retaining professional expertise within the Group, so as to reduce the use of external staff. Further units are Group Real Estate Management and MobilitySolutions, full-service providers for fleet management and mobility services. In mid-2015, we realigned our central innovation unit, the Digital Business Unit: Since then, it has operated under the name of Group Innovation<sup>+</sup>, working to develop new business areas and products in close dialog with our operating segments. Due to the agreement concluded concerning the sale of the EE joint venture to the UK company BT, EE was reported under non-current assets and disposal groups held for sale until the transaction was closed effective January 29, 2016. □

□  
For information on our footprint, please visit [www.telekom.com/worldwide](http://www.telekom.com/worldwide)

☰  
For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, **PAGE 218 ET SEQ.**

## MANAGEMENT AND SUPERVISION

The compensation system for the Board of Management is oriented towards the long-term performance of the Group; since January 1, 2013, the compensation system for the Supervisory Board no longer includes long-term remuneration components. The recommendations of the German Corporate Governance Code are complied with.

As of December 31, 2015, Board of Management responsibilities were distributed across seven Board departments. Four of these cover cross-functional management areas:

- Chairman of the Board of Management

and the Board departments

- Finance
- Human Resources
- Data Privacy, Legal Affairs and Compliance


In addition, there are three segment-based Board departments:

- Germany
- Europe and Technology
- T-Systems

**Changes in the composition of the Board of Management.** Dr. Christian P. Illek was appointed as the new Member of the Board of Management responsible for Human Resources and Labor Director, effective from April 1, 2015. Claudia Nemat was reappointed as Member of the Board of Management responsible for Europe and Technology for another five years effective October 1, 2016 as per a resolution of December 16, 2015.

**Changes in the composition of the Supervisory Board (shareholder representatives).** Dr. h. c. Bernhard Walter passed away on January 11, 2015. Ines Kolmsee was court-appointed to the Supervisory Board effective January 31, 2015 and resigned her position effective April 8, 2015. Prof. Michael Kaschke, who had been court-appointed to the Supervisory Board with effect from April 22, 2015, was elected to the Supervisory Board by the shareholders' meeting on May 21, 2015. The shareholders' meeting on May 21, 2015 elected Dr. Wulf H. Bernotat to the Supervisory Board for another term of office.

**Changes in the composition of the Supervisory Board (employee representatives).** There were no changes on the employee representative side in the 2015 financial year. Waltraud Litzenberger resigned her position effective midnight December 31, 2015. Nicole Koch was court-appointed to the Supervisory Board effective January 1, 2016.

The Supervisory Board of Deutsche Telekom AG advises the Board of Management and oversees its management of business. It is composed of 20 members, ten of whom represent the shareholders and the other ten the employees. 

The members of the Board of Management are appointed and discharged in accordance with § 84 and § 85 of the German Stock Corporation Act (Aktengesetz – AktG) and § 31 of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG).

Amendments to the Articles of Incorporation are made pursuant to §§ 179 and 133 AktG and § 18 and § 21 of the Articles of Incorporation. According to § 21 of the Articles of Incorporation, the Supervisory Board is authorized, without a resolution by the shareholders' meeting, to adjust the Articles of Incorporation to comply with new legal provisions that become binding for the Company and to amend the wording of the Articles of Incorporation.

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### Composition of the Board of Management

Members of the Board of Management	Department
Timotheus Höttges	Chairman of the Board of Management (CEO)
Reinhard Clemens	T-Systems
Niek Jan van Damme	Germany
Thomas Dannenfeldt	Finance (CFO)
Dr. Christian P. Illek	Human Resources
Dr. Thomas Kremer	Data Privacy, Legal Affairs and Compliance
Claudia Nemat	Europe and Technology

## GROUP STRATEGY

- Deutsche Telekom aims to be the leading telecommunications provider in Europe
- Group strategy successfully implemented again in 2015

### OUR CORPORATE STRATEGY: LEADING EUROPEAN TELCO

Since 2014, we have been aligning all of our corporate activities with our Leading European Telco strategy – with the aim of becoming Europe's leading telecommunications provider. We see ourselves as a driving force for a modern and competitive digital Europe. Our leadership goal covers four dimensions: best network, best service, best products, and preferred provider for business customers. Furthermore, we work towards making the information and knowledge society accessible to all, and endeavor to reconcile economic, ecological, and social aims in the interests of sustainable economic activity. In this way we strive to make a positive contribution to sustainable development at all levels of the value chain. The key action areas for our sustainability management focus on both its importance for our business success and the expectations of our stakeholders. 

As GRAPHIC 15 shows, our Leading European Telco strategy is based on four areas of operation which are derived from our leadership goal and focus on our customers, as well as on three supporting areas of operation which provide the framework for our internal activities.

G 15

### Leading European Telco corporate strategy



Sustainability at Deutsche Telekom



For more information, please refer to the section "Corporate responsibility," PAGE 100 ET SEQ.





For details on the activities of the Supervisory Board in the 2015 financial year, please refer to the "Supervisory Board's report to the 2016 shareholders' meeting," PAGE 36 ET SEQ.

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## STRATEGIC AREAS OF OPERATION

### Integrated IP networks

Our core business is setting up, operating, and marketing networks and communication services. We aim to offer our customers the best network and fastest possible connection. Above-average **network quality** is therefore a differentiator for us, with which we can clearly set ourselves apart from the competition. We regularly perform outstandingly in independent network tests: proof that we are systematically upgrading our networks and remain quality leader, despite rising competitive pressure. The build-out of our networks also serves our corporate and social aims: a modern network makes our products and services attractive for a larger number of potential customers and thus increases our revenue potential. Modern networks and systems also improve our energy efficiency. At the same time we give more people access to modern information and telecommunications services. 

Step by step we are migrating our entire fixed network to the **Internet Protocol (IP)** for all customers. In the long term, an **integrated, pan-European IP network** will allow us to meet our customers' wishes quickly, flexibly, and economically. The gradual migration to modern IP networks was completed in Croatia and Montenegro in 2015. In Germany and our other integrated national companies, this transformation is well underway and is set to be completed by 2018. 

We continue to invest in our fixed networks to provide the best possible broadband coverage and remain competitive. We are bringing optical fiber closer to our customers with the **FTTC (fiber to the curb)** technology and in doing so, increase bandwidths. In Germany, we are planning to be able to offer approximately 80 percent of the population a download bandwidth of at least 50 Mbit/s by 2018 – thanks, for example, to the vectoring technology.

In mobile communications, we intend to further roll out our **LTE networks**: In Germany, we plan to cover approximately 95 percent of the population with LTE by 2018; in our European national companies, coverage is to reach between 75 and 95 percent. Furthermore, we want to provide substantially more WLAN HotSpots in Germany and build an even denser mobile communications network using high-performance small cells. In the United States, our 4G/LTE network covered more than 304 million people at the end of 2015.

As a leading telecommunications provider, we are actively involved in developing and standardizing the **fifth generation mobile communications standard (5G)**. 5G will make it possible, for example, to operate fixed and mobile communications networks more efficiently and to improve the quality of critical services, especially in the field of the Internet of Things.

### Best customer experience


With the best network, integrated products, and the best service, we are creating an **outstanding customer experience**. We delight our customers with expertise, simplicity, and speed. Also for this reason, we continuously improve our processes and IT systems.


**Fixed mobile convergence (FMC)**, i. e., the joint marketing of fixed-network and mobile communications in one product, offers our customers a seamless telecommunications experience – consistently and across different technologies. We therefore intend to significantly expand the range of convergent products we offer. Among other reasons, the aim

is to win new customers and retain existing customers, as well as to increase revenue. Around two million customers in Germany had opted for MagentaEins by the end of 2015. This puts us well on track to reach our target of three million FMC customers by 2018. In total, the integrated national companies of our Europe operating segment won around one million customers for our FMC products as of the end of 2015.


Our customers benefit from our **convergent product portfolio**, which shows them just how easy and uncomplicated telecommunications can be. As, for example, with the EU flat rate, which is only available to our MagentaEINS customers. We had launched our **hybrid router** in Germany in 2014. It combines the strengths of the fixed network – consistent high capacity – with those of mobile communications – high transmission rates. In the reporting year, we substantially expanded the coverage area for the hybrid router. In 2015, we began selling the PULS tablet, a device to easily control all telecommunications services.

By 2018, we plan to improve our **customer service**, focusing on customers and efficiency. We want to offer our customers an outstanding and consistent service experience on all channels – shop, hotline, and online. We are paying particular attention to strengthening our online channel and seamless switching between the different channels for our customers. We improved many areas of customer service in 2015. In Germany, for example, we introduced a high-performance Customer Center app and modernized our portal landscape. Telekom Romania has pioneered the integrated sales and service app, which can serve all the relevant needs of our customers.

We measure **customer retention/satisfaction** using the globally recognized TRI\*M method. Based on this TRI\*M performance indicator, we improve our customer contact processes, and our products and services. We determine the loyalty of our customers towards the Company in surveys. The results are presented as a performance indicator, the TRI\*M index, which ranges between minus 66 and plus 134. In the reporting year, the value stood at 67.4 points, compared with 65.9 points in the prior year. We plan to achieve a slight increase each year until 2018. 

For our customers, **data privacy and security** are very important and hence are a vital differentiator in competition. We guarantee our customers that we will handle their data securely and confidentially. We also see data privacy and security as a growing business area, which we want to significantly expand with existing and new security solutions. To this end, in 2015 we bundled all security activities across the Group into a new organizational unit. 

### Win with partners

We are an innovative company. We are focusing our own innovative power on our networks, our process landscape, selected platforms for the production and sale of our products, and on our access products. Together with partners, we offer a wide range of products and services and deliver the digital offerings our customers want. We offer our partners access to a large and attractive customer base, to our established marketing and sales, and to technical wholesale services. In addition, these partnerships offer the chance to set ourselves apart from the competition. 



For more information on our outstanding network, please refer to the section "Highlights in the 2015 financial year," PAGE 54 ET SEQ.



For information on the current status of our network build-out, please refer to the section "Highlights in the 2015 financial year," PAGE 54 ET SEQ.



Sustainability at Deutsche Telekom



Sustainability at Deutsche Telekom



For more information on our partnerships, please refer to the section "Highlights in the 2015 financial year," PAGE 54 ET SEQ.

We want to be the preferred telecommunications provider when it comes to innovative partners selling their products. For this reason, we have developed a **standardized platform**, which can be thought of as a power strip [Steckerleiste] that partners can simply plug in to integrate their services (see **GRAPHIC 16**). In fall 2015, we put our “Steckerleiste” into operation in the Czech Republic, Greece, and Croatia. Poland, Albania, Austria, and Montenegro among others will follow in 2016. The first partner to connect to the “Steckerleiste” will be FRAG, a portal for digital content such as music and e-books, in the Czech Republic. We are planning to incorporate more partners, for example, from the fields of cloud gaming and security.

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### Deutsche Telekom partnering platform



We are also further developing our **TV business** and want to drive growth here too. We make attractive content accessible across all screens. In order to ensure an even better TV experience, we are, for example, introducing a new TV platform in Germany in 2016: the next-generation television offers both a completely updated user interface and new, innovative product features. The product also continues to comprise the widest range of HD channels and the best on-demand content.

With our **cloud partner solutions** such as Microsoft Azure and Office 365, Salesforce, Informatica or the Cisco Intercloud, we provide our customers with an attractive platform offering from a single source: fully-integrated, secure, and made in Germany. We are in the process of further expanding our offering in the area of the public cloud – to include the Open Telekom Cloud, a shared public IaaS (Infrastructure-as-a-Service) offering with our partner Huawei. Fully-automated provision and efficient production in our high-performance data center in Biere/Magdeburg make it possible to offer the Open Telekom Cloud at a more favorable price than comparable offers on the market.

### Lead in business

The strengthening of our position on the business customer market is an important element of our aim to be the leading telecommunications company in Europe. Business in IT and telecommunications services from the cloud is growing unabatedly and in response, we are constantly expanding our **cloud ecosystem** to include technology partners who are in turn market leaders. We are already one of the leading providers in Europe with our **scalable cloud platforms**; we are growing faster than the market in all business customer segments. To make our corporate customer arm, T-Systems, profitable in the long term, we have successfully aligned the Market Unit's previous business model, dividing it into three divisions: the IT Division, the TC Division (Telecommunications), and the Digital Division.

In addition to traditional IT and telecommunications business, we will continue to focus increasingly on platform-based services and cloud services, in the area of the **Industrial Internet/Internet of Things**, for example. In this regard, we will initiate forward-looking partnerships related to the connected car, for instance, with leading companies of the automotive industry, such as BMW or Bosch. The Digital Division in particular

will be a key growth engine within T-Systems: By 2018, we expect clear double-digit growth in the business areas of health, connected car, the Industrial Internet/Internet of Things, as well as in our own and partner cloud products. We plan to generate more than half of T-Systems' revenue in such **digital growth areas** by 2018. In 2015, the annual average stood at 37 percent.

### SUPPORTING AREAS OF OPERATION

The supporting areas of operation provide the framework for our internal activities.

**Transform portfolio.** In 2015, we continued to develop our **portfolio of investments** with a view to our strategic target. For example, we and the French telecommunications operator Orange reached an agreement with the UK telecommunications operator BT on the sale of the EE joint venture, thereby creating the leading integrated telecommunications provider on the UK market. Following the closing of the transaction effective January 29, 2016, we are the largest shareholder in BT, with a financial stake of 12 percent, and thus will continue to participate in the development of BT and of the UK telecommunications market. We sold our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer; in return, we received a stake of around 11.6 percent in Ströer. Hence we continue to focus on our core business, but at the same time, retain a presence in growth areas with strong partners.

**Evolve financial targets & efficiency.** Our **finance strategy** ensures that our balance sheet ratios remain sound. We want to earn our cost of capital in the medium term and cost-effectively manage our non-current assets in terms of utilization and replacement investments. We are sticking to our strict cost discipline.

**Encourage leadership & performance development.** The digital transformation makes work more flexible, more virtual and more participative. Our managers are the architects of the digital transformation and support our employees as we move into the new digital age. They do so on the basis of our leadership principles “Collaborate,” “Innovate,” and “Empower to perform,” our Guiding Principles, and our leadership model “Lead to win,” which has been based for two years now on a continuous dialog between manager and employee. At the heart of this is feedback on performance and development, a direct link between performance assessment and incentives, and the determination of personal development paths. On top of that, HR work is being reorganized. Our actions in this regard are guided by the need to shape the transformation of our Company in a way that is sustainable and forward-looking.

### GROWTH AREAS

At our 2012 Capital Markets Day, we communicated ambition levels for 2015 for five growth areas. In the fast-changing market environment of the subsequent years, we made various adjustments to the Group's strategy. For example, we decided on a strategic realignment of the Digital Business Unit and T-Systems, and have increasingly moved towards partner models in the area of Internet offerings. As a result, we have not reached the respective levels communicated in 2012 for the growth areas “**Intelligent network solutions**” and “**T-Systems (external revenue)**.” Due to the sale of 70 percent of the shares in the Scout24 group, completed in February 2014, and the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer in November 2015, we have not continued to follow the ambition level previously announced for “**Internet offerings**.” By contrast, at EUR 13.5 billion, we have significantly

For more information on the priorities of our HR work, please refer to the section “Employees.”  
PAGE 111 ET SEQ.

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exceeded the stated ambition level of some EUR 10 billion for the growth area Mobile Internet in particular. We almost achieved the ambition level for "Connected home" of around EUR 7 billion, with EUR 6.4 billion. We are no longer pursuing the approach of the five growth areas under our Leading European Telco strategy.

In summary, our Leading European Telco strategy is also reflected in our goal:

#### To be the leading European telecommunications provider.

- As one of the **leading providers**, we already have very high-performance networks and offer outstanding service for our customers.
- Our networks are **integrated** and employ uniform technical standards.
- We provide the platforms for **successful partnerships** in the consumer and business customer segments.
- At heart we are a **telecommunications provider** – that also offers selected ICT business models.

## MANAGEMENT OF THE GROUP

- Finance strategy consistently implemented again in 2015
- Group-wide value management

We continue to be committed to the concept of value-oriented corporate governance. In order to govern our Group successfully and sustainably, we must bear in mind the expectations of all stakeholder groups at all times.

- **Shareholders** expect an appropriate, reliable return on their capital employed.
- **Providers of debt capital** expect an appropriate return and that Deutsche Telekom is able to repay its debts.
- **Employees** expect jobs that are secure, prospects for the future, and that any necessary staff restructuring will be done in a responsible manner.
- **"Entrepreneurs within the enterprise"** expect sufficient investment funding to be able to shape Deutsche Telekom's future business and develop products, innovations, and services for the customer.


## FINANCE STRATEGY

We want to strike a balance between the contrasting expectations of these stakeholders so that sufficient funding is available for an attractive dividend, debt repayment, responsible staff restructuring, and new investment for a positive customer experience.

At our Capital Markets Day in February 2015 in Bonn, we again confirmed the basic structure of our existing finance strategy for subsequent years. This also involved achieving our financial ratios – relative debt (ratio of net debt to adjusted EBITDA) and equity ratio – along with a liquidity reserve that covers our capital market maturities of the coming 24 months at least. With these clear statements we intend to maintain our **rating** in a corridor of A-/BBB and safeguard undisputed access to the capital market.

There is a reliable dividend policy for shareholders, which is subject to approval by the relevant bodies and the fulfillment of other legal requirements. We intend to pay a dividend of at least EUR 0.50 per dividend-bearing share for the financial years 2015 to 2018. Relative growth of free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years. Thus we offer our shareholders both an attractive return and planning reliability. Following its success in the last two years, we again offered our shareholders the option of converting the dividend for the 2014 financial year into Deutsche Telekom AG shares instead of receiving it as a cash payment. The latter offers investors the opportunity to leave funds in our Company, improve financial ratios further, and to benefit even more from the success of their investment in the long term. This offer was taken up on an even larger scale than in the previous year. We consider offering our shareholders this option again for the 2015 financial year.

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 drive forward the transformation of the Company to an IP-based production model. In mobile communications, the infrastructure roll-out will focus on the latest LTE standard, and in the fixed network, on optical fiber and vectoring.

The finance strategy supports the transformation of our Group through to 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. For example, in the Germany operating segment, marketing of the **contingent model** was very successful again in 2015. In the Europe operating segment, for example, the migration of fixed-network customers to IP technology was completed in both Croatia and Montenegro. This brings the number of fully IP-based countries to four. We will continue to forge ahead with the IP migration; it will be completed in all national companies in 2018.

 See the section "Group strategy," PAGE 60 ET SEQ.

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## Our finance strategy until 2018

Equity	Leading European Telco strategy				Debt
<p><b>Reliable shareholder remuneration policy</b></p> <p><b>Dividend<sup>a</sup></b> Following free cash flow growth Floor at EUR 0.50 per share and year</p> <p>Attractive option: choice of converting dividend entitlements into shares (dividend in kind)</p>	Integrated IP networks	Best customer experience	Win with partners	Lead in business	<p><b>Undisputed access to debt capital markets</b></p> <p>Rating: A-/BBB</p> <p><b>Netto debt/adj. EBITDA:</b> 2 to 2.5x</p> <p><b>Equity ratio:</b> 25 to 35%</p> <p><b>Liquidity reserve:</b> covers maturities of coming 24 months</p>
Value creation: ROCE > WACC					
<ol style="list-style-type: none"> <li><b>1 Infrastructure transformation</b> Support fast IP migration and transform network infrastructure</li> <li><b>2 Cost transformation</b> Reduce indirect cost</li> <li><b>3 Portfolio management</b> Deliver on preferred business model (integrated + B2C/B2B) and value generation</li> <li><b>4 Risk management</b> Maintain a low-risk country portfolio</li> </ol>					

<sup>a</sup>Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

We also intend to achieve our target of earning our cost of capital through strict cost discipline and improved cross-functional collaboration. For this purpose, the target costing method was rolled out internationally with the help of training programs and from 2016 must be used in all significant investment decisions. The aim of this is to move away from a historical view of our costs and to follow a consistent course oriented toward our target costs based on market prices achievable in the future. We also ensure our viability through further measures to enhance the efficiency of administrative functions. Since 2013, we have also additionally focused our steering on unadjusted EBIT. Taking investment costs into account, EBIT is closer to the ROCE concept (please refer to the explanations later in this section for more detailed information about ROCE as a key performance indicator) and therefore supports our consistent focus on an efficient allocation of capital in the Deutsche Telekom Group.

In the 2015 financial year, changes were successfully made to the portfolio, such as the agreement on the sale of the EE joint venture to the UK company BT, the sale of the portal business t-online.de and Interactive-Media to Ströer, and the acquisition of the minority interests in our subsidiary Slovak Telekom.

### VALUE MANAGEMENT AND PERFORMANCE MANAGEMENT SYSTEM

In order to set and achieve our strategic goals more effectively, we are pursuing a Group-wide value management approach. Ultimately, specific performance indicators are required to measure success. The basis for this is a reliable and understandable performance management system. The following information provides an overview of our key financial and non-financial performance indicators (see also TABLES 011 and 012).

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## Financial performance indicators

		2015	2014	2013	2012	2011
ROCE	%	4.8	5.5	3.8	(2.4)	3.8
Net revenue	billions of €	69.2	62.7	60.1	58.2	58.7
Profit (loss) from operations (EBIT)	billions of €	7.0	7.2	4.9	(4.0)	5.6
EBITDA (adjusted for special factors)	billions of €	19.9	17.6	17.4	18.0	18.7
Free cash flow (before dividend payments, spectrum investment) <sup>a</sup>	billions of €	4.5	4.1	4.6	6.2	6.4
Cash capex <sup>b</sup>	billions of €	(10.8)	(9.5)	(8.9)	(8.0)	(8.3)
Rating (Standard & Poor's, Fitch)		BBB+	BBB+	BBB+	BBB+	BBB+
Rating (Moody's)		Baa1	Baa1	Baa1	Baa1	Baa1

<sup>a</sup>And before PTC and AT&T transactions and compensation payments for MetroPCS employees.

<sup>b</sup>Before spectrum investment.



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**PROFITABILITY**


In order to underline the importance of the successful long-term development of our Group, we have incorporated sustainable growth in enterprise value into our medium-term aims and implemented it as a separate KPI for the entire Group. **Return on capital employed (ROCE)** has been our central KPI since 2009. ROCE is the ratio of operating result after depreciation, amortization and impairment losses plus imputed taxes (net operating profit after taxes (NOPAT)) to the average value of the assets tied up for this purpose in the course of the year (net operating assets (NOA)).


ROCE is the performance indicator that helps us to embed our aim of sustainably increasing the value of our Group across all operational activities. Additional value accrues when the return on capital employed exceeds the cost of capital. Our goal, therefore, is to achieve or exceed the return targets imposed on us by providers of debt capital and equity on the basis of capital market requirements. We measure return targets using the weighted average cost of capital (WACC).

We believe that ROCE best reflects the expectations of the four aforementioned stakeholders. The indicator measures how efficiently we generate revenues with the capital employed. ROCE is especially informative when taking a long-term view, because it takes into account both the immense value of the assets that are tied up in our capital-intensive infrastructure, and their utilization. This reveals the crucial advantage of this KPI. It does not focus on the absolute amount of the earnings generated, but rather how much earnings the capital employed generates. ROCE gives us a holistic perspective from which we can consider our investments with fresh insight.

**REVENUE AND EARNINGS**

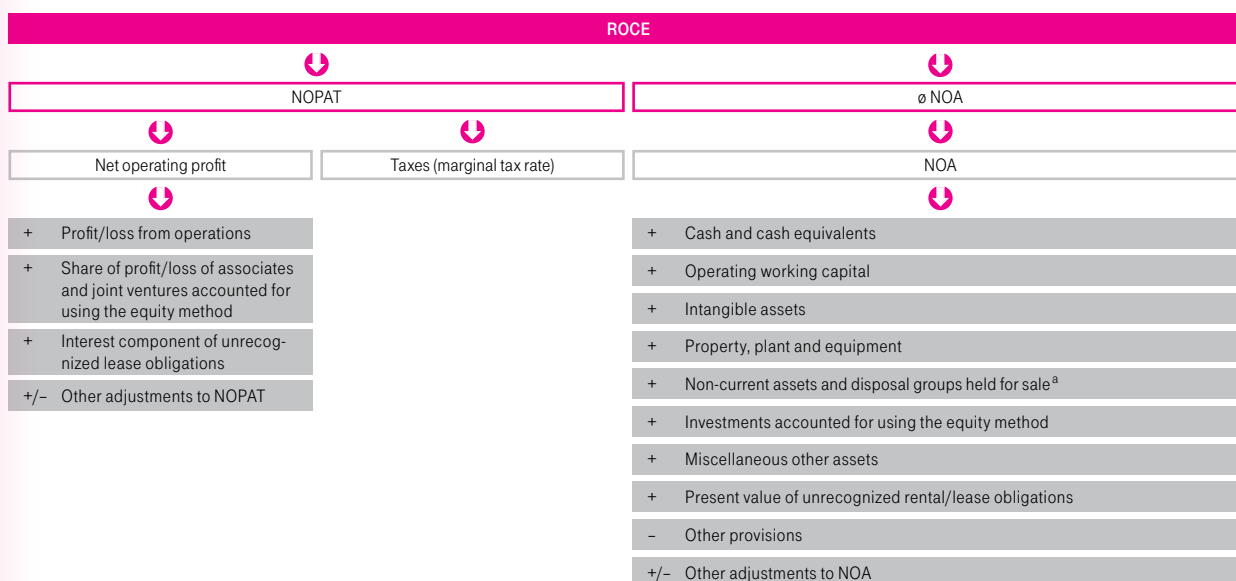
Revenue corresponds to the value of our operating activities. Absolute revenue depends on how well we are able to sell our products and services on the market. The development of our revenue is an essential indicator for measuring the Company's success. New products and services as well as additional sales activities are only successful if they increase revenue.

EBITDA corresponds to EBIT (profit/loss from operations) before depreciation, amortization and impairment losses. EBIT and EBITDA measure the short-term operational performance and the success of individual business areas. We also use the EBIT and EBITDA margins to show how these indicators develop in relation to revenue. This makes it possible to compare the earnings performance of profit-oriented units of different sizes. Taking unadjusted EBITDA/EBIT as performance indicators means special factors are also taken into account. This promotes a holistic view of our costs. However, special factors have an impact on the presentation of operations, making it more difficult to compare performance indicators with corresponding figures for prior periods. For this reason, we additionally adjust our performance indicators to provide transparency. Without this adjustment, statements about the future development of earnings are only possible to a limited extent. The adjusted values are calculated on the basis of the unadjusted performance indicators. 

 For the reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors, please refer to TABLE 019, PAGE 77.

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**Calculation of the financial performance indicator ROCE**



<sup>a</sup> Adjusted for investments accounted for using the equity method.

## FINANCIAL FLEXIBILITY

We define **free cash flow** as net cash from operating activities less net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. This indicator is the main yardstick for providers of debt capital and equity. It measures the potential for further developing our Company, e. g., for generating organic growth and the ability to pay dividends and repay debt.

Our central free cash flow management is aimed at further improving **working capital**. Free cash flow management is responsible for transparency, steering, forecasts, and performance measurement in relation to the Group's free cash flow and especially in relation to working capital. In 2010, we set up CORE (Cash Optimization for ROCE Enhancement), a project to improve working capital on a long-term basis. In the reporting year, the focus was on further extending the **reverse factoring** program in Germany, evaluating inventories management in Germany and Europe, and optimizing receivables management in all our operating segments; this also involved factoring measures. We intend to continue improving working capital over the coming years. To this end, we will focus on the following areas: further improvements in the area of liabilities, e. g., through reverse factoring programs, and improvements in the area of receivables and inventories management at T-Mobile US, in Germany and in Europe.

**Cash capex** (before spectrum investment) relates to cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, which are relevant for cash outflows as a component of free cash flow. In contrast to book capex, cash capex does not include any investments capitalized in the current period, but paid for in a future period.

A **rating** is an assessment or classification of the creditworthiness of debt securities and its issuer according to uniform criteria. Assessment of creditworthiness by rating agencies influences interest rates on debt

securities and thus also our borrowing costs. As part of our finance policy, we have defined a target range for our ratings. We are convinced that with a rating between A- and BBB (Standard & Poor's, Fitch) or between A3 and Baa2 (Moody's) we essentially have the necessary entry to the capital markets to generate the required financing.

As one of the leading providers of telecommunications and information technology worldwide, the development of our Group – and thus also our financial performance indicators – is closely linked to the development of **customer figures**. Acquiring and retaining customers are thus essential to the success of our Company. We have different ways of measuring the development of our customer figures according to the business activity in our operating segments: Depending on the activities of each segment, we measure the number of mobile customers and/or the number of broadband and fixed-network lines.

We want our customers to be satisfied – or even delighted – as satisfied customers act as multipliers for our Company's success. As a responsible, service-oriented company, the needs and opinions of our customers are of great importance to us, and we want our customers to stay with our Company in the long term. For this reason we measure **customer retention/satisfaction** in our companies using the globally recognized **TRI\*M method**. The results of systematic surveys are expressed by an indicator known as the TRI\*M index. To underscore the major significance of customer retention/satisfaction for our operations, since 2010 we have made this key indicator one of four parameters for the long-term variable remuneration (Variable II) for our executives. It was also used as a parameter in the long-term incentive plan which ran again in 2015. We take the TRI\*M indexes calculated for the operating entities as an approximation of the respective entities' percentage of total revenue to create an aggregate TRI\*M Group value. Over a period of four years, the entitled executives can benefit from the development of customer retention/satisfaction across the Group.



Sustainability at  
Deutsche Telekom



For more information on customer satisfaction, please refer to the section "Group strategy,"  
PAGE 60 ET SEQ.

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### Non-financial performance indicators

		2015	2014	2013	2012	2011
Customer satisfaction (TRI*M index)		67.4	65.9	64.9	-	-
Employee satisfaction (commitment index) <sup>a</sup>		4.1	4.0	4.0	4.0	-
<b>FIXED-NETWORK AND MOBILE CUSTOMERS</b>						
Mobile customers	millions	156.4	150.5	142.5	127.8	125.1
Fixed-network lines <sup>b</sup>	millions	29.0	29.8	30.8	32.1	34.7
Broadband lines <sup>b,c</sup>	millions	17.8	17.4	17.1	16.9	16.9
<b>SYSTEMS SOLUTIONS</b>						
Order entry <sup>d</sup>	millions of €	6,005	7,456	7,792	8,737	7,396

<sup>a</sup>Commitment index according to the most recent employee surveys in 2015 and 2012.

<sup>b</sup>The lines of our subsidiary Euronet Communications in the Netherlands have no longer been included in the Europe operating segment since January 2, 2014 following the sale of the shares held in the company. The comparatives for 2013 and 2012 have been adjusted accordingly.

<sup>c</sup>Excluding wholesale.

<sup>d</sup>The prior-year comparative was adjusted retrospectively due to changes in the structure of the Group implemented as of January 1, 2014. For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 218 ET SEQ.

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Our employees want to contribute to the further development of the Company and identify with it.  We want to establish an open dialog and a productive exchange with our employees: New ways of working and modern means of communication help us achieve this, as do regular surveys. The most important feedback instruments across the Group (excluding T-Mobile US) for assessing **employee satisfaction** include regular employee surveys and the pulse check carried out twice a year. In our Company, we measure the employee satisfaction performance indicator using the **commitment index** – derived from the results of the last employee survey and updated with the results of the last pulse check. 

In view of the major significance of employee satisfaction for the success of the Company, executives are now also being managed and incentivized by means of the long-term variable performance-based remuneration (Variable II). Employee feedback as one of four parameters has been relevant for Variable II since 2010, and for the newly launched long-term incentive plan since 2015. This allows entitled executives to benefit from the development of employee satisfaction across the Group.

In our Systems Solutions operating segment, we use **order entry** as a non-financial performance indicator. We define and calculate order entry as the total of all amounts resulting from customer orders – those yet to be processed – within the Systems Solutions operating segment. Order entry in the form of long-term contracts is of great significance to the Group in order to estimate revenue potential. In other words, order entry is an indicator that provides a high degree of planning reliability.

## THE ECONOMIC ENVIRONMENT

- Economic environment in our markets positive
- Ongoing regulatory interventions into fixed-network and mobile business

### MACROECONOMIC DEVELOPMENT

In 2015, the global economy slowed against the prior year: In its forecast from January 2016, the International Monetary Fund expects the global economy to have grown by just 3.1 percent in 2015 (2014: 3.3 percent). This lack of drive is primarily attributable to weak economic development in the emerging economies. By contrast, growth increased in Western industrial nations, which profited from the moderate recovery in the eurozone, lower oil prices, and the expansive monetary policy.

In our core markets, economic growth rates recorded positive trends in 2015. Gross domestic product (GDP) grew by 1.7 percent in Germany in the reporting year, bolstered in particular by a further increase in private consumption. Unemployment also remained low at an average 6 percent. The U.S. economy grew by 2.4 percent in 2015, driven by rising private consumption primarily as a result of a robust labor market – unemployment fell to 5.3 percent as of the end of 2015 – and the low-interest policy of the U.S. Federal Reserve. GDP growth rates continued to rise in almost all countries of our Europe operating segment in 2015, with the economies primarily profiting from the recovery in the eurozone and low oil prices. Greece continues to experience difficulties in emulating the growth seen in Europe as a whole. For many months, uncertainty prevailed over whether or not Greece would remain part of the eurozone; this had a substantial negative impact on the Greek economy.

The situation in the national labor markets continued to improve slightly in most countries thanks to positive economic growth. However, in some of our countries in Central and Eastern Europe such as Croatia, Poland and Slovakia, structural unemployment remained unabatedly high, especially among older persons of working age. The tough recession of the last few years and economic uncertainty in 2015 further weakened the labor market in Greece, where unemployment remained very high at 25.1 percent.

TABLE 013 shows the GDP growth rate trends and the unemployment rates in our most important markets.

High structural unemployment rates lead to reduced purchasing power among those affected and impact on their willingness to spend. Some customers have adapted their demand behavior. In addition to high unemployment, austerity measures in the public sector and the low willingness to invest also had a detrimental effect on demand for telecommunications and ICT services. In some countries, the intense pressure to shore up state finances led to special taxes being maintained for telecommunications companies.



Sustainability at  
Deutsche Telekom



For more information on employee satisfaction, please refer to the section "Employees," PAGE 111 ET SEQ.

T 013

**Development of GDP and the unemployment rate in our core markets from 2013 to 2015**

%

	GDP for 2013 compared with 2012	GDP for 2014 compared with 2013	GDP estimate for 2015 compared with 2014	Unemployment rate in 2013	Unemployment rate in 2014	Estimated unemployment rate for 2015
Germany	0.3	1.6	1.7	6.9	6.7	6.4
United States	1.5	2.4	2.4	7.4	6.2	5.3
Greece	(3.2)	0.7	(0.3)	27.5	26.6	25.1
Romania	3.4	2.8	3.7	5.2	5.2	5.1
Hungary	1.9	3.7	2.7	9.8	7.6	6.8
Poland	1.3	3.3	3.5	13.5	12.3	10.6
Czech Republic	(0.5)	2.0	4.5	7.7	7.7	6.5
Croatia	(1.1)	(0.4)	1.6	20.3	19.7	17.8
Netherlands	(0.5)	1.0	2.0	8.9	9.0	8.7
Slovakia	1.4	2.5	3.3	14.2	13.2	11.6
Austria	0.3	0.4	0.8	5.4	5.6	5.7
United Kingdom	2.2	2.9	2.3	7.6	6.2	5.6

Sources: GDP: Consensus Economics; Unemployment rate: national statistical authorities; as of January 2016.

**TELECOMMUNICATIONS MARKET**

Worldwide, the market for information and communications technologies (ICT) grew by 3.8 percent in 2015 to EUR 2.81 trillion. This increase was due to strong demand for telecommunications equipment and services, especially in India, China, and the United States. The high-tech association BITKOM (Federal Association for Information Technology, Telecommunications and New Media) and the EITO (European Information Technology Observatory) expect the telecommunications market segment to record an increase of 4.3 percent to EUR 1.62 trillion and the information technology (IT) market segment to record an increase of 3.1 percent for 2015. The global market for telecommunications services increased by 2.2 percent. In Europe, however, telecommunications service revenues declined for the seventh year in a row. According to ETNO (European Telecommunications Network Operators' Association) and IDATE (a leading European ICT market research institute), revenue for the entire European telecommunications market (including Turkey, excluding Russia, Ukraine, and Georgia) stood at EUR 240 billion in 2015, down 1.1 percent against the prior-year figure of EUR 243 billion. This decline is attributable in part to regulatory interventions such as the reduction in roaming and termination charges. In addition, the substitution of traditional voice and messaging services with OTT players had a negative impact on the European telecommunications markets.

The digitization of the economy and society changes on the one hand the existing market structures, and on the other, the market realities of many industries that have previously been analog. Use of data services will grow exponentially. Demand is also rising for more speed – for both download and upload, for fixed and mobile networks. New technologies, like the Internet of Things, Industry 4.0, big data, or cloud computing place high demands on network infrastructure: ubiquitous connectivity and high performance standards and security are critical to success for many applications. In a market environment in which the network infrastructure needs to be substantially upgraded and a broad ecosystem of rival market players has developed, investment incentives must be created – for the good of consumers, the industry, and a digitally sovereign economy.

Consolidation pressure remains high in the European telecommunications industry, primarily as a result of declining revenues due to growing competition. At the same time, high investments are needed for the network build-out. In light of this, the failed consolidation plan in Denmark has given rise to continued uncertainty in the industry: In September 2015, Telenor and TeliaSonera canceled their merger plans after the companies were unable to agree suitable terms with the EU Commission. It remains to be seen what impact this decision will have on current and future consolidation plans in the European Union. Talks are currently taking place, for example, between Orange and Bouygues Telecom in France. Furthermore, the UK Competition and Markets Authority (CMA) approved the acquisition of EE by BT in January 2016, unconditionally and without remedies. Moves towards consolidation can also be seen in Italy, where VimpelCom and Hutchison are planning to merge their mobile activities. The EU Commission is also reviewing the planned mergers between Hutchison 3G and O<sub>2</sub> in the United Kingdom, and Liberty Global and BASE in Belgium.

**European General Data Protection Regulation.** In December 2015 an informal agreement was reached between the European Commission, the EU Council, and the European Parliament on the European General Data Protection Regulation; this reform of data protection is part of the strategy for the digital single market. The Regulation is expected to enter into force in the first quarter of 2016 and will be applicable from 2018 after a two-year transposition period. With this new data privacy law, the EU is closing a large gap in regulation relevant for service providers outside of the EU and essentially imposing the same rules for all market players operating in the EU. The Regulation ensures a high level of data protection in Europe and enables new digital business models.

**Safe Harbor.** In a judgment on October 6, 2015, the European Court of Justice (ECJ) declared the European Commission's Safe Harbor Decision to be void. Safe Harbor refers to an agreement between the European Commission and the U.S. Department of Commerce, which enabled the personal data of EU citizens to be stored and processed in the United States. The ECJ reasoned that the level of protection for personal data in the United States were inadequate: The data of European customers were not sufficiently protected from access by U.S. security agencies; in

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addition, legal protection in the United States for the affected European citizens were not ensured. The European Commission Directorate-General for Justice has just negotiated the EU-US Privacy Shield agreement with the United States. Details of this agreement still need to be worked out over the coming months. The agreement will only become effective once all member states have approved it.

Work on the new **Payment Service Directive 2** at EU level is complete. The Directive will replace Payment Directive 1 from 2007 and must be implemented by the member states by the start of 2018. Under the new rules, billing models for voice and non-voice services will cap the amounts that can be charged for third-party services through telephone bills (max. EUR 200 per month and EUR 50 per transaction), unless a payment service license is in place. Depending on the transposition into national law, this will lead to restrictions in business models for billing third-party services and to costs for implementing compliance with the thresholds. Furthermore, there will be additional obligations in terms of reporting to the Federal Financial Supervisory Authority (BaFin).

## GERMANY

According to BITKOM, revenue from IT products and services, telecommunications and the entertainment industry increased by some 1.9 percent to around EUR 156 billion in Germany in the reporting year. Information technology in particular recorded strong growth of more than 3 percent. After declining for the last two years, telecommunications revenue (telecommunications services, terminal devices, and infrastructure systems) increased by 0.9 percent to around EUR 66 billion in 2015, according to BITKOM's estimate. Revenue from telecommunications services decreased slightly by 0.3 percent – hence less sharply than in prior years. Clear growth in revenue from terminal equipment and infrastructure offset the slight decline in revenue from telecommunications services.

The German broadband market grew by more than 3.5 percent in 2015. There are some 31 million broadband lines in Germany. The main beneficiaries of the market growth were cable network operators, but we, the telecommunications operators, as well as traditional resellers and regional providers, who use the (V)DSL network, also gained. More and more lines with high bandwidths/transmission rates are being marketed, both in the cable network and in the VDSL/vectoring network; the products offered also include hybrid line technologies, which combine fixed-network and mobile communications. The availability of high bandwidths in Germany is also accelerating IPTV customer growth in the market (10 percent), driven in particular by wide-ranging HD content and video-on-demand services. Integrated offers comprising fixed-network and mobile communications offer customers numerous advantages and increase customer retention. The trend towards these kinds of integrated offers continued in Germany in 2015. We had launched our first integrated offering, MagentaEins, back in fall 2014. The telecommunications providers are constantly developing their offering further, for example, in the areas of connected home, security services, mobile payment, cloud, and IT services.

In the German mobile market, mobile service revenues decreased slightly by around 0.6 percent year-on-year to approximately EUR 18 billion, mainly due to regulatory effects, for example in connection with roaming and termination, and the improvement of the existing customer base in response to strong competition. The use of data services in the mobile Internet is growing exponentially, the percentage of voice and data rate plans is rising steadily. Traditional voice and text messaging services are increasingly being replaced by free IP messaging services like WhatsApp and social networks like Facebook; use of these services requires use of the mobile Internet and typically data flat rates. The growing popularity of connected products such as smartphones and tablets, but as of recently also watches, shoes, bicycles, etc., is pushing up demand for mobile broadband speeds and for growing data volumes in the rate plan portfolios.

Digitization continues to make progress and is taking hold in industry and in production processes. Companies are exploiting the opportunities of digitization to make their value chains more effective and energy-efficient, and to develop new business models. Connecting machines and production facilities requires extensive IT and cloud solutions. This market segment grew by 18 percent in 2015. Forward-looking business models that drive more market growth are also being established in the M2M (machine-to-machine) segment.

## UNITED STATES

The mobile communications market in the United States continues to be divided between four major nationwide providers – and various regional network operators – AT&T, Verizon Wireless, Sprint, and T-Mobile US. In addition there are a number of mobile virtual network operators, which rely on the networks of one or more of the four national carriers to transport their mobile and data traffic. The two largest national network operators are AT&T and Verizon Wireless. The market continues to be very dynamic. A takeover attempt of Time Warner Cable by Comcast was prohibited. In July 2015, AT&T received permission for a USD 48.5 billion transaction to acquire DirecTV. The Dutch company Altice announced in September 2015 an acquisition of Cablevision Systems Corp. in the range of around USD 17.7 billion. The consolidation of the U.S. telecommunications market is expected to continue.

Growth has slowed as a result of the high market penetration. Voice revenues continued to decline slightly in 2015. However, the persistent data revenue surplus could more than compensate the decline. Mobile data usage remains at a high level, in line with the rapid development of LTE networks and the high use of smartphones, which now account for around 80 percent of all handsets. Data revenue is growing steadily year after year and is accompanied by tough price competition from the main market players.

The fierce competition is accompanied by regulatory announcements of the FCC (Federal Communications Commission). In June 2015, the FCC's Open Internet Order entered into force, updating the net neutrality rules it first established in 2010. The provisions define a standard, which in the future is to apply to the conduct of the affected companies. For the first time, this also includes interconnection agreements between Internet service providers (ISPs) and third parties. The FCC reserves the right to carry out case-by-case reviews with regard to the conduct of the affected companies.

The Broadcast Incentive Auctions for frequencies initiated by the FCC will be held in 2016. The underlying intention is for television providers to voluntarily hand back their licensed frequencies in exchange for a portion of the proceeds from the auction of the returned spectrum to mobile providers. In 2015, T-Mobile US has brought about a significant operational turnaround and intensified competition in the U.S. mobile market. This is mainly due to the improvements in their network, as well as the successful implementation of the Un-carrier initiatives, which contributed very successfully to customer satisfaction.

## EUROPE

The traditional communications markets in the Europe operating segment remained more or less stable overall in the reporting year. The fixed network business is still declining. The positive trend in broadband and pay TV lines could not fully offset the declines in fixed-network telephony. The mobile markets recorded slight year-on-year growth overall, primarily due to a small decrease in regulation-induced termination charges and increased mobile data usage as a result of the continued fast-growing popularity of smartphones, especially in Eastern Europe. This growth in mobile data usage comes at the expense of traditional voice telephony and text messages. Special taxes levied on telecommunications services, in Croatia and Romania for example, and the costs of spectrum auctions, for instance in Albania, impacted on the telecommunications industry in a number of our footprint countries in 2015.

Competition and price pressure persisted in the markets of our Europe operating segment in the reporting year – despite business combinations and partnerships. This is due in part to an intensified FMC trend in Europe: Providers are positioning themselves through cut-price bundled products and MVNOs are using aggressive pricing, e.g., RCS and RDS in Romania, Play in Poland, or Ziggo in the Netherlands. Added to this, products offered by OTT players such as WhatsApp are increasingly replacing traditional voice and text messaging solutions. In countries where we already have a fixed-network and mobile infrastructure, we have been able to position ourselves well with FMC offerings, playing a pioneering role with convergent products and services. In 2015, for example, the convergence brand MagentaOne was successfully launched on the market in almost all integrated national companies. The related offerings focus on adding value through an outstanding convergent customer experience. Even our mobile-centric national companies are moving towards convergence and aiming for integrated business models. Corresponding measures have been put in place and some are already being implemented, such as the integration of GTS in the business customer segment.

The conversion from traditional switching to Internet technology continues to progress in our Europe operating segment: We had already completed the migration from PSTN lines to IP in four countries by the end of 2015. In mobile communications and fixed networks, the trend towards broadband build-out continued unabated. In many countries, we are consolidating our strong position with considerable investments in the roll-out of LTE and optical fiber. With Pan-Net – our pan-European all-IP network – we are building a single, international network architecture in Europe, which will efficiently produce and provide virtualized, centralized services for all national companies. Thanks to the ongoing trend towards IP-based TV offerings and the further development of our TV platform, we also extended our market leadership in this area in many countries of our segment. Leading the vanguard is our national company in Romania, where IPTV competition is intense. We further expanded our position in these markets by constantly renewing and acquiring exclusive broadcasting rights (e.g., UEFA Champions League in the F.Y.R.O. Macedonia, Hollywood channels in Greece) and collaborating with OTT TV providers (Netflix in Austria, Pickbox in the Czech Republic, Montenegro, and the F.Y.R.O. Macedonia).

## SYSTEMS SOLUTIONS

The volume in the information and communication technology (ICT) market in Western Europe addressed by our Systems Solutions operating segment and the T-Systems brand, increased by 2.8 percent, from EUR 170 billion in 2014 to EUR 175 billion in 2015. However, this general trend impacted the individual business areas in very different ways.

In the telecommunications (TC) segment, the market was dominated by continued price erosion in telecommunications services and by intense competition, while the economic recovery had relatively little impact. The focus here remains on substituting parts of the portfolio, but also on demand for stable, intelligent network solutions with ever expanding bandwidths. Growth in cyber security, cloud computing, and Unified Communications is leading to stable growth in the long term. The substitution effects (e.g., within data/Internet Protocol (IP), between fixed network and mobile communications) continue to increase. The migration to “all-IP” solutions (e.g., the combination of Internet access, Voice over IP, IP VPN) and Unified Communications solutions has increased.

In terms of IT services, demand has grown for cloud services and cyber security services, as has the importance of digitization, intelligent networks, the Internet of Things (including Industry 4.0), and communication between machines (M2M). The move to cloud solutions is also transforming demand in the systems integration business. Traditional project business (application development and integration) has seen a slight decline of 0.3 percent. By contrast, the market for consultation and integration services, infrastructure and platforms in “as-a-Service” models grew by 35 percent.

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The market for outsourcing business in the computing and **desktop services** (CDS) segment fell by 0.4 percent in the reporting year to EUR 59 billion. There are two contrary trends in particular at work here. On the one hand, there was a 6-percent decline in long-term, more traditional outsourcing agreements, and on the other, an 18-percent increase in the business in the cloud computing environment (the provision of IT services over the Internet).

Competitive and price pressure persisted in all submarkets of our Systems Solutions operating segment. In addition to the known competitors such as BT, OBS, and NTT in the telecommunications market and IBM, HP, and Caggemini in the IT segment, the latter in particular came under price pressure from cloud providers such as Amazon Web Services, Google, and Salesforce. This pressure was further intensified by providers of services rendered primarily offshore. In this environment, we are positioning ourselves against these competitors as a player who focuses on quality, data security, and overall responsibility for transformation, integration and the operation of ICT services (end-to-end responsibility). But we are also continuing to enter increasingly into strategic partnerships with our competitors so as to offer our customers innovative solutions.

#### MAJOR REGULATORY DECISIONS

Our business activities are largely subject to national and European regulation, which is associated with extensive powers to intervene in our product design and pricing. We were again subject to extensive regulation in our mobile and fixed-network businesses in 2015. The focus was mainly on the regulation of services for wholesale customers and the corresponding charges as well as the award of mobile frequencies.

#### REGULATION OF SERVICES FOR WHOLESALE CUSTOMERS

**Application for further vectoring roll-out.** On February 23, 2015, we applied to the Federal Network Agency to be exempted from the obligation to give competitors access to the main distribution frames for the provision of VDSL lines. If the authority approves our request, we can create the necessary conditions to provide approximately 6 million more households with Internet surfing speeds of up to 100 Mbit/s. Going forward, transmission rates of up to 250 Mbit/s (super vectoring) will even be possible. By the end of 2018, high-speed access would be available to around 80 percent of households in Germany. The Federal Network Agency's current consultation draft largely grants us exclusive rights to local-area roll-out. We expect the regulatory process to be completed in the first quarter of 2016. However, the regulatory requirements for actual implementation will not be met until the reference offer has been adjusted, which is expected to be completed in the fourth quarter of 2016.

On October 28, 2015, the Federal Network Agency issued the **regulatory decision for the bitstream market**. In addition to the current ex-post regulation for Layer 3 **bitstream access** products, this decision requires an ex-ante license for Layer 2 bitstream products, although it does not require cost-based regulation of charges. We plan to offer a Layer 2 bitstream access product by July 1, 2016 at the latest.

**Federal Network Agency proceedings on MagentaZuhause Hybrid.** Since the start of 2015, we have been offering MagentaZuhause Hybrid rate plans to retail customers that combine fixed-network capacities (DSL) with mobile communications (LTE) in a single access product on the basis of innovative network technology. On July 6, 2015, 1&1 Telecom GmbH initiated proceedings with the Federal Network Agency for a review of our MagentaZuhause Hybrid rate plans with the aim of being provided with a corresponding wholesale product. The Federal Network Agency rejected 1&1's applications in rulings dated October 30, 2015 and December 23, 2015.

#### REGULATION OF PRICING AND SPECIAL TAXES

**Rate application for Layer 2 bitstream access (BSA).** In the first quarter of 2016, we will submit a rate application for the new Layer 2 BSA to the Federal Network Agency: The main rates we will apply for are the monthly charges for a VDSL retail line and for the handover point on the Broadband Network Gateway (BNG). A preliminary decision in the rates approval proceedings is expected at the start of the second quarter of 2016. This will then be followed by national and EU consultations, such that final approval of the rates can be expected as of July 1, 2016.

**Application for ULL monthly charges.** We submitted an application for monthly charges for unbundled local loop lines (ULLs) at the start of February 2016. We expect the consultation draft for the rate ruling to be available on April 15, 2016. This will be followed by national and international consultations. The new rates will apply from July 1, 2016.

**Final Federal Network Agency rulings on interconnection rates in Germany published.** On April 1 and April 24, 2015, the Federal Network Agency published its final rulings on fixed-network and **mobile termination rates**, thereby finally setting the charges that had already been provisionally approved as of December 1, 2014.

**Additional special taxes affecting our international subsidiaries.** In addition to the already known special taxes, e. g., in Greece, Hungary, Romania, and Croatia, a tax on mobile masts is currently being discussed in Austria. However, positive signs are currently coming out of Hungary, where the government has held out the prospect of a reduction in VAT and telecommunications tax.

## MOBILE SPECTRUM AWARDS

TABLE 014 provides an overview of the main spectrum awards, such as auctions and license extensions, in 2015 in Germany and at our international subsidiaries. It also indicates spectrum to be awarded in the near future in various countries.

T 014

### Main spectrum awards

	Start of award	End of award	Frequency ranges (MHz)	Award process	Acquired spectrum (MHz)	Spectrum investment
Albania	Q3/2014	Q1/2015	900/1,800	License extended until 2029	2 x 8/2 x 9	€ 11 million
Albania	Q1/2015	Q2/2015	1,800/2,600	Sealed bid <sup>a</sup> Sequential	2 x 6/2 x 20	€ 9 million/€ 3 million
Albania	Q1/2016	Q2/2016	2,100/2,600/ 3,500/3,700	Sealed bid <sup>a</sup> Sequential	tbd	tbd
Germany	Q2/2015	Q2/2015	700/900/ 1,500/1,800	Auction (SMRA <sup>b</sup> ) Simultaneous	2 x 10/2 x 15/ 1 x 20/2 x 15	€ 1.8 billion Allocations from 2016
Greece	Q1/2016	Q2/2016	1,800	Details tbd	tbd	tbd
United Kingdom	Q2/2016	Q3/2016	2,300/3,500	Auction (SMRA <sup>b</sup> ) (expected)	tbd	tbd
Montenegro	Q2/2016	Q3/2016	800/900/ 1,800/2,100/2,600	Details tbd	tbd	tbd
Netherlands	Q2/2014	Q2/2016	2,100	License extended until 2020	2 x 20	€ 24 million
Poland	Q1/2015	Q1/2016	800/2,600	Auction (SMRA <sup>b</sup> )/ Sealed bid <sup>a</sup>	2 x 5/2 x 15	PLN 2.1 billion (around € 0.5 billion <sup>c</sup> )
Slovakia	Q1/2016	Q2/2016	1,800	Auction (SMRA <sup>b</sup> ) (expected)	tbd	tbd
Czech Republic	Q1/2016	Q2/2016	1,800/2,600/3,700	Auction (SMRA <sup>b</sup> ) (expected)	tbd	tbd
Hungary	Q2/2016	Q3/2016	3,500/3,700	Details tbd	tbd	tbd
United States	Q4/2014	Q1/2015	1,700/2,100	Auction (SMRA <sup>b</sup> )	Regional licenses of different scope <sup>d</sup>	USD 1.77 billion (€ 1.6 billion)
United States	Q2/2016	Q3/2016	600	Incentive Auction <sup>e</sup>	tbd	tbd

<sup>a</sup>Submission of an individual bid in a sealed envelope, in some cases sequential, in several awards.

<sup>b</sup>Simultaneous electronic multi-round auction with ascending, parallel bids for all ranges.

<sup>c</sup>Total of final bids. Allocation of spectrum expected for Q1 2016.

<sup>d</sup>In total, T-Mobile US acquired 151 out of 1,262 paired regional licenses with at least 2x5 MHz of spectrum each.

<sup>e</sup>Quantity and prices of spectrum to be traded depends on spectrum surrendered by radio broadcasters.



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## DEVELOPMENT OF BUSINESS IN THE GROUP

- Adjusted EBITDA of EUR 19.9 billion
- Free cash flow of EUR 4.5 billion

### STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2015

Bonn, February 9, 2016

2015 was another successful financial year for us. We achieved our most important corporate targets and exceeded some of them: At EUR 19.9 billion, adjusted EBITDA even surpassed expectations. Free cash flow (before dividend payments and spectrum investment) stood at EUR 4.5 billion, thus exceeding the value forecast by us in 2014 and up 9.8 percent on the prior-year level. Our ROCE declined compared to 2014 – mainly due to the income recorded in the prior year from the disposal of the Scout24 group – by 0.7 percentage points to 4.8 percent, but surpassed our expectations nevertheless. Subject to approval by the relevant bodies and the fulfillment of other legal requirements, we continue to adhere to our shareholder remuneration strategy as planned and will propose to the shareholders' meeting a dividend of EUR 0.55 per dividend-bearing share. We are also considering offering our shareholders the choice once again of having their dividend paid out in cash or converting it into Deutsche Telekom AG shares.

Our net revenue rose by as much as 10.5 percent to EUR 69.2 billion. The driving force here was our United States operating segment, which recorded very strong revenue growth year-on-year of more than 29 percent, mainly thanks to unbroken strong mobile customer additions of 8.3 million as a result of T-Mobile us' successful Un-carrier initiatives.

In the reporting year, our profit from operations (EBIT) amounted to EUR 7.0 billion, which was slightly down on the prior-year figure. This decrease is mainly attributable to the income of EUR 1.7 billion recognized in 2014 from the disposal of the Scout24 group. The portfolio changes successfully completed in 2015, such as the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer, as well as the sale of part of our share package to Scout24 AG had a positive effect on the development of EBIT. We managed to substantially attenuate the sharp decline that was forecast in the prior year. Nevertheless, our net profit increased significantly by 11.3 percent to EUR 3.3 billion, mainly due to the dividend payments of EUR 0.4 billion received from the EE joint venture.

Our net debt increased from EUR 42.5 billion to EUR 47.6 billion. In addition to the acquisition of mobile spectrum, dividend payments, and the cash outflow for the acquisition of stakes in other companies, this was mainly attributable to U. S. dollar exchange rate effects. The free cash flow and the sale of part of our share package in Scout24 AG in particular had a positive effect.

The trends in the telecommunications industry remain challenging: saturated markets, rising competition, strict regulatory requirements – all resulting in further price erosion. In order to continue mastering these challenges and remain viable in the long run, we continue to invest intensively in the basis of our success: our networks. In 2015, we made investments (before spectrum) of EUR 10.8 billion, EUR 1.3 billion more than in the previous year. In the fixed network, our focus was on investments in vectoring and fiber-optic roll-out in Germany, IPTV, and the continued migration to an IP-based network. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes in all our operating segments. Our sound rating will help us to manage our planned capital expenditure flexibly over the next few years and thus to contribute to future growth.

Employee satisfaction at Deutsche Telekom remains at a high level, as confirmed by the results of the employee survey conducted in November 2015. The satisfaction of our customers is likewise increasing. In the reporting year, we raised our TRI\*M customer satisfaction score once again.

In view of the above, we would like to reaffirm our commitment to the strategic goal we have been pursuing since 2014: to be the Leading European Telco. With this goal in mind, we consistently translated our plans into action once again in the reporting year and see ourselves as a driving force for a modern and competitive digital Europe.

### COMPARISON OF THE GROUP'S EXPECTATIONS WITH ACTUAL FIGURES

In the 2014 Annual Report, we outlined expectations for the 2015 financial year for our financial and non-financial key performance indicators anchored in our management system. TABLES 015 and 016 summarize the results in 2014, the results expected for the reporting year, and the actual results achieved in 2015. The performance indicators that we also forecast in the 2014 Annual Report and their development are presented in the individual sections.

T 015

## Comparison of the expected financial key performance indicators with actual figures

		Results in 2014	Expectations for 2015	Results in 2015
ROCE	%	5.5	strong decrease	4.8
Net revenue	billions of €	62.7	increase	69.2
Profit (loss) from operations (EBIT)	billions of €	7.2	strong decrease	7.0
EBITDA (adjusted for special factors)	billions of €	17.6	around 18.3	19.9
Free cash flow (before dividend payments and spectrum investment)	billions of €	4.1	around 4.3	4.5
Cash capex <sup>a</sup>	billions of €	9.5	around 9.8	10.8
Rating (Standard & Poor's, Fitch)		BBB+	A-/BBB	BBB+
Rating (Moody's)		Baa1	A3/Baa2	Baa1

T 016

## Comparison of the expected non-financial key performance indicators with actual figures

		Results in 2014	Expectations for 2015	Results in 2015
Customer satisfaction (TRI*M index)		65.9	slight increase	67.4
Employment satisfaction (commitment index) <sup>b</sup>		4.0	stable trend	4.1
<b>FIXED-NETWORK AND MOBILE CUSTOMERS</b>				
<b>GERMANY</b>				
Mobile customers	millions	39.0	increase	40.4
Fixed-network lines	millions	20.7	slight decrease	20.2
Broadband lines	millions	12.4	slight increase	12.6
<b>UNITED STATES</b>				
Branded postpaid	millions	27.2	strong increase	31.7
Branded prepay	millions	16.3	increase	17.6
<b>EUROPE</b>				
Mobile customers	millions	56.0	slight increase	52.2
Fixed-network lines	millions	9.0	decrease	8.7
Retail broadband lines	millions	5.0	strong increase	5.2
<b>SYSTEMS SOLUTIONS</b>				
Order entry	millions of €	7,456	slight increase	6,005

<sup>a</sup> Before spectrum investment.<sup>b</sup> Commitment index according to the most recent employee surveys in 2015 and 2012.

In the reporting year, we met or exceeded all of our financial key performance indicators forecast in the prior year. Our performance in 2015 was dominated by substantial growth in revenue and adjusted EBITDA, driven mainly by the U.S. business, which recorded growth on the back of the strong U.S. dollar as well as the persistently rapid rate of new customer acquisition as a result of the Un-carrier initiatives. Excluding the positive exchange rate effects, mainly from the U.S. dollar, revenue amounted to EUR 64.7 billion and adjusted EBITDA to EUR 19.0 billion in 2015. The expected figure for adjusted EBITDA did not include income of EUR 175 million from negotiations to settle an ongoing complaints procedure under anti-trust law or the new business model JUMP! On Demand at T-Mobile US which also had a positive effect on our adjusted EBITDA. The portfolio changes successfully completed in 2015, such as the sale of our online platform t-online.de and our digital marketing company InteractiveMedia to Ströer, as well as the sale of the share package in Scout24 AG had a positive effect on the development of EBIT and significantly attenuated the sharp decline forecast. Our cash capex was also higher than the figure of approximately EUR 9.8 billion in our forecast. In the United States and Germany operating segments, it increased as a result of the investments made in connection with the network build-out

and the network modernization. The surpassing of the expected level of free cash flow is also attributable to a payment received in connection with the settlement of a complaints procedure under anti-trust law.

Our key performance indicator ROCE (return on capital employed) declined by 0.7 percentage points year-to-year to 4.8 percent, but was still higher than our expectation as stated in the prior year. This decline was due to both the decrease in net operating profit after taxes (NOPAT) and the increase in the average value of assets tied up in the course of the year (net operating assets, or NOA). In 2014, NOPAT was positively impacted by income from the disposal of the Scout24 group and the income from the spectrum transaction with Verizon Communications. Although the income described above in connection with the disposal of part of our share package in Scout24 AG and the sale of t-online.de and InteractiveMedia also had a positive impact on NOPAT in 2015, this effect was much smaller than in the prior year. The increase in average NOA is primarily attributable to the build-up of assets in our Germany and United States operating segments. In Germany, this is due to both investment under our integrated network strategy and the spectrum acquired by auction. In the United States, the increase in NOA was down to currency

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effects as well as further network build-out and the acquisition of mobile licenses.


We are also well on track with our non-financial key performance indicators. Only in the Europe operating segment were we unable to achieve the forecast slight increase in the number of mobile customers. This was attributable to the prepaid business, especially in Poland, where around 3.8 million inactive prepaid SIM cards were deactivated in the reporting year. Nor did we achieve the originally planned slight increase in order entry in the Systems Solutions operating segment. This was due in part to the realignment of the business model with the goal of ensuring sustained profitable growth. In this context, we tightened up the profitability criteria for the acceptance of new orders. 


**RESULTS OF OPERATIONS OF THE GROUP**

**NET REVENUE**

In the reporting year, we generated net revenue of EUR 69.2 billion, which was well above the prior-year level with growth of EUR 6.6 billion. In addition to exchange rate effects, the business development of our United States operating segment contributed substantially to this positive trend: T-Mobile us' successful Un-carrier initiatives gave a strong boost to the number of new customers. By contrast, terminal equipment revenue was adversely affected. In connection with the JUMP! On Demand business model introduced by T-Mobile US in June 2015, customers

are increasingly choosing to lease high-value terminal equipment. Our Germany operating segment performed well, especially in the mobile market, and generated a small increase in revenue of 0.7 percent. In our Europe operating segment there was a decline in revenue of 2.0 percent; although the trend was an improvement on the prior year. Despite the consistent focus of our national companies on growth areas, revenue decreased due to decisions by regulatory authorities and competition-related price reductions, especially in mobile communications. In our Systems Solutions operating segment, the revenue increase at the Market Unit, i.e., essentially business with external customers, largely offset the planned decline in revenue at Telekom IT, which deals with internal IT projects. Revenue from our Group Headquarters & Group Services segment decreased compared with the prior year, mainly due to the continued efforts to optimize the use of land and buildings; added to this was the revenue lost in connection with the sale of 70 percent of the shares in the Scout24 group, which was consummated in February 2014, and the sale of our online platform t-online.de and our digital marketing company InteractiveMedia in November 2015.

Excluding the positive exchange rate effects of EUR 4.5 billion in total – in particular from the translation of U.S. dollars into euros – and positive effects of changes in the composition of the Group of EUR 0.1 billion, revenue increased by EUR 2.0 billion or 3.0 percent year-on-year. 

 Details on the trends in our financial and non-financial key performance indicators can be found in this section as well as in the section "Development of business in the operating segments," PAGE 83 ET SEQ.

 For details on the revenue trends in our segments, please refer to the section "Development of business in the operating segments," PAGE 83 ET SEQ.

T 017

**Contribution of the segments to net revenue**

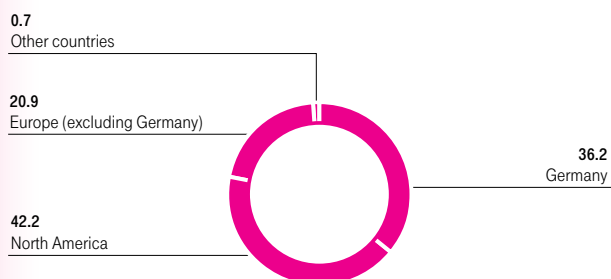
millions of €

	2015	2014	Change	Change %	2013
<b>NET REVENUE</b>	<b>69,228</b>	<b>62,658</b>	<b>6,570</b>	<b>10.5 %</b>	<b>60,132</b>
Germany	22,421	22,257	164	0.7 %	22,435
United States	28,925	22,408	6,517	29.1 %	18,556
Europe	12,718	12,972	(254)	(2.0)%	13,704
Systems Solutions	8,592	8,601	(9)	(0.1)%	9,038
Group Headquarters & Group Services	2,275	2,516	(241)	(9.6)%	2,879
Intersegment revenue	(5,703)	(6,096)	393	6.4 %	(6,480)

G 19

**Breakdown of revenue by region**

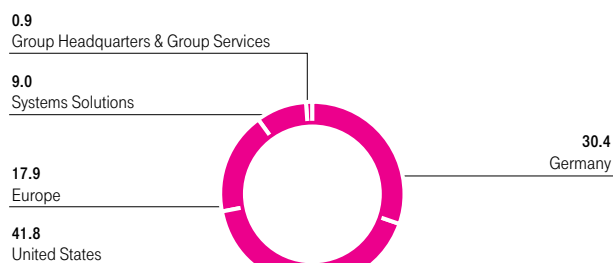
%




G 20

**Contribution of the segments to net revenue **

%



 For more information on net revenue, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 218 ET SEQ.

T 018

## Contribution of the segments to adjusted Group EBITDA

	2015 millions of €	Proportion of adjusted Group EBITDA %	2014 millions of €	Proportion of adjusted Group EBITDA %	Change millions of €	Change %	2013 millions of €
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP</b>	<b>19,908</b>	<b>100.0</b>	<b>17,569</b>	<b>100.0</b>	<b>2,339</b>	<b>13.3</b>	<b>17,424</b>
Germany	8,790	44.2	8,810	50.1	(20)	(0.2)	8,936
United States	6,654	33.4	4,296	24.5	2,358	54.9	3,874
Europe	4,288	21.5	4,432	25.2	(144)	(3.2)	4,550
Systems Solutions	782	3.9	835	4.8	(53)	(6.3)	774
Group Headquarters & Group Services	(552)	(2.8)	(667)	(3.8)	115	17.2	(655)
Reconciliation	(54)	(0.2)	(137)	(0.8)	83	60.6	(55)



For further details, please refer to Note 30 "Depreciation, amortization and impairment losses" in the notes to the consolidated financial statements, **PAGE 216.**

At 41.8 percent, our United States operating segment provided the largest contribution to net revenue of the Group, substantially increasing its share of net revenue by 6.0 percentage points compared with the previous year, partly due to the continued strong customer growth. By contrast, the contribution to net revenue of our Germany, Europe, and Systems Solutions operating segments, and of the Group Headquarters & Group Services segment declined. The proportion of net revenue generated internationally continued to increase, from 60.1 percent to 63.8 percent.



For further information, please refer to Note 25 "Income taxes" in the notes to the consolidated financial statements, **PAGE 211 ET SEQ.**

**EBITDA, ADJUSTED EBITDA**

Excluding special factors, **adjusted EBITDA** increased year-on-year by EUR 2.3 billion to EUR 19.9 billion in the reporting year. This development was primarily driven by our United States operating segment, which recorded an increase in its adjusted EBITDA contribution of EUR 2.4 billion, mainly as a result of the continued success of the Un-carrier initiatives. The revenue effects from JUMP! On Demand also contributed to the increase in adjusted EBITDA as the related costs were depreciated over the lease term and thus were excluded from adjusted EBITDA. Exchange rate effects, primarily from the translation of U.S. dollars into euros, had a positive overall effect of EUR 0.9 billion on development. The agreement to settle an ongoing complaints procedure under anti-trust law resulted in income of EUR 175 million in the Group Headquarters & Group Services segment.

Our **EBITDA** increased by EUR 0.6 billion year-on-year to EUR 18.4 billion; this included negative net special factors of EUR 1.5 billion. They mainly comprised expenses incurred in connection with staff-related measures and non-staff related restructuring expenses of EUR 1.6 billion, which on a netted basis were EUR 0.4 billion higher than in 2014. In addition, expenses from the decommissioning of the MetroPCS CDMA network of around EUR 0.4 billion had a negative impact; in the prior year, these expenses amounted to EUR 0.3 billion. Income from the sale of part of our share package in Scout24 AG had an offsetting effect: The IPO of Scout24 AG was completed on October 1, 2015; in this connection, we sold a share package with a total of 13.3 million shares in the company for some EUR 0.3 billion. The sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015 also generated income of EUR 0.3 billion from the divestitures. In 2014, special factors included income of EUR 1.7 billion from the disposal of the Scout24 group and EUR 0.4 billion from a spectrum transaction concluded between T-Mobile US and Verizon Communications.



For further information on the development of our results of operations, please refer to the disclosures under "Notes to the consolidated income statement" in the notes to the consolidated financial statements, **PAGE 208 ET SEQ.**



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 83 ET SEQ.** For an overview of the development of special factors, please refer to **TABLE 019, PAGE 77.**

**MARKETING EXPENSES**

Marketing communication in our Group mainly takes the form of product and brand campaigns on MagentaEins, and here, for example, Smart Home, best network, roaming, vectoring, or Christmas, and the international campaign "We connect people in Europe." In 2015, marketing expenses amounted to EUR 2.6 billion, up slightly on the prior-year level of EUR 2.5 billion. The marketing expenses comprise costs incurred by market research, market analysis, target market studies, determining marketing strategies, designing the marketing mix, and carrying out and managing marketing initiatives. They also include costs arising from customer retention programs, market planning and segmentation, and product forecasts.

**EBIT**

Group EBIT stood at EUR 7.0 billion, down EUR 0.2 billion against the prior year. Apart from the effects described under EBITDA, reasons for the decrease include the increase of EUR 0.8 billion in depreciation and amortization compared with the prior year, primarily in connection with the build-out of the 4G/LTE network and the launch of the JUMP! On Demand program in our United States operating segment.

**PROFIT BEFORE INCOME TAXES**

Profit before income taxes increased by EUR 0.4 billion to EUR 4.8 billion year-on-year, due to the decrease of EUR 0.6 billion in our loss from financial activities. This is attributable in particular to the dividend payments of EUR 0.4 billion received from the EE joint venture. These dividend payments recognized in profit or loss related to the reclassification in December 2014 of our stake in the joint venture as non-current assets and disposal groups held for sale. Remeasurement effects resulting primarily from the subsequent measurement of embedded derivatives at T-Mobile US had an offsetting effect. These remeasurement losses were mainly attributable to the increase in the share price of T-Mobile US.

**NET PROFIT/LOSS**

Net profit increased by EUR 0.3 billion or 11.3 percent to EUR 3.3 billion. Tax expense for the 2015 financial year amounted to EUR 1.3 billion and was thus EUR 0.2 billion higher than the prior-year level.

Profit attributable to non-controlling interests decreased only slightly compared with 2014.

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TABLE 019 presents a reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors.

T 019

**Consolidated income statement and effects of special factors**

millions of €

	EBITDA 2015	EBIT 2015	EBITDA 2014	EBIT 2014	EBITDA 2013	EBIT 2013
<b>EBITDA/EBIT</b>	<b>18,388</b>	<b>7,028</b>	<b>17,821</b>	<b>7,247</b>	<b>15,834</b>	<b>4,930</b>
<b>GERMANY</b>	<b>(545)</b>	<b>(545)</b>	<b>(254)</b>	<b>(254)</b>	<b>(535)</b>	<b>(540)</b>
Staff-related measures	(402)	(402)	(223)	(223)	(506)	(506)
Non-staff-related restructuring	(21)	(21)	(9)	(9)	(16)	(16)
Effects on earnings from business combinations and other transactions	0	0	0	0	(23)	(23)
Other	(122)	(122)	(22)	(22)	10	5
<b>UNITED STATES</b>	<b>(425)</b>	<b>(425)</b>	<b>(52)</b>	<b>(52)</b>	<b>(232)</b>	<b>(329)</b>
Staff-related measures	(50)	(50)	(133)	(133)	(179)	(179)
Non-staff-related restructuring	0	0	0	0	(1)	(1)
Effects on earnings from business combinations and other transactions	(382)	(382)	78	78	(52)	(52)
Impairment losses	-	0	-	0	-	(97)
Other	7	7	3	3	0	0
<b>EUROPE</b>	<b>(219)</b>	<b>(262)</b>	<b>(131)</b>	<b>(153)</b>	<b>(179)</b>	<b>(793)</b>
Staff-related measures	(175)	(175)	(91)	(91)	(327)	(327)
Non-staff-related restructuring	(14)	(14)	(9)	(9)	3	3
Effects on earnings from business combinations and other transactions	31	31	(5)	(5)	183	183
Impairment losses	-	(43)	-	(22)	-	(614)
Other	(61)	(61)	(26)	(26)	(38)	(38)
<b>SYSTEMS SOLUTIONS</b>	<b>(649)</b>	<b>(716)</b>	<b>(540)</b>	<b>(549)</b>	<b>(416)</b>	<b>(431)</b>
Staff-related measures	(369)	(369)	(286)	(286)	(212)	(212)
Non-staff-related restructuring	(259)	(263)	(205)	(212)	(128)	(130)
Effects on earnings from business combinations and other transactions	(4)	(4)	(23)	(23)	(71)	(84)
Other	(17)	(80)	(26)	(28)	(5)	(5)
<b>GROUP HEADQUARTERS &amp; GROUP SERVICES</b>	<b>319</b>	<b>303</b>	<b>1,229</b>	<b>1,200</b>	<b>(228)</b>	<b>(228)</b>
Staff-related measures	(213)	(213)	(174)	(174)	(226)	(226)
Non-staff-related restructuring	(48)	(48)	(54)	(54)	(34)	(34)
Effects on earnings from business combinations and other transactions	574	574	1,631	1,631	40	40
Impairment losses	-	0	-	(29)	-	0
Other	6	(10)	(174)	(174)	(8)	(8)
<b>GROUP RECONCILIATION</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Staff-related measures	(1)	1	0	0	(1)	(1)
Non-staff-related restructuring	(1)	(2)	0	0	0	0
Effects on earnings from business combinations and other transactions	1	1	0	0	1	1
Other	0	0	0	0	0	0
<b>TOTAL SPECIAL FACTORS</b>	<b>(1,520)</b>	<b>(1,645)</b>	<b>252</b>	<b>192</b>	<b>(1,590)</b>	<b>(2,321)</b>
<b>EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)</b>	<b>19,908</b>	<b>8,673</b>	<b>17,569</b>	<b>7,055</b>	<b>17,424</b>	<b>7,251</b>
Profit (loss) from financial activities (adjusted for special factors)		(2,233)		(2,784)		(2,772)
<b>PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)</b>		<b>6,440</b>		<b>4,271</b>		<b>4,479</b>
Income taxes (adjusted for special factors)		(1,927)		(1,474)		(1,364)
<b>PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)</b>		<b>4,513</b>		<b>2,797</b>		<b>3,115</b>
<b>PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO</b>						
Owners of the parent (net profit (loss)) (adjusted for special factors)		4,113		2,422		2,755
Non-controlling interests (adjusted for special factors)		400		375		360

## FINANCIAL POSITION OF THE GROUP

T 020

### Condensed consolidated statement of financial position

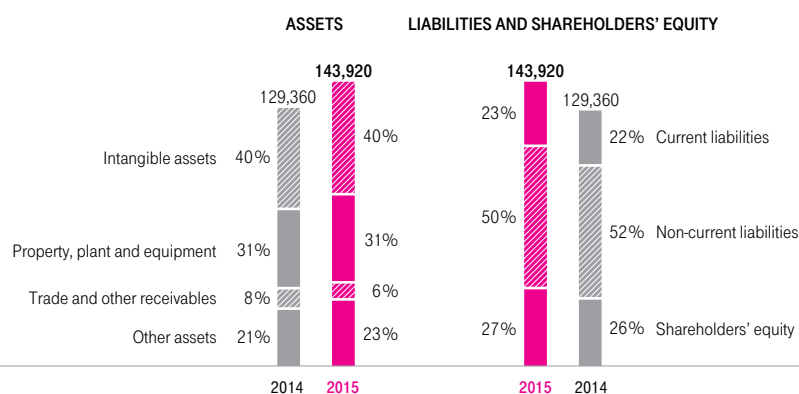
millions of €

	Dec. 31, 2015	Change	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>	<b>32,184</b>	<b>2,386</b>	<b>29,798</b>	<b>21,963</b>	<b>15,019</b>	<b>15,865</b>
Cash and cash equivalents	6,897	(626)	7,523	7,970	4,026	3,749
Trade and other receivables	9,238	(1,216)	10,454	7,712	6,417	6,557
Non-current assets and disposal groups held for sale	6,922	1,044	5,878	1,033	90	436
Other current assets	9,127	3,184	5,943	5,248	4,486	5,123
<b>NON-CURRENT ASSETS</b>	<b>111,736</b>	<b>12,174</b>	<b>99,562</b>	<b>96,185</b>	<b>92,923</b>	<b>106,631</b>
Intangible assets	57,025	5,460	51,565	45,967	41,847	50,227
Property, plant and equipment	44,637	5,021	39,616	37,427	37,407	41,797
Investments accounted for using the equity method	822	205	617	6,167	6,726	6,873
Other non-current assets	9,252	1,488	7,764	6,624	6,943	7,734
<b>TOTAL ASSETS</b>	<b>143,920</b>	<b>14,560</b>	<b>129,360</b>	<b>118,148</b>	<b>107,942</b>	<b>122,496</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES</b>	<b>33,548</b>	<b>5,350</b>	<b>28,198</b>	<b>22,496</b>	<b>22,995</b>	<b>24,215</b>
Financial liabilities	14,439	3,881	10,558	7,891	9,260	10,219
Trade and other payables	11,090	1,409	9,681	7,259	6,445	6,436
Current provisions	3,367	(150)	3,517	3,120	2,885	3,095
Liabilities directly associated with non-current assets and disposal groups held for sale	4	(2)	6	113	9	-
Other current liabilities	4,648	212	4,436	4,113	4,396	4,465
<b>NON-CURRENT LIABILITIES</b>	<b>72,222</b>	<b>5,126</b>	<b>67,096</b>	<b>63,589</b>	<b>54,416</b>	<b>58,249</b>
Financial liabilities	47,941	3,272	44,669	43,708	35,354	38,099
Non-current provisions	11,006	168	10,838	9,077	9,169	7,771
Other non-current liabilities	13,275	1,686	11,589	10,804	9,893	12,379
<b>SHAREHOLDERS' EQUITY</b>	<b>38,150</b>	<b>4,084</b>	<b>34,066</b>	<b>32,063</b>	<b>30,531</b>	<b>40,032</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>143,920</b>	<b>14,560</b>	<b>129,360</b>	<b>118,148</b>	<b>107,942</b>	<b>122,496</b>

G 21

### Structure of the consolidated statement of financial position

millions of €



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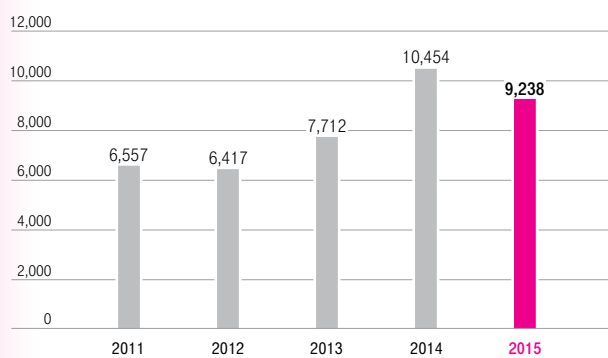
**Total assets** increased by EUR 14.6 billion compared with December 31, 2014, largely due to higher intangible assets and property, plant and equipment. EUR 4.1 billion of this figure alone was attributable to exchange rate effects, mainly from the translation from U.S. dollars into euros. The level of other current assets was also up significantly against the previous year. Total liabilities and shareholders' equity increased in particular on account of current and non-current financial liabilities.

**Cash and cash equivalents** decreased by EUR 0.6 billion year-on-year. 

## G 22

**Trade and other receivables**

millions of €



**Trade and other receivables** decreased by EUR 1.2 billion to EUR 9.2 billion. Factoring agreements concluded in the reporting period concerning monthly revolving sales of trade receivables due resulted in a reduction in receivables. The business model JUMP! On Demand introduced at T-Mobile US in June 2015, also reduced receivables: Under this model, trade receivables no longer include the receivable from the sale of the device when a contract is concluded with a customer, but rather only the monthly lease installment for the device. By contrast, exchange rate effects from the translation of U.S. dollars into euros in particular had an offsetting effect.

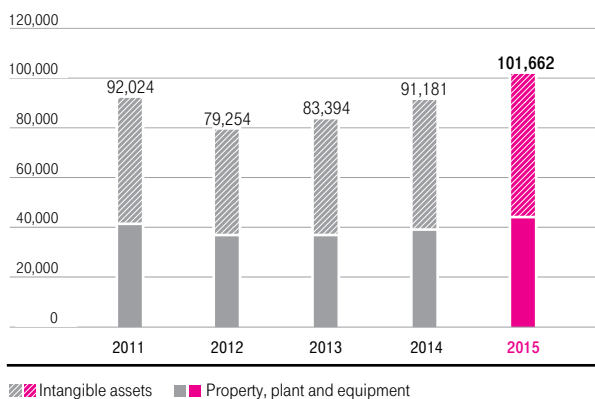
The increase in the net carrying amounts of the **non-current assets and disposal groups held for sale** of EUR 1.0 billion to EUR 6.9 billion is primarily due to a transaction agreed in the third quarter of 2015 for the exchange of mobile licenses between T-Mobile US and AT&T with the aim of improving mobile network coverage. This transaction increased the net carrying amounts by EUR 0.6 billion. Currency effects of EUR 0.3 billion from the translation of pounds sterling into euros related to the reclassification in December 2014 of our stake in the EE joint venture also had an increasing effect on the carrying amount of EUR 6.1 billion in total as of December 31, 2015.

**Other current assets** as of December 31, 2015 included the following significant effects: The main reason for the EUR 2.8 billion increase in the net carrying amounts of **current other financial assets** to EUR 5.8 billion was the short-term liquidity disposition resulting from the acquisition of U.S. government bonds by T-Mobile US in connection with the bond issue in the fourth quarter of 2015 and the resulting cash inflows. Inventories increased by EUR 0.3 billion to EUR 1.8 billion, primarily due to increased stock levels of terminal equipment (in particular higher-priced smartphones) at T-Mobile US.

## G 23

**Intangible assets and property, plant and equipment**

millions of €



 Intangible assets  Property, plant and equipment

**Intangible assets** increased by EUR 5.5 billion to EUR 57.0 billion, mainly due to additions totaling EUR 7.5 billion. This includes among other factors EUR 2.6 billion for the purchase of mobile licenses by T-Mobile US, which relate in particular to the FCC auction completed in January 2015. The 100 MHz spectrum acquired in the frequency auction completed in Germany in June 2015 for EUR 1.8 billion also contributed to the increase. Exchange rate effects, primarily from the translation of U.S. dollars into euros, also increased the carrying amount by EUR 2.9 billion. Amortization of EUR 4.1 billion as well as the reclassification of assets worth EUR 0.8 billion to non-current assets and disposal groups held for sale had an offsetting effect.

**Property, plant and equipment** increased by EUR 5.0 billion compared to December 31, 2014 to EUR 44.6 billion. Additions of EUR 11.9 billion primarily in the United States and Germany operating segments increased the carrying amount. This also included EUR 2.3 billion of capitalized higher-priced mobile devices. These relate to the business model JUMP! On Demand introduced at T-Mobile US in June 2015 under which customers no longer purchase the device but lease it. Of the additions, 64 percent related to investments intended to increase operating capacities. Exchange rate effects, primarily from the translation of U.S. dollars into euros, increased the carrying amount by EUR 1.2 billion. This increase was partially offset by amortization of EUR 7.2 billion and disposals of EUR 0.5 billion, as well as the reclassification of assets worth EUR 0.2 billion to non-current assets and disposal groups held for sale.

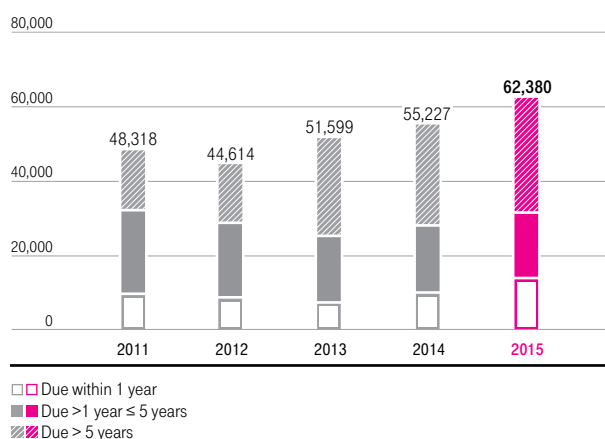


For detailed information on this change, please refer to the consolidated statement of cash flows, **PAGE 160**, and Note 31 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **PAGE 216 ET SEQ.**

G 24

### Financial liabilities

millions of €



Our current and non-current financial liabilities grew by EUR 7.2 billion compared with the prior year to EUR 62.4 billion in total.

**Trade and other payables** increased by EUR 1.4 billion compared with the end of 2014 to EUR 11.1 billion, due in part to the stockpiling of terminal equipment, in particular higher-priced smartphones, and the network build-out in our United States operating segment. Exchange rate effects from the translation from U.S. dollars into euros accounted for EUR 0.5 billion of the increase.

**Provisions** (current and non-current) stood at the prior-year level of EUR 14.4 billion, of which EUR 8.0 billion (December 31, 2014: EUR 8.5 billion) related to provisions for pensions and other employee benefits. The decrease in provisions for pensions and other employee benefits was attributable in part to actuarial losses of EUR 0.2 billion (before taxes) recognized directly in equity. Benefits of EUR 0.4 billion paid in the reporting year and the increase of our plan assets by EUR 0.3 billion (allocation under contractual trust agreement) also reduced provisions. By contrast, current service cost increased provisions for pensions by EUR 0.3 billion. Other provisions increased by EUR 0.5 billion, in part as a result of the recognition of restoration obligations in property, plant and equipment at T-Mobile US.

**Other non-current liabilities** increased by EUR 1.7 billion compared with the prior year to EUR 13.3 billion and included **deferred tax assets**, which increased by EUR 1.5 billion compared with the end of 2014 to EUR 9.2 billion, due in particular to exchange rate effects from the translation of U.S. dollars into euros.

**Shareholders' equity** increased by EUR 4.1 billion compared with December 31, 2014 to EUR 38.2 billion, due to the following factors: profit after taxes of EUR 3.5 billion, currency translation effects recognized directly in equity of EUR 2.0 billion, the recognition of actuarial gains (after taxes) of EUR 0.2 billion, and the measurement of hedging instruments directly in equity of EUR 0.4 billion. In addition, in connection with the option granted to our shareholders to have their dividend entitlements converted into shares, a capital increase of EUR 1.1 billion was carried out involving the contribution of the dividend entitlements. Dividend payments for the 2014 financial year to Deutsche Telekom AG shareholders of EUR 2.3 billion and to non-controlling interests of EUR 0.1 billion had an offsetting effect. The acquisition of the remaining shares in Slovak Telekom for EUR 0.9 billion also reduced shareholders' equity.

**Cost of debt.** At the end of the reporting year, the average interest rate for financial liabilities was 5.1 percent (2014: 5.8 percent). This year-on-year decrease is primarily due to the considerably lower interest level for refinancing in 2015.



For further information, please refer to the explanations in Note 10 "Financial liabilities" in the notes to the consolidated financial statements, PAGE 193 ET SEQ.

T 021

### Net debt

millions of €

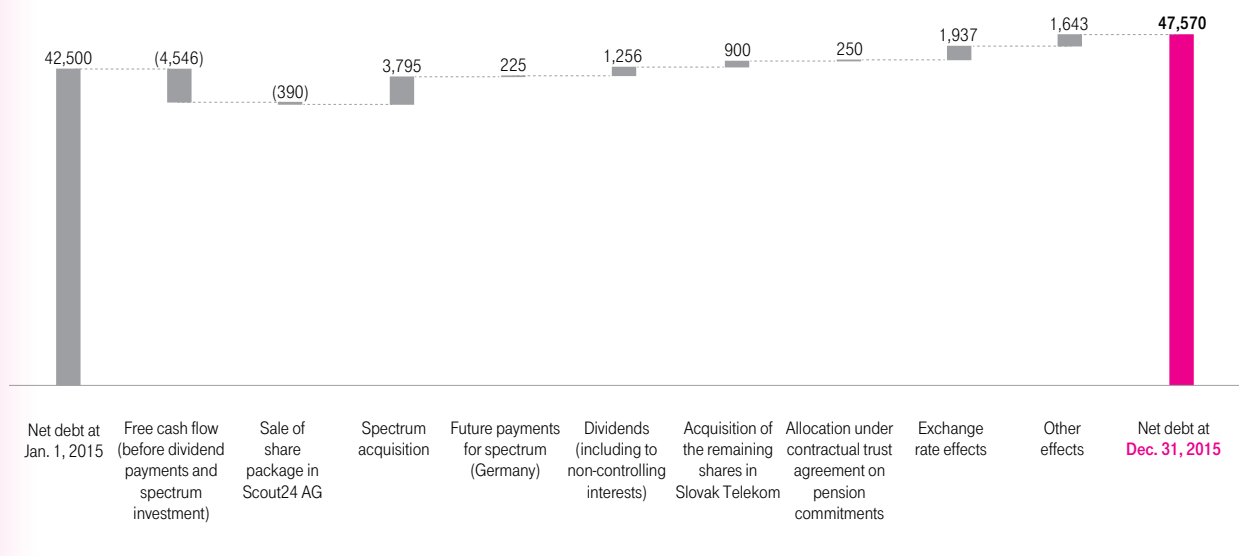
	Dec. 31, 2015	Change	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Financial liabilities (current)	14,439	3,881	10,558	7,891	9,260	10,219
Financial liabilities (non-current)	47,941	3,272	44,669	43,708	35,354	38,099
<b>FINANCIAL LIABILITIES</b>	<b>62,380</b>	<b>7,153</b>	<b>55,227</b>	<b>51,599</b>	<b>44,614</b>	<b>48,318</b>
Accrued interest	(1,014)	83	(1,097)	(1,091)	(903)	(966)
Other	(857)	181	(1,038)	(881)	(754)	(615)
<b>GROSS DEBT</b>	<b>60,509</b>	<b>7,417</b>	<b>53,092</b>	<b>49,627</b>	<b>42,957</b>	<b>46,737</b>
Cash and cash equivalents	6,897	(626)	7,523	7,970	4,026	3,749
Available-for-sale financial assets/ financial assets held for trading	2,877	2,588	289	310	27	402
Derivative financial assets	2,686	1,343	1,343	771	1,287	1,533
Other financial assets	479	(958)	1,437	1,483	757	932
<b>NET DEBT</b>	<b>47,570</b>	<b>5,070</b>	<b>42,500</b>	<b>39,093</b>	<b>36,860</b>	<b>40,121</b>



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G 25

**Changes in net debt**  
millions of €



Our **net debt** increased by EUR 5.1 billion year-on-year to EUR 47.6 billion. The reasons for this are presented in GRAPHIC 25. Other effects of EUR 1.6 billion include financing options of EUR 0.7 billion under which the payments for trade payables from investing and operating activities become due at a later point in time by involving banks in the process.

**Off-balance sheet assets and other financing formats.** In addition to the assets recognized in the statement of financial position, we use off-balance sheet assets. This primarily relates to leased property.

Off-balance-sheet financial instruments mainly relate to the sale of receivables by means of factoring. Total receivables sold as of December 31, 2015 amounted to EUR 3.5 billion (December 31, 2014: EUR 1.4 billion). This mainly comprises the renewed conclusion in 2015 of a factoring agreement in the Germany operating segment that was terminated in 2014 and a new factoring agreement concluded in the United States operating segment. The agreements are mainly used for active receivables management.

Furthermore, in the reporting year, we chose financing options totaling EUR 0.7 billion (2014: EUR 0.6 billion) which extended the period of payment for trade payables from operating and investing activities by involving banks in the process and which upon payment are shown under cash flows used in/from financing activities. As a result, we show these payables under financial liabilities in the statement of financial position.

In 2015, we primarily leased network equipment for a total of EUR 0.6 billion, which is recognized as a finance lease. In the statement of financial position, we therefore also recognize this item under financial liabilities and the future repayments of the liabilities in net cash from/used in financing activities.

**Finance management.** Our finance management ensures our Group's ongoing solvency and hence its financial equilibrium. The fundamentals of Deutsche Telekom's finance policy are established each year by the Board of Management and overseen by the Supervisory Board. Group Treasury is responsible for implementing the finance policy and for ongoing risk management.

T 022

**The rating of Deutsche Telekom AG**

	Standard & Poor's	Moody's	Fitch
<b>LONG-TERM RATING</b>			
Dec. 31, 2011	BBB+	Baa1	BBB+
Dec. 31, 2012	BBB+	Baa1	BBB+
Dec. 31, 2013	BBB+	Baa1	BBB+
Dec. 31, 2014	BBB+	Baa1	BBB+
<b>DEC. 31, 2015</b>	<b>BBB+</b>	<b>Baa1</b>	<b>BBB+</b>
<b>SHORT-TERM RATING</b>	<b>A-2</b>	<b>P-2</b>	<b>F2</b>
<b>OUTLOOK</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>

T 023

**Financial flexibility**

	2015	2014	2013	2012	2011
<b>RELATIVE DEBT</b>					
Net debt / EBITDA (adjusted for special factors)	2.4 x	2.4 x	2.2 x	2.1 x	2.1 x
<b>EQUITY RATIO</b> %	26.5	26.3	27.1	28.3	32.7

To ensure financial flexibility, we primarily use the KPI **relative debt**. One component of this KPI is net debt, which our Group uses as an important indicator for investors, analysts, and rating agencies.

For more information, please refer to the explanations in Note 34 "Leases," PAGE 222 ET SEQ., and Note 35 "Other financial obligations," PAGE 224, in the notes to the consolidated financial statements.

T 024

**Condensed consolidated statement of cash flows**

millions of €

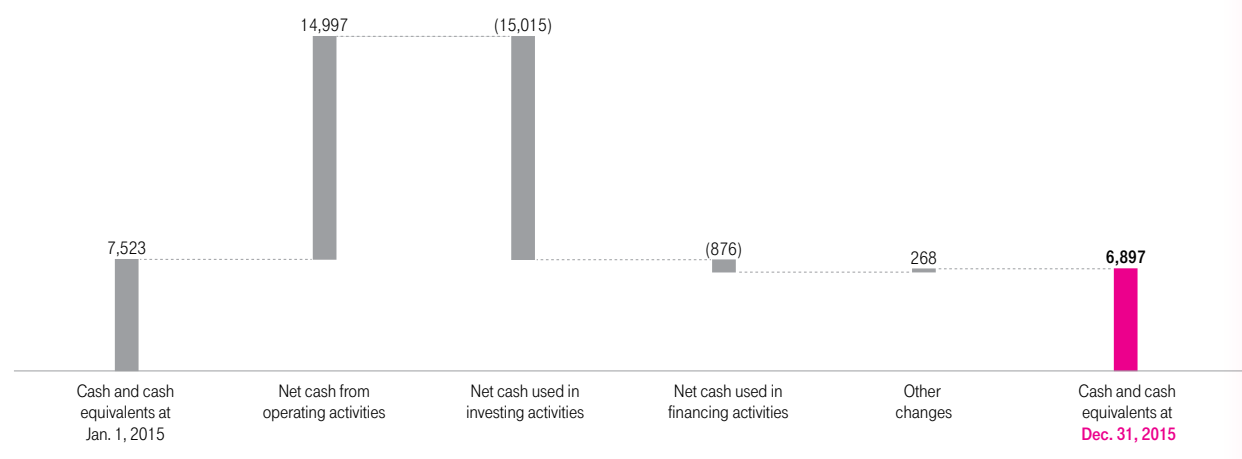
	2015	2014	2013
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>14,997</b>	<b>13,393</b>	<b>13,017</b>
Effects from the AT&T transaction	-	-	137
Compensation payments for MetroPCS employees	-	-	60
<b>NET CASH FROM OPERATING ACTIVITIES <sup>a</sup></b>	<b>14,997</b>	<b>13,393</b>	<b>13,214</b>
Cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment <b>(CASH CAPEX)</b>	(10,818)	(9,534)	(8,861)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	367	281	253
<b>FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT) <sup>a</sup></b>	<b>4,546</b>	<b>4,140</b>	<b>4,606</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(15,015)</b>	<b>(10,761)</b>	<b>(9,896)</b>
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(876)</b>	<b>(3,434)</b>	<b>1,022</b>
Effect of exchange rate changes on cash and cash equivalents	267	323	(167)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	1	32	(32)
Net increase (decrease) in cash and cash equivalents	(626)	(447)	3,944
<b>CASH AND CASH EQUIVALENTS</b>	<b>6,897</b>	<b>7,523</b>	<b>7,970</b>

<sup>a</sup> Before effects in connection with the AT&T transaction and compensation payments for MetroPCS employees.

G 26

**Changes in cash and cash equivalents**

millions of €



**Free cash flow.** Free cash flow of the Group before dividend payments and spectrum investment grew from EUR 4.1 billion in the prior year to EUR 4.5 billion. On the one hand, net cash from operating activities increased by EUR 1.6 billion. On the other hand, cash outflows for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment also increased by EUR 1.3 billion.

The increase in net cash from operating activities was mainly attributable to the positive business development of our United States operating segment. In 2015, we concluded factoring agreements concerning monthly revolving sales of trade receivables, which resulted in a positive effect of EUR 0.8 billion on net cash from operating activities. This mainly comprises a renewed conclusion in 2015 of a factoring agreement in our Germany operating segment that was terminated in the prior year and a new factoring agreement concluded in our United States operating

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segment. The effect from factoring agreements in the prior year totaled EUR 0.2 billion. Cash inflows of EUR 0.2 billion also resulted from an agreement to settle an ongoing complaints procedure under anti-trust law. Offsetting effects included payments made in 2015 in connection with the European Commission proceedings against Slovak Telekom and Deutsche Telekom. The dividend payment received for the first time from Scout24 AG of EUR 0.1 billion and a year-on-year increase of EUR 0.1 billion in the dividend payments from the EE joint venture increased net cash from operating activities.

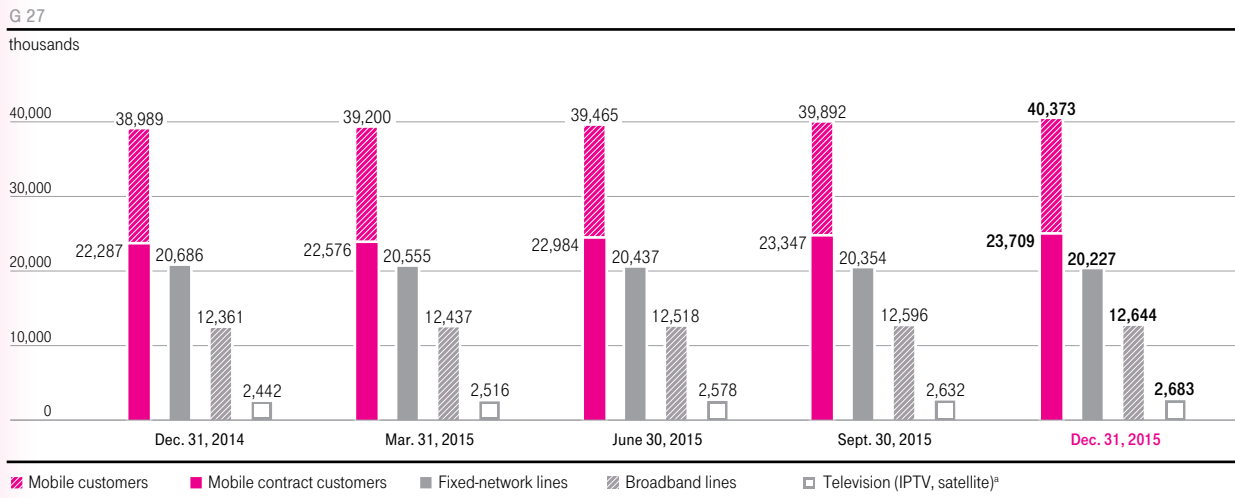
The increase in cash capex compared with 2014 primarily related to the United States and Germany operating segments where cash capex increased as a result of the investments made in connection with the network build-out and the network modernization.

For further information on the proceedings, please refer to the section "Risk and opportunity management," PAGE 125 ET SEQ.

For further details, please refer to Note 31 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, PAGE 216 ET SEQ.

## DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS

### GERMANY CUSTOMER DEVELOPMENT



<sup>a</sup>Customers connected.

T 025

thousands

	Dec. 31, 2015	Dec. 31, 2014	Change	Change %	Dec. 31, 2013
<b>TOTAL</b>					
Mobile customers	40,373	38,989	1,384	3.5 %	38,625
Contract customers	23,709	22,287	1,422	6.4 %	21,553
Prepay customers	16,665	16,701	(36)	(0.2)%	17,072
Fixed-network lines	20,227	20,686	(459)	(2.2)%	21,417
Of which: retail IP-based	6,887	4,383	2,504	57.1 %	2,141
Broadband lines	12,644	12,361	283	2.3 %	12,360
Of which: optical fiber	2,923	1,799	1,124	62.5 %	1,246
Television (IPTV, satellite)	2,683	2,442	241	9.9 %	2,177
Unbundled local loop lines (ULLs)	8,050	8,801	(751)	(8.5)%	9,257
Wholesale unbundled lines	3,015	2,153	862	40.0 %	1,564
Of which: optical fiber	1,444	718	726	n. a.	274
Wholesale bundled lines	227	305	(78)	(25.6)%	390
<b>OF WHICH: CONSUMERS</b>					
Mobile customers	29,016	29,068	(52)	(0.2)%	29,943
Contract customers	17,297	16,040	1,257	7.8 %	15,669
Prepay customers	11,719	13,027	(1,308)	(10.0)%	14,275
Fixed-network lines	15,900	16,260	(360)	(2.2)%	16,923
Of which: retail IP-based	6,076	3,974	2,102	52.9 %	1,960
Broadband lines	10,209	9,938	271	2.7 %	9,963
Of which: optical fiber	2,530	1,547	983	63.5 %	1,064
Television (IPTV, satellite)	2,492	2,254	238	10.6 %	2,001
<b>OF WHICH: BUSINESS CUSTOMERS</b>					
Mobile customers	11,358	9,921	1,437	14.5 %	8,682
Contract customers <sup>a</sup>	6,412	6,247	165	2.6 %	5,885
Prepay customers (M2M)	4,946	3,674	1,272	34.6 %	2,797
Fixed-network lines	3,339	3,402	(63)	(1.9)%	3,445
Of which: retail IP-based	773	387	386	99.7 %	164
Broadband lines	2,093	2,096	(3)	(0.1)%	2,072
Of which: optical fiber	385	248	137	55.2 %	180
Television (IPTV, satellite)	190	186	4	2.2 %	174

<sup>a</sup>As of January 1, 2015, figures without internal framework agreements (approximately 61 thousand SIM cards). Prior-year figures have not been adjusted.

### Total

In Germany, we defended our position as market leader in the fixed network and extended our lead in mobile communications in terms of service revenues. This success is attributable to our high-performance networks. We offer best customer experience with multi-award-winning network quality – in the fixed network and in mobile communications – and with a broad product portfolio.

In September 2014, we launched MagentaEins – our first integrated product comprising fixed-network and mobile components, for which we have won 1.9 million customers so far.

With our “network of the future,” we provide state-of-the-art connection technology. By the end of 2018, we want to convert our entire network to IP technology. By the end of 2015, we had migrated 9.5 million retail and wholesale lines to IP, which corresponds to a migration rate of 40 percent.

In mobile communications, we won another 1.4 million customers. Thanks to high demand for integrated mobile rate plans including data volumes, there was a positive development in the contract customer base in the consumer and business customer segment.

We continued to record strong demand for our fiber-optic products: For example, the number of these lines rose by 1.9 million in the reporting year to a total of 4.4 million. With the progress in fiber-optic roll-out and innovative vectoring technology, we successfully drove forward the marketing of substantially higher bandwidths – and will even step up our efforts in this area in the future. With our contingent model and its future refinement, we are creating incentives for the migration from traditional wholesale products – such as bundled wholesale lines or unbundled local loop lines (ULLs) – to higher-quality fiber-optic wholesale lines.

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## Mobile communications

**Mobile telephony and data services.** We are generating momentum with our excellent network quality and new product portfolio for high-value contract customers. Since the end of 2014, we have won a total of 1.4 million new contract customers. In our branded contract customer business alone, we recorded 575 thousand additions under the Deutsche Telekom and “congstar” brands. As of the end of the 2015 financial year, the company Telekom Deutschland Multibrand GmbH, which was established on January 15, 2015 and which includes the marketing partnership for the use of the Turkcell brand in Germany, had 301 thousand mobile customers. The reseller business (service providers) recorded 546 thousand net additions, even though the Turkcell customers had been transferred to Telekom Deutschland Multibrand GmbH in the first quarter of 2015. This entailed a transfer of Turkcell customers from the prepay to the contract customer segment. The number of prepay customers decreased by 36 thousand since the end of 2014, though the growth in business customers partly compensated for the significant loss in the number of consumers in this area.

Overall, the contract customer additions more than offset the decline in prepay customers. As of the end of 2015, 259 thousand customers used a mobile broadband connection.

Smartphones accounted for 84.4 percent of mobile devices sold. They were primarily Android and iOS devices (iPhones), with high-priced devices in particular demand.

## Fixed network

**Telephony, Internet, and television.** 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. Our focus here is on integrated offers as well as television and fiber-optic lines. The success bears us out: The number of broadband lines increased by 283 thousand compared with the end of the prior year. In total, 21.2 percent of our broadband customers are television customers, an increase of 1.4 percentage points compared with December 31, 2014. In the traditional fixed network, the number of lines decreased by 459 thousand. In terms of line losses per quarter, the overall trend is stable.

We have been marketing the MagentaZuhause rate plans, a new product portfolio for the fixed network based on IP technology and rate plan-specific bandwidths, since October 2014. MagentaZuhause Hybrid bundles fixed-network and mobile technology in a single router. Since we launched this product Germany-wide in March 2015, we have won 155 thousand customers, primarily in rural areas.

Our partnerships in the housing sector were also successful: Around 147 thousand apartments were connected to our network in total, 28 thousand of them in this financial year.

## Consumers

**Connected life across all screens.** The number of mobile customers declined slightly by 0.2 percent compared with the prior-year level. This was the result of contrasting effects: The number of prepay customers decreased by 1.3 million, mainly due to customers switching to contracts, such as the cost-effective “congstar” rate plans. However, we added 1.3 million mobile contract customers in 2015, with 410 thousand of these net additions under the Telekom and “congstar” brands. The

high acceptance of the MagentaMobil rate plans launched in September 2014 and the AllnetFlat rate plans at “congstar” resulted in this customer growth. As of the end of the reporting year, the new company Telekom Deutschland Multibrand GmbH had a contract customer base of 301 thousand. Reseller business (service providers) increased by 546 thousand from the start of the year.

The line losses in the fixed network totaled 360 thousand, which was significantly less than in the prior period. In 2015, we migrated 2.1 million customers to IP-based lines in the fixed network. We won 238 thousand new television customers compared with the end of 2014. Of the 10.2 million broadband lines, around 2.5 million customers use fiber-optic lines – an increase of 983 thousand in the reporting year alone.

## Business Customers

**Connected work with innovative solutions.** The positive trend in the Business Customers segment from the prior year continued: Since the beginning of the year, we have recorded 1.4 million mobile customer additions, 165 thousand of whom were high-value contract customers. In mobile Internet, customers are increasingly opting for plans with more bandwidth, in conjunction with higher-quality terminal equipment. We added 1.3 million new M2M SIM cards in a very aggressively priced market. This growth was due to the increased use of SIM cards, especially in the automotive and logistics industries. The number of fixed-network lines decreased slightly compared with the end of 2014 to 3.3 million. Broadband lines remained at the level recorded in the prior year of 2.1 million, with the number of fiber-optic customers increasing by 55.2 percent.

Products in the area of connected work developed positively, demand grew in particular for IT cloud products. We also recorded further growth in our rate plans “DeutschlandLAN – Complete Solution for your Office.”

## Wholesale

The number of lines in the wholesale sector remained stable overall compared with 2014 at 11.3 million. At the end of the reporting year, fiber-optic lines accounted for 12.8 percent of all lines – 6.4 percentage points more than in the prior year. The strong growth in our wholesale unbundled lines by 862 thousand or 40.0 percent compared with 2014 was primarily attributable to the strong demand for our contingent model. By contrast, the number of bundled wholesale lines decreased by 78 thousand. This trend is likely to continue for the next few years due to the fact that our competitors are switching from bundled to unbundled wholesale products with more bandwidth, or to their own infrastructure. The number of unbundled local loop lines decreased by 751 thousand or 8.5 percent compared with 2014. This is due first to the move to higher-quality fiber-optic wholesale lines, and second to retail customers switching to cable operators. On top of this, wholesale customers are migrating their retail customers to their own fiber-optic lines and in some cases also to mobile-based lines.

## DEVELOPMENT OF OPERATIONS

T 026

millions of €

	2015	2014	Change	Change %	2013
<b>TOTAL REVENUE</b>	22,421	22,257	164	0.7 %	22,435
Consumers	12,095	11,970	125	1.0 %	12,122
Business Customers	5,781	5,726	55	1.0 %	5,676
Wholesale	3,755	3,775	(20)	(0.5)%	3,811
Value-Added Services	226	242	(16)	(6.6)%	288
Other	564	544	20	3.7 %	538
Profit from operations (EBIT)	4,490	4,663	(173)	(3.7)%	4,435
EBIT margin %	20.0	21.0			19.8
Depreciation, amortization and impairments	(3,755)	(3,893)	138	3.5 %	(3,966)
EBITDA	8,245	8,556	(311)	(3.6)%	8,401
Special factors affecting EBITDA	(545)	(254)	(291)	n. a.	(535)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	8,790	8,810	(20)	(0.2)%	8,936
EBITDA margin (adjusted for special factors) %	39.2	39.6			39.7
<b>CASH CAPEX</b>	(5,609)	(3,807)	(1,802)	(47.3)%	(3,411)

**Total revenue**

Revenue increased by 0.7 percent year-on-year in 2015. This development was mainly driven by revenue from mobile business, which grew by 4.8 percent, especially in non-contract terminal equipment business, and the ongoing positive revenue trend recorded for our second brand "congstar." Increased TV, IT, and terminal equipment revenues had a positive impact on fixed-network revenue development. However, this was not sufficient to completely offset declines in other areas. As a result, revenue in the fixed-network business decreased by 2.1 percent.

Revenue from **Consumers** increased by 1.0 percent compared with 2014. Volume- and price-related revenue decreases continued to dominate traditional fixed-network business, which declined by 2.7 percent. Revenue from broadband business continued to grow, increasing by 0.3 percent in the reporting year. The 5.8-percent revenue growth in mobile business more than compensated for the losses in the fixed-network business. The increase was primarily attributable to increased terminal equipment revenue from the marketing of smartphones. Our mobile service revenues edged up 0.5 percent in the reporting year. Data revenue grew by 5.9 percent. By contrast, there was a negative trend in prepaid revenues, especially from our Telekom brand.

Revenue from **Business Customers** increased by 1.0 percent, mainly due to growing mobile revenues, which were up 2.8 percent. This increase was primarily driven by terminal equipment revenues. The decline in fixed-network revenue from traditional voice telephony had an offsetting effect; the growth in IT revenues was not sufficient to compensate for this in full.

**Wholesale** revenue declined slightly by 0.5 percent in 2015, mainly due to lower volumes of minutes and regulation-induced reductions in prices for interconnection calls (from December 1, 2014), as well as falling numbers of unbundled local loop lines. This decline was partially offset

by the positive trend in unbundled lines, mainly due to the contingent model.

Revenue from **Value-Added Services** decreased by 6.6 percent, primarily as a result of expiring business models such as public phones and directory inquiries as well as decreased use of premium rate numbers.

**EBITDA, adjusted EBITDA**

EBITDA adjusted for special factors decreased slightly by 0.2 percent year-on-year in the reporting year to EUR 8.8 billion, mainly due to higher personnel costs in connection with collectively agreed pay increases and the increased use of personnel for our network build-out and the IP migration. With an adjusted EBITDA margin of 39.2 percent, we are slightly short of our expected target level of 40 percent. EBITDA amounted to EUR 8.2 billion in the reporting year, a decline of 3.6 percent against the prior year, due in particular to higher special factors for expenses in connection with our staff restructuring.

**EBIT**

Profit from operations decreased by 3.7 percent to EUR 4.5 billion compared with 2014. This was mainly attributable to higher expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses. Offsetting effects resulted from a 3.5-percent decrease in depreciation and amortization.

**Cash capex**

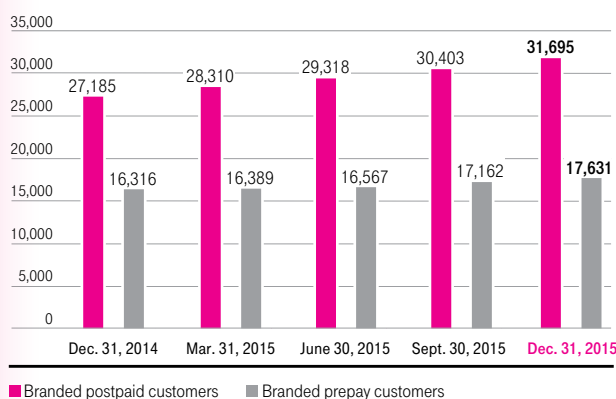
Cash capex increased by EUR 1.8 billion year-on-year, due in particular to the spectrum auction in June 2015. Excluding spectrum investment, our cash capex increased slightly compared with 2014. During 2015 we again made significant investments in the vectoring and fiber-optic cable roll-out, our IP transformation, and our LTE infrastructure as part of our integrated network strategy.

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## UNITED STATES CUSTOMER DEVELOPMENT

G 28

thousands



At December 31, 2015, the United States operating segment (T-Mobile us) had 63.3 million customers compared to 55.0 million customers at December 31, 2014. This increase in net customers of 8.3 million for the year ended December 31, 2015 was consistent with 8.3 million net customer additions for the year ended December 31, 2014 due to the factors described below. 2015 marked the second consecutive year that T-Mobile US added more than 8.0 million total net customer additions, leading the U.S. wireless industry.

**Branded customers.** Branded postpaid net customer additions were 4,510 thousand for the year ended December 31, 2015, compared to 4,886 thousand branded postpaid net customer additions for the year ended December 31, 2014. Branded postpaid net customer additions remained strong in 2015 driven by positive customer response to T-Mobile us' Un-carrier initiatives such as JUMP! On Demand and Data Stash, ongoing network improvements and promotional activities. Branded postpaid net customer additions in 2015 were lower compared to 2014, which included the introduction of Un-carrier 4.0 Contract Freedom and certain attractive family rate plan promotions. Included in the branded postpaid net customer additions were approximately 765 thousand qualified branded prepay customers upgrading to branded postpaid plans in 2015, compared to approximately 420 thousand in 2014.

Branded prepay net customer additions were 1,315 thousand for the year ended December 31, 2015, compared to 1,244 thousand branded prepay net customer additions for the year ended December 31, 2014. The increase was primarily attributable to higher gross customer additions driven by the success of T-Mobile us' MetroPCS brand promotional activities and expansion into additional markets. Included in the branded prepay net customer additions were approximately 765 thousand qualified branded prepay customers upgrading to branded postpaid plans in 2015, compared to approximately 420 thousand in 2014.

**Wholesale customers.** Wholesale net customer additions were 2,439 thousand for the year ended December 31, 2015, compared to wholesale net customer additions of 2,204 thousand for the year ended December 31, 2014. The increase was primarily attributable to higher MVNO gross customer additions, partially offset by higher MVNO deactivations.

T 027

thousands

	Dec. 31, 2015	Dec. 31, 2014	Change	Change %	Dec. 31, 2013
<b>UNITED STATES</b>					
Mobile customers	63,282	55,018	8,264	15.0%	46,684
Branded customers	49,326	43,501	5,825	13.4%	37,371
Branded postpaid	31,695	27,185	4,510	16.6%	22,299
Branded prepay	17,631	16,316	1,315	8.1%	15,072
Wholesale customers	13,956	11,517	2,439	21.2%	9,313

## DEVELOPMENT OF OPERATIONS

T 028

millions of €

	2015	2014	Change	Change %	2013
<b>TOTAL REVENUE</b>	28,925	22,408	6,517	29.1 %	18,556
Profit from operations (EBIT)	2,454	1,405	1,049	74.7 %	1,404
EBIT margin %	8.5	6.3			7.6
Depreciation, amortization and impairments	(3,775)	(2,839)	(936)	(33.0)%	(2,238)
EBITDA	6,229	4,244	1,985	46.8 %	3,642
Special factors affecting EBITDA	(425)	(52)	(373)	n. a.	(232)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	6,654	4,296	2,358	54.9 %	3,874
EBITDA margin (adjusted for special factors) %	23.0	19.2			20.9
<b>CASH CAPEX</b>	(6,381)	(5,072)	(1,309)	(25.8)%	(3,279)

### Total revenue

Total revenue for the United States operating segment of EUR 28.9 billion in 2015 increased by 29.1 percent compared to EUR 22.4 billion in 2014 substantially due to fluctuations in the currency exchange rate. In U.S. dollars, T-Mobile US' total revenues increased by 8.1 percent in 2015 due primarily to service revenue growth resulting from increases in the customer base from the continued success of T-Mobile US' Un-carrier initiatives and strong customer response to promotional activities targeting families. Equipment revenues decreased primarily attributable to a lower average revenue per device sold, due in part to the impact of customers shifting to leasing higher-end devices with JUMP! On Demand, partially offset by growth in the number of devices and accessories sold. With JUMP! On Demand, revenues associated with leased devices are recognized over the term of the lease rather than when the device is delivered to the customer.

### EBITDA, adjusted EBITDA, adjusted EBITDA margin

Adjusted EBITDA increased by 54.9 percent to EUR 6.7 billion compared to EUR 4.3 billion in 2014. In U.S. dollars, adjusted EBITDA increased by 29.5 percent in 2015. Adjusted EBITDA was positively impacted by increased branded postpaid and prepay service revenues resulting from the continued success of Un-carrier initiatives and strong customer response to promotional activities. Revenues from the impact of customers shifting to leasing devices with JUMP! On Demand also contributed to the increase in adjusted EBITDA as the related handset costs are depreciated over the lease term and are excluded from adjusted EBITDA. Additionally, synergies realized from the decommissioning of the MetroPCS CDMA network and focused cost control contributed to the adjusted EBITDA increase during 2015. These effects were partially offset

by higher employee-related costs, an increased loss on equipment sales due to higher volumes of smartphone sales, higher promotional costs and increases in bad debt expense and losses on sales of receivables. The adjusted EBITDA margin increased year-on-year from 19.2 percent to 23.0 percent due to the factors described above.

Adjusted EBITDA in 2015 excludes EUR 0.4 billion special factors primarily relating to the decommissioning of the MetroPCS CDMA network and stock-based compensation costs. Overall, EBITDA increased by 46.8 percent to EUR 6.2 billion compared to EUR 4.2 billion in 2014.

### EBIT

EBIT increased by 74.7 percent to EUR 2.5 billion compared to EUR 1.4 billion in 2014. This was driven by higher adjusted EBITDA partially offset by higher depreciation expense and the recognition of costs associated with the decommissioning of the MetroPCS CDMA network. The build-out of the T-Mobile US 4G/LTE network and the launch of the JUMP! On Demand program resulted in increased depreciation for 2015.

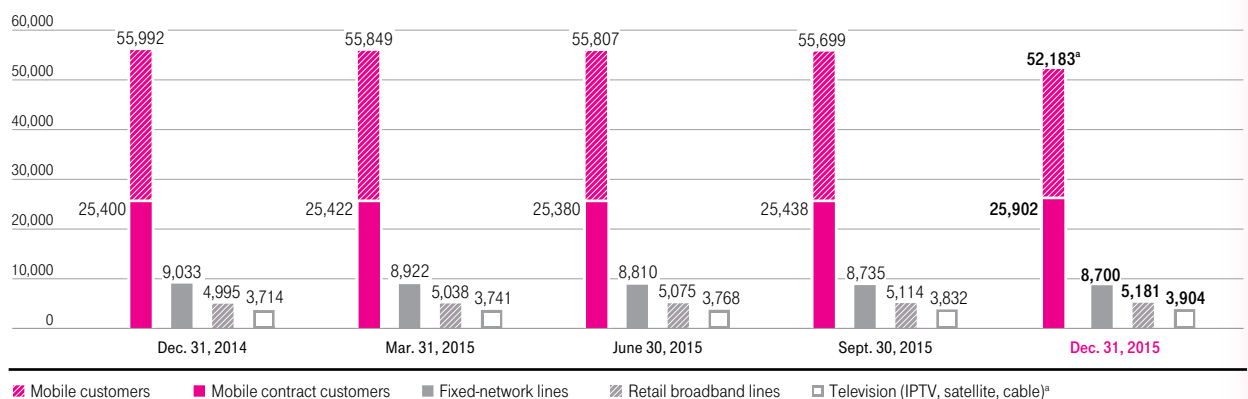
### Cash capex

Cash capex increased to EUR 6.4 billion in 2015 compared to EUR 5.1 billion in 2014 due primarily to the build-out of the 4G/LTE network. Additionally, in 2015, T-Mobile US purchased AWS and 700 MHz A-Block spectrum licenses totaling EUR 2.2 billion, of which the majority was related to the AWS spectrum licenses acquired through the U.S. FCC auction in January 2015.

## EUROPE CUSTOMER DEVELOPMENT

G 29

thousands



<sup>a</sup>In the fourth quarter of 2015, the number of mobile customers in Poland decreased by 3,838 thousand in connection with the deactivation of inactive prepaid SIM cards.



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T 029

thousands

		Dec. 31, 2015	Dec. 31, 2014	Change	Change%	Dec. 31, 2013
<b>EUROPE, TOTAL <sup>a</sup></b>	Mobile customers	52,183	55,992	(3,809)	(6.8)%	56,679
	Fixed-network lines	8,700	9,033	(333)	(3.7)%	9,284
	Of which: IP-based	4,100	3,486	614	17.6 %	2,472
	Retail broadband lines	5,181	4,995	186	3.7 %	4,744
	Television (IPTV, satellite, cable)	3,904	3,714	190	5.1 %	3,503
	Unbundled local loop lines (ULLs)/wholesale PSTN	2,239	2,325	(86)	(3.7)%	2,230
	Wholesale bundled lines	121	140	(19)	(13.6)%	150
	Wholesale unbundled lines	199	144	55	38.2 %	101
<b>GREECE</b>	Mobile customers	7,399	7,280	119	1.6 %	7,477
	Fixed-network lines	2,586	2,624	(38)	(1.4)%	2,746
	Broadband lines	1,531	1,388	143	10.3 %	1,286
<b>ROMANIA</b>	Mobile customers	5,992	6,047	(55)	(0.9)%	6,153
	Fixed-network lines	2,091	2,239	(148)	(6.6)%	2,369
	Broadband lines	1,186	1,199	(13)	(1.1)%	1,193
<b>HUNGARY <sup>b</sup></b>	Mobile customers	4,950	4,964	(14)	(0.3)%	4,887
	Fixed-network lines	1,610	1,645	(35)	(2.1)%	1,596
	Broadband lines	1,014	969	45	4.6 %	922
<b>POLAND <sup>a, b</sup></b>	Mobile customers	12,056	15,702	(3,646)	(23.2)%	15,563
	Fixed-network lines	18	n.a.	18	n.a.	n.a.
	Broadband lines	15	n.a.	15	n.a.	n.a.
<b>CZECH REPUBLIC <sup>b</sup></b>	Mobile customers	6,019	6,000	19	0.3 %	5,831
	Fixed-network lines	154	131	23	17.6 %	129
	Broadband lines	134	131	3	2.3 %	129
<b>CROATIA</b>	Mobile customers	2,233	2,252	(19)	(0.8)%	2,303
	Fixed-network lines	1,004	1,076	(72)	(6.7)%	1,133
	Broadband lines	741	725	16	2.2 %	670
<b>NETHERLANDS</b>	Mobile customers	3,677	3,900	(223)	(5.7)%	4,441
<b>SLOVAKIA</b>	Mobile customers	2,235	2,220	15	0.7 %	2,262
	Fixed-network lines	855	894	(39)	(4.4)%	922
	Broadband lines	599	559	40	7.2 %	521
<b>AUSTRIA</b>	Mobile customers	4,323	4,020	303	7.5 %	4,091
<b>OTHER <sup>b, c</sup></b>	Mobile customers	3,299	3,607	(308)	(8.5)%	3,671
	Fixed-network lines	381	423	(42)	(9.9)%	390
	Broadband lines	285	307	(22)	(7.2)%	274

<sup>a</sup>In the fourth quarter of 2015, the number of mobile customers in Poland decreased by 3,838 thousand in connection with the deactivation of inactive prepaid SIM cards.

<sup>b</sup>As of January 1, 2015, the entities of the GTS Central Europe group in Poland and the Czech Republic were integrated in the respective national companies. The integration in Hungary became effective as of April 1, 2015.

<sup>c</sup>Other: national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as the lines of the GTS Central Europe group in Romania.

### Total

In 2015, the telecommunications markets in the countries of our Europe operating segment were again subject to intense competition. As in the previous year, we acquired more customers for our TV and broadband lines. Here, an important factor in our success is the convergent product portfolio: We market fixed-network and mobile products together, thereby offering our customers a seamless telecommunications experience. The launch of our rate model MagentaOne in many of the countries integrated into our Europe operating segment was a resounding success, enabling us to win nearly one million FMC customers in total. The key to this successful marketing is the high bandwidths we provide for both mobile and fixed-network communications. We are investing in the build-out of lines based on fiber-optic technology because this technology is becoming increasingly relevant for our customers. We also increased the number of IP lines as part of our pan-European network strategy – mainly through the successful migration from traditional PSTN lines to IP technology in many countries of our Europe operating segment.

### Mobile communications

**Mobile telephony and data services.** In the reporting year, we had a total mobile customer base of 52.2 million, down 6.8 percent year-on-year. This decrease was attributable to the prepaid business, especially in Poland, where inactive prepaid SIM cards were deactivated. For this reason, we were unable to achieve the slight year-on-year increase in the total mobile customer base that we had originally projected. Another factor was the intense competition, particularly in the prepaid business in our European mobile markets. In line with our strategy of focusing on high-value contract customers, this business developed encouragingly, enabling us to expand our customer base by 2.0 percent compared with 2014. The majority of our national companies contributed to this increase, with Austria and Romania in particular achieving double-digit growth rates. As a result, the contract customer share of the total customer base increased to just under 50 percent. We are positioning ourselves in the relevant markets as a quality provider with the best service – and in many countries also as the provider with the best mobile network. Part of our network strategy is to systematically build out our mobile networks with 4G/LTE technology. Since 2015, we have also been marketing LTE to our customers in Albania, and are thus now represented with this technology in all of our national companies. Thanks to our investments in our 4G/LTE network, our customers enjoy fast mobile broadband as well as more extended network coverage. As of the end of the reporting year, we already covered 71 percent of the population in the countries of our operating segment with LTE, thus reaching some 92 million people in total. By 2018, we also want to achieve network coverage of between 75 and 95 percent in the other countries of our footprint.

### Fixed network

**Telephony, Internet, and television.** Our TV and entertainment offerings have evolved into an important pillar of the consumer business, which is why we continuously invest in improving our entertainment services. This entails, on the one hand, a portfolio with an impressive selection of film, sports and television rights. However, we are also working hard on providing services that our customers can use in high quality – anywhere and on all devices. Our TV customer base grew by 5.1 percent year-on-year to 3.9 million. The majority of the 190 thousand net additions were customers in Greece, Romania, Hungary, and Slovakia.

As an integrated telecommunications provider, we want to drive forward the convergence of fixed-network and mobile technology and, in all our integrated countries, we already offer our customers FMC products. In the reporting year, five national companies introduced the concept of the convergence brand – MagentaOne. This is proving successful: As of the end of 2015, we had just under one million FMC customers. The technical basis for FMC products is a simplified and standardized network; this requires the national companies with a fixed-network architecture to migrate to IP technology. At segment level, IP-based lines accounted for 47.1 percent of all lines. As of December 31, 2015, we recorded 4.1 million IP-based lines – an increase of as much as 17.6 percent compared with the end of 2014. The successful completion of IP migration in Slovakia and the F.Y.R.O. Macedonia last year was followed by Montenegro and Croatia by the end of the reporting year. A total of 8.7 million customers in our Europe operating segment used a fixed-network line at the end of the year, 3.7 percent less than in 2014. The decline was primarily attributable to line losses in traditional telephony (PSTN).

The number of retail broadband lines continued to grow apace, increasing by 3.7 percent to 5.2 million, driven mainly by DSL business, especially in Greece, where VDSL technology is enjoying dynamic growth. But the number of DSL-based broadband lines also increased in Hungary and Slovakia. Household coverage with optical fiber has reached 19 percent in the respective national companies, compared with only 15 percent a year ago. By 2018, we want 50 percent of households – in our integrated national companies – to have access to a 100 Mbit/s service with FTTx.

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## DEVELOPMENT OF OPERATIONS

T 030

millions of €

	2015	2014	Change	Change %	2013
<b>TOTAL REVENUE</b>	12,718	12,972	(254)	(2.0)%	13,704
Greece	2,878	2,869	9	0.3 %	2,988
Romania	984	1,002	(18)	(1.8)%	1,017
Hungary <sup>a</sup>	1,541	1,492	49	3.3 %	1,563
Poland <sup>a</sup>	1,544	1,492	52	3.5 %	1,584
Czech Republic <sup>a</sup>	958	862	96	11.1 %	973
Croatia	909	905	4	0.4 %	929
Netherlands	1,394	1,551	(157)	(10.1)%	1,666
Slovakia	783	768	15	2.0 %	828
Austria	829	815	14	1.7 %	828
Other <sup>a, b</sup>	1,136	1,442	(306)	(21.2)%	1,548
Profit from operations (EBIT)	1,450	1,704	(254)	(14.9)%	972
EBIT margin %	11.4	13.1			7.1
Depreciation, amortization and impairments	(2,619)	(2,597)	(22)	(0.8)%	(3,399)
EBITDA	4,069	4,301	(232)	(5.4)%	4,371
Special factors affecting EBITDA	(219)	(131)	(88)	(67.2)%	(179)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	4,288	4,432	(144)	(3.2)%	4,550
Greece	1,118	1,138	(20)	(1.8)%	1,165
Romania	205	266	(61)	(22.9)%	283
Hungary <sup>a</sup>	485	445	40	9.0 %	438
Poland <sup>a</sup>	580	579	1	0.2 %	599
Czech Republic <sup>a</sup>	390	362	28	7.7 %	425
Croatia	367	365	2	0.5 %	404
Netherlands	500	630	(130)	(20.6)%	495
Slovakia	296	310	(14)	(4.5)%	337
Austria	259	211	48	22.7 %	192
Other <sup>a, b</sup>	90	125	(35)	(28.0)%	216
EBITDA margin (adjusted for special factors) %	33.7	34.2			33.2
<b>CASH CAPEX</b>	(1,652)	(2,101)	449	21.4 %	(3,661)

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.

<sup>a</sup> As of January 1, 2015, the entities of the GTS Central Europe group in Poland and the Czech Republic were integrated in the respective national companies. The integration in Hungary became effective as of April 1, 2015.

<sup>b</sup> Other: national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as ICSS (International Carrier Sales & Solutions), the ICSS/GNF business of the Local Business Units, GNF (Global Network Factory), GTS Central Europe group in Romania, Europe Headquarters, and Group Technology.

### Total revenue

Our Europe operating segment generated total revenue of EUR 12.7 billion in the 2015 financial year, a year-on-year decrease of 2.0 percent. In organic terms, i. e., assuming full inclusion of the GTS Central Europe group in the prior-year period as well as constant exchange rates, segment revenue decreased by 3.0 percent.

Decisions by regulatory authorities continue to have a substantial impact on our revenue. Reduced mobile termination rates and roaming regulations in many countries of our operating segment accounted for most of our organic revenue decline. In addition, revenue continued to come under pressure from persistently intense competition in the telecommunications markets in our national companies. Given our strategy of gradually withdrawing from the Voice Hubbing business (termination of international calls), there was a negative trend in wholesale business, as expected. Excluding Voice Hubbing revenues and regulatory effects, our organic revenue remained essentially stable year-on-year.

Because our national companies consistently focused on growth areas, we partially compensated the negative revenue effects at segment level. As of December 31, 2015, growth areas accounted for as much as 29 percent of segment revenue. Revenue from mobile data business increased by 9.7 percent year-on-year adjusted for exchange rate effects to EUR 1.7 billion, with all countries of our operating segment contributing, in particular the Netherlands, Greece, and the Czech Republic. The largest share of revenue from mobile data business was attributable to consumers. Attractive rate plans combined with a broad portfolio of terminal equipment resulted in a substantial further increase in the usage of data services, especially among contract customers. The upward trend of the past few quarters also continued in broadband and TV business: In 2015, broadband/TV revenue increased by 7.3 percent (adjusted for exchange rate effects), such that it now accounts for a quarter of our fixed-network revenue. Greece, Hungary, and the Czech Republic, in particular, contributed to this growth. In addition to the acquisition of the GTS Central Europe group in 2014, our expanded product and service portfolio contributed to higher revenue in B2B/ICT business with business customers compared with the prior year, especially in the Czech Republic, Slovakia, and Poland. The energy resale business in Hungary also recorded year-on-year revenue growth.

In addition to the growth areas, revenues from sales of mobile devices increased by 4.8 percent. The alternative model launched in some of our footprint countries (whereby the customer concludes separate contracts for the service and the device) developed at the same level as in the previous year.


In terms of organic segment revenue by country, at the end of the reporting period, business in the Netherlands was hit hardest by absolute revenue declines – due in part to volume- and price-driven declines in voice telephony and in part to regulation in roaming business. Romania also recorded revenue losses in the fixed-network business, which were mainly attributable to a decline in revenue from voice telephony. In spite of a reduction in mobile termination rates in 2014 and intense competition, especially in the prepay business, our mobile business in Romania sustained its prior-year level. In Poland and the Czech Republic, the positive effects of the integration of the GTS Central Europe group are clearly visible – fixed-network revenue increased. Poland's mobile business declined in 2015, due on the one hand to volume- and price-driven decreases in revenue from voice telephony and, on the other, to lower roaming

revenues imposed by regulation. The Czech Republic also recorded a regulation-induced and price-driven decline in mobile revenue caused by more extensive use of flat-rate plans. Higher revenues, in particular in Hungary, increased segment revenue – as did the positive contributions to revenue in the fixed-network business in Greece.

### EBITDA, adjusted EBITDA

Our Europe operating segment generated adjusted EBITDA of EUR 4.3 billion in the reporting year, a year-on-year decrease of 3.2 percent. Assuming full inclusion of the GTS Central Europe group in 2014 and constant exchange rates, adjusted EBITDA declined by 4.1 percent. Overall, the decrease in organic revenue at segment level in particular had a negative impact on the development of our adjusted EBITDA. Furthermore, changes in legislation, taxes and duties, national austerity programs, and regulatory decisions put additional pressure on our earnings.

As far as earnings by country are concerned, the decreases in adjusted EBITDA were mainly attributable to the revenue decline in the Netherlands and Romania. By contrast, increases in adjusted EBITDA generated predominantly in Austria and Hungary as well as from the fixed-network business in Greece had a positive impact on the development of adjusted EBITDA at segment level. With efficiency enhancement measures, we were able to reduce indirect costs in a targeted way and thereby partially offset the negative effect of the revenue decline. Savings in costs for purchased goods and services in particular and slightly lower personnel costs made a positive contribution to this trend.

Our EBITDA decreased by 5.4 percent to EUR 4.1 billion, mainly due to higher special factors, such as expenses for staff-related measures and the expense to settle a claim for damages against Slovak Telekom in the first quarter of 2015. 

### Development of operations in selected countries

With the aim of becoming the leading European telecommunications provider, we are pursuing the strategy of developing the majority of our national companies into integrated all-IP players that provide the best customer experience – regardless of their respective market position. To this end, we are establishing a production model with the help of a pan-European, fully IP-based network infrastructure, the best network access, and optimized processes and customer interfaces. Most of our national companies already operate in both fixed-network and mobile communications in their respective markets. We present the following three national companies by way of example:

**Greece.** The revenue we generated in Greece was on a par with the prior-year level even though the country's economic situation remained strained. The positive contributions from the fixed-network business offset the decline in revenue from the mobile business. TV business established itself as a constant growth driver. Our efforts to offer customers a wide variety of TV services and content therefore paid off. Among these was the successful launch of the FMC product CosmoteOne. In connection with the focus on rolling out DSL lines, we also recorded brisk growth in the number of broadband customers, which made a positive contribution to broadband revenue. The B2B/ICT business with business customers also made a positive contribution. These trends offset the decline in revenue from voice services, which was in particular a result of line losses in traditional telephony (PSTN). However, the number of lines rose slightly again in the fourth quarter of 2015 compared with the previous quarter for the first time. Mobile business decreased year-on-year.



For further information on the proceedings, please refer to the section "Risk and opportunity management," PAGE 125 ET SEQ.

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Double-digit revenue growth in data business only partially compensated the decline in voice revenues due to regulation and arising from the growing popularity of flat-rate plans. Text messaging revenues in the pre-pay segment in particular also decreased year-on-year – increasingly due to the subscription to text messaging rate options and lower usage.

In the reporting year, adjusted EBITDA in Greece stood at EUR 1.1 billion, down 1.8 percent against the previous year. This was mainly due to the slightly lower net margin in mobile operations. EBITDA was also affected by special factors, in particular expenses for staff-related measures.

**Hungary.** In 2015, revenue increased by 3.3 percent year-on-year to EUR 1.5 billion. Assuming constant exchange rates and positive effects from the integration of the GTS Central Europe group, revenue grew by as much as 3.5 percent. This growth is largely attributable to the positive trend in fixed-network business, especially due to the 11.8 percent increase (adjusted for exchange rate effects) in revenue from broadband and TV business. The proportion of total fixed-network revenue accounted for by broadband/TV business was 44 percent. In line with our strategy of rolling out a pan-European network in our integrated national companies, we stepped up our marketing of IP-based broadband lines. As a result, the number of broadband lines, for example, increased compared with 2014. Our TV business also profited from this, attracting customers with its innovative services across all screens. The energy resale business likewise recorded revenue growth. In addition, the B2B/ICT business with business customers made a positive contribution to revenue, enabling us to more than offset the overall decline in voice revenue in traditional telephony.

Mobile business remained more or less stable compared with 2014. The upward trend in mobile data business continued in the fourth quarter of 2015, resulting in a year-on-year increase of 13.5 percent on the basis of constant exchange rates. This positive development is, among other factors, the result of our high-speed mobile network and the huge reach. Furthermore, we successfully marketed innovative products, which is reflected both in usage behavior and by the fact that smartphones accounted for a high proportion of all terminal devices sold. This can also be seen in terminal equipment sales, which made a positive contribution to total mobile revenues, such that we were able to offset the mainly regulation-induced decline in service revenues.

Adjusted EBITDA amounted to EUR 485 million, thus rising 9.0 percent compared with the previous year – primarily as a result of the positive effects from the increase in revenue.

**Austria.** In Austria, we generated revenue of EUR 829 million in 2015, a year-on-year increase of 1.7 percent. This is attributable in particular to higher revenues from mobile data business. Thanks to double-digit growth rates in contract customers, the proportion of total revenues accounted for by data revenue also increased. This increase was mainly due to the successful launch of the new rate plan model in 2015, followed by sustained high demand for smartphones. Both factors resulted in a sharp increase in the usage of data services. We were thus able to offset the declines resulting from the regulation-induced reduction in roaming charges.

Adjusted EBITDA increased by 22.7 percent year-on-year in 2015 to EUR 259 million. In addition to positive effects from the increase in revenues, lower indirect costs contributed to this result.

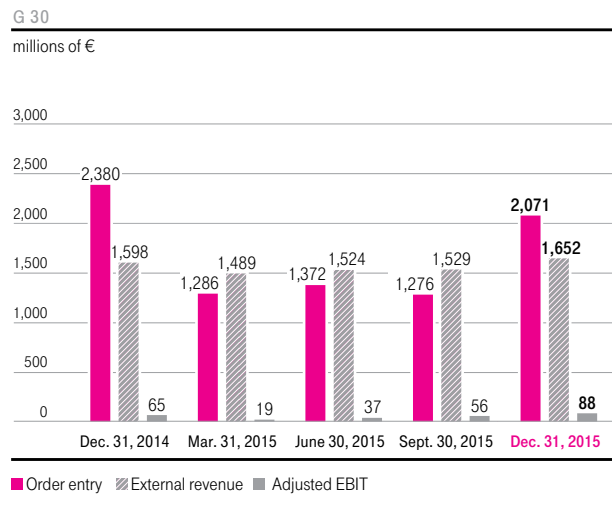
**EBIT**

EBIT in our Europe operating segment totaled EUR 1.5 billion in 2015, down 14.9 percent year-on-year, mainly due to the decline in EBITDA. Goodwill impairment losses of EUR 43 million were recognized in Hungary in the reporting year. Depreciation and amortization were at around the same level as in the prior year.

**Cash capex**

In 2015, our Europe operating segment reported cash capex of EUR 1.7 billion, i. e., down by 21.4 percent, mainly due to the acquisition of mobile licenses in Hungary, the Czech Republic, Poland, and Slovakia in 2014. We acquired mobile spectrum in the reporting year, in particular in Albania, but to a lesser extent. Adjusted for the effects of spectrum acquisition, cash capex was almost unchanged against the prior year.

**SYSTEMS SOLUTIONS  
SELECTED KPIs**



**Development of business**

Our realignment Transformation 2015+, initiated in 2014, the main focus of which was to bring the business model of the Market Unit in line with market needs, was successfully completed in the 2015 financial year. As a result of this transformation, we are increasingly focusing on business with scalable, platform-based ICT products, offering traditional IT and TC services with optimized delivery models. In this way, we can secure market shares in the key growth areas and offer our products profitably. This

T 031

		Dec. 31, 2015	Dec. 31, 2014	Change	Change %	Dec. 31, 2013
<b>ORDER ENTRY</b>	millions of €	6,005	7,456	(1,451)	(19.5)%	7,792
<b>COMPUTING &amp; DESKTOP SERVICES</b>						
Number of servers managed and serviced	units	62,590	61,654	936	1.5 %	62,308
Number of workstations managed and serviced	millions	1.71	1.58	0.13	8.2 %	1.31
<b>SYSTEMS INTEGRATION</b>						
Hours billed	millions	5.3	6.1	(0.8)	(13.1)%	6.6
Utilization rate	%	82.9	83.8		(0.9)%p	82.5

was one of the factors that drove customer satisfaction to a record high in 2015 – the TRI\*M index was up from 84 to 90 points. After completion of the transformation program, the Market Unit wanted to systematically build on this success. It was therefore divided into three divisions in 2015, each of which is responsible for a service area: the IT Division, the TC Division and the Digital Division. As a result, the 2015 financial year was mainly dominated by our realignment.

The expected targets for order entry at T-Systems were not achieved in full in the 2015 financial year. Despite new major agreements in Germany and abroad, order entry decreased by 19.5 percent year-on-year. This is due on the one hand to the major contracts won in 2014 for setting up and operating a satellite-based toll collection system for trucks in Belgium, and from the automotive sector. And on the other hand, the decline can be attributed to the realignment of the business model with the aim of ensuring sustained profitable growth. In this connection, we tightened up the profitability criteria for the acceptance of new orders: We will offer services with a persistently low level of profitability via specialized partners or discontinue them completely if demand is not lucrative enough. For this reason, we did not achieve the originally planned slight year-on-year increase in order entry. Strengthened by the realignment,

our standard solutions from the growth area of cloud computing in particular won out over strong competition, for example, with the customers Union Investment, KONE, and the Swiss National Railways. For our customers, this means that they can access an ever greater range of services from the cloud and at the same time profit from our expertise in transformation services.

Another key component in the expansion of our cloud business is strategic partnerships. This means we offer our partners' services from our data centers in Germany in order to meet our customers' needs. The aspects of security and high availability play a key role for T-Systems and our customers.

To meet the requirements from the new deals, we are continuously modernizing and consolidating our ICT resources. The number of servers managed and serviced increased by 1.5 percent compared with 2014 as a result of the further expansion of the growth areas. At the data centers, technical advances made it possible to set up ever larger and higher-performance units, which had a positive impact on our cost efficiency. The number of workstations managed and serviced increased by 8.2 percent to 1.71 million compared with the prior year.

## DEVELOPMENT OF OPERATIONS

T 032

millions of €

	2015	2014	Change	Change %	2013
<b>TOTAL REVENUE</b>	8,592	8,601	(9)	(0.1)%	9,038
Loss from operations (EBIT)	(516)	(422)	(94)	(22.3)%	(294)
Special factors affecting EBIT	(716)	(549)	(167)	(30.4)%	(431)
EBIT (adjusted for special factors)	200	127	73	57.5 %	137
EBIT margin (adjusted for special factors)	%	2.3	1.5		1.5
Depreciation, amortization and impairments	(649)	(717)	68	9.5 %	(652)
EBITDA	133	295	(162)	(54.9)%	358
Special factors affecting EBITDA	(649)	(540)	(109)	(20.2)%	(416)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	782	835	(53)	(6.3)%	774
EBITDA margin (adjusted for special factors)	%	9.1	9.7		8.6
<b>CASH CAPEX</b>	(1,169)	(1,171)	2	0.2 %	(1,066)

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## Total revenue

Total revenue in our Systems Solutions operating segment in the reporting year amounted to EUR 8.6 billion, almost the same level as in the prior year. The revenue increase in the Market Unit largely offset the planned decline in revenue in the Telekom IT unit.

Revenue of the Market Unit, i. e., essentially business with external customers, was up 2.6 percent compared with 2014 to EUR 7.1 billion; with international revenue in particular increasing by 3.7 percent compared with the prior year. The general downward price trend in ICT business was more than offset by the revenue from new contracts, especially in cloud business. Furthermore, exchange rate effects had a positive impact on the Market Unit's revenue.

In the Telekom IT business unit, which mainly pools the Group's domestic internal IT projects, revenue was down 11.0 percent to EUR 1.5 billion against the prior year. This decrease is primarily due to lower internal revenues from the licensing of the Group-wide ERP system and, in particular, the Group's planned savings in IT costs.

## EBITDA, adjusted EBITDA

Adjusted EBITDA in our Systems Solutions operating segment decreased by EUR 53 million or 6.3 percent in 2015 due to a substantially lower contribution from Telekom IT. The upward trend in adjusted EBITDA continued in the Market Unit, which contributed 3.5 percent more to earnings than in 2014. The reasons for this include improved customer profitability and the effects resulting from cost-cutting and efficiency enhancement measures. These positive effects were partially impaired by necessary expenses in connection with the realignment of the business model with the aim of ensuring sustainably profitable growth. The adjusted EBITDA

margin of our Systems Solutions operating segment decreased from 9.7 percent in the prior year to 9.1 percent.

EBITDA declined by 54.9 percent to EUR 133 million, due to the effects described under adjusted EBITDA in connection with the realignment of our business model. Special factors were higher than in the prior year, mainly due to restructuring programs, the settlement of differences, and the optimization of transactions.

## EBIT, adjusted EBIT

Adjusted EBIT for the reporting year improved by EUR 73 million against the prior year. The key factors were the effects described under adjusted EBITDA and lower depreciation, amortization and impairment losses, especially in connection with the licensing of the Group-wide ERP system. The adjusted EBIT margin improved from 1.5 to 2.3 percent.

## Cash capex

At EUR 1.2 billion, cash capex remained at the prior-year level. Our level of investment remains high and is attributable to the realignment of the business model, which we are developing further in line with the increasing digitization of enterprises. For this reason, we are investing in growth areas such as connected car and healthcare, as well as in cutting-edge digital innovation areas like cloud computing and cyber security. Enhanced efficiency, for example as a result of the standardization of the ICT platforms and the consolidation of data centers, had an offsetting effect.

## GROUP HEADQUARTERS & GROUP SERVICES

Group Headquarters & Group Services comprises all Group units that cannot be allocated directly to one of our operating segments.



For more information on our Group Headquarters & Group Services segment, please refer to the section "Group organization," PAGE 58 ET SEQ., and to Note 32 "Segment reporting" in the notes to the consolidated financial statements, PAGE 218 ET SEQ.

## DEVELOPMENT OF OPERATIONS

T 033

millions of €

	2015	2014	Change	Change %	2013
<b>TOTAL REVENUE</b>	2,275	2,516	(241)	(9.6)%	2,879
Loss from operations (EBIT)	(860)	(109)	(751)	n. a.	(1,582)
Depreciation, amortization and impairments	(627)	(671)	44	6.6 %	(699)
EBITDA	(233)	562	(795)	n. a.	(883)
Special factors affecting EBITDA	319	1,229	(910)	(74.0)%	(228)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	(552)	(667)	115	17.2 %	(655)
<b>CASH CAPEX</b>	(342)	(381)	39	10.2 %	(411)

### Total revenue

Total revenue in our Group Headquarters & Group Services segment in 2015 decreased by 9.6 percent year-on-year. Efficiency enhancement measures, in particular the continued efforts to optimize the use of land and buildings, resulted in a fall in intragroup revenue. Further reasons for the decline include the revenue lost in connection with the sale of 70 percent of the shares in the Scout24 group, which was consummated in early February 2014, with the sale of our online platform t-online.de and our digital marketing company InteractiveMedia in November 2015, and with the realignment of the Group Innovation<sup>+</sup> unit.

### EBITDA, adjusted EBITDA

Adjusted EBITDA at Group Headquarters & Group Services increased by EUR 115 million compared with 2014 in the reporting year, primarily due to income of EUR 175 million resulting from an agreement to settle an ongoing complaints procedure under anti-trust law in the first quarter of 2015. Lower personnel costs as a result of the continued staff restructuring as well as increased income from the real estate sales also had a positive impact on earnings. By contrast, adjusted EBITDA was negatively affected by the following factors: efficiency gains achieved through continued cost management and passed on to our operating segments; the loss of the contribution to earnings of the Scout24 group, and lower income at Vivovento due to a decrease in headcount and order volume.

Overall, positive special factors of EUR 0.3 billion affected EBITDA in the reporting year; they resulted in particular from the IPO of Scout24 AG, in which we sold a share package of a total 13.3 million shares, resulting in income of EUR 0.3 billion. The sale of our online platform and our digital marketing company InteractiveMedia also generated income of some EUR 0.3 billion. EBITDA was negatively affected by expenses – in particular in connection with socially responsible staff restructuring – of EUR 0.3 billion. In the prior year, special factors were dominated in particular by income from the disposal of the Scout24 group.

### EBIT

The year-on-year decline in EBIT is primarily attributable to income from the disposal of the Scout24 group recognized in 2014. The improvement in adjusted EBITDA had a positive effect in the reporting year.

### Cash capex

Cash capex decreased year-on-year by EUR 39 million, mainly due to the set-up of the new Group Innovation<sup>+</sup> unit and a decrease in the purchase of software licenses. This was partially offset by the procurement of more vehicles.

## DEVELOPMENT OF BUSINESS AT DEUTSCHE TELEKOM AG

Deutsche Telekom AG prepares its annual financial statements in accordance with the principles of German GAAP, as specified in the German Commercial Code (Handelsgesetzbuch – HGB) and the German Stock Corporation Act (Aktiengesetz – AktG).

As the Headquarters of the Deutsche Telekom Group, we perform strategic and cross-segment management functions and provide services for other Group companies. The profits and losses of our subsidiaries and Group financing measures have a material effect on our financial position and results of operations. In the 2015 financial year, our subsidiaries in Germany, for example, performed well in the market, especially in the field of mobile communications. However, the realignment of the T-Systems business model and the general downward trend in prices in the IT and communications business continued to have a negative impact on results. Earnings in the Europe operating segment were impacted in particular by competition-induced price reductions as well as decisions by the regulatory authorities.

Deutsche Telekom AG reported income after taxes for the 2015 financial year of EUR 1.9 billion. In addition to the operating business, the development of business in the reporting year was influenced by a number of very different effects (e. g., a reversal of a write-down at T-Mobile Global Zwischenholding GmbH, Bonn, and at T-Mobile Global Holding GmbH, Bonn, a write-down on the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main, the sale of Digital Media Products GmbH, Cologne (formerly T-Online Beteiligungs GmbH, Darmstadt), to Ströer SE, Cologne, by way of a capital increase in return for a non-cash contribution, and the sale of further shares in Scout24 AG, Munich), arising from both the Company's own business and from income related to subsidiaries, associated and related companies.

### RESULTS OF OPERATIONS OF DEUTSCHE TELEKOM AG

The negative operating results deteriorated by approximately EUR 0.3 billion compared with the previous year, with net revenue decreasing year-on-year to EUR 3.3 billion.

The deterioration in operating results was due to a year-on-year decrease of EUR 0.4 billion in net revenue coupled with an increase of EUR 0.5 billion in other operating expenses, offset by a EUR 0.4 billion increase in other operating income and a EUR 0.2 billion decrease in goods and services purchased.

The decline in net revenue compared with the previous year was largely attributable to the wholesale service for international carriers, where the focus on high-margin revenues reduced the sales volume.

Other operating expenses were up by EUR 0.5 billion year-on-year, mainly due to an increase of EUR 0.7 billion as a result of higher foreign currency transaction losses and increased expenses arising from derivatives, caused in particular by realized exchange rate effects from U. S. dollar cross-currency interest rate hedges which fell due as planned in the reporting year. Offsetting effects from hedging are included in other operating income.



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**Statement of income of Deutsche Telekom AG under German GAAP (total cost method)**

millions of €

	2015	2014	Change	Change%	2013
<b>NET REVENUE</b>	<b>3,313</b>	<b>3,677</b>	<b>(364)</b>	<b>(9.9)%</b>	<b>3,765</b>
Other own capitalized costs	7	18	(11)	(61.1)%	12
<b>TOTAL OPERATING PERFORMANCE</b>	<b>3,320</b>	<b>3,695</b>	<b>(375)</b>	<b>(10.1)%</b>	<b>3,777</b>
Other operating income	4,065	3,639	426	11.7 %	3,254
Goods and services purchased	(1,165)	(1,372)	207	15.1 %	(1,405)
Personnel costs	(2,919)	(2,836)	(83)	(2.9)%	(3,062)
Depreciation, amortization and write-downs	(387)	(434)	47	10.8 %	(459)
Other operating expenses	(4,199)	(3,688)	(511)	(13.9)%	(4,184)
<b>OPERATING RESULTS</b>	<b>(1,285)</b>	<b>(996)</b>	<b>(289)</b>	<b>(29.0)%</b>	<b>(2,079)</b>
Financial income (expense), net	3,492	5,281	(1,789)	(33.9)%	5,046
<b>RESULTS FROM ORDINARY BUSINESS ACTIVITIES</b>	<b>2,207</b>	<b>4,285</b>	<b>(2,078)</b>	<b>(48.5)%</b>	<b>2,967</b>
Extraordinary income (expense)	(17)	(17)	0	-	(17)
Taxes	(301)	(263)	(38)	(14.4)%	(113)
<b>INCOME AFTER TAXES</b>	<b>1,889</b>	<b>4,005</b>	<b>(2,116)</b>	<b>(52.8)%</b>	<b>2,837</b>

Other operating income increased by EUR 0.4 billion year-on-year, primarily as a result of the increase of EUR 0.7 billion in foreign currency transaction gains and in income from derivatives, due largely to realized exchange rate effects from U.S. dollar cross-currency interest rate hedges which fell due as planned in the reporting year. Offsetting effects from hedging are included in other operating expenses. In particular, the sale of further shares in Scout24 AG, Munich, and the sale of Digital Media Products GmbH, Cologne (formerly T-Online Beteiligungs GmbH, Darmstadt), by way of a capital increase in return for a non-cash contribution to Ströer SE, Cologne, also raised other operating income by EUR 0.3 billion in each case. Other operating income in the previous year had been positively influenced by EUR 1.0 billion in connection with the sale of 70 percent of the shares in the Scout24 group as well as the contribution of the remaining 30 percent of the shares in the Scout24 group to a new holding company at fair values.

The EUR 0.2 billion decrease in goods and services purchased was due in particular to lower expenses for network interconnection rates for international carrier services in the wholesale sector than in the previous year.

Net financial income declined by EUR 1.8 billion to EUR 3.5 billion. This was largely attributable to EUR 1.0 billion higher write-downs on financial assets, primarily due to the write-down of the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main.

In the reporting year, income related to subsidiaries, associated and related companies was positively influenced in particular by the profit transfer from T-Mobile Global Zwischenholding GmbH, Bonn. This was mainly due to the write-ups in the 2015 financial year to T-Mobile Global Holding GmbH, Bonn, and the financial assets indirectly held there, EE Limited, Hatfield, and T-Mobile USA, Inc., Bellevue. The write-up of EE Limited, Hatfield, reflects the purchase price in connection with the sale of the shares in EE Limited, Hatfield, to BT Group plc. The write-up of T-Mobile USA, Inc., Bellevue is primarily a result of the sustained positive development of business. The decrease in income related to

subsidiaries, associated and related companies of EUR 0.7 billion was mainly attributable to a EUR 0.4 billion lower profit transfer from Telekom Deutschland GmbH, Bonn, and to a EUR 0.3 billion higher loss transferred from T-Systems International GmbH, Frankfurt/Main.

The increase in net interest expense by EUR 0.1 billion in the reporting year was primarily the result of a EUR 0.4 billion increase in expenses in connection with the interest cost of noncurrent accruals. The lower interest levels resulted in a EUR 0.2 billion increase in accruals for pensions. Interest expenses were partially offset by a EUR 0.3 billion increase in interest income, in particular from derivatives.

Results from ordinary business activities were particularly impacted by the aforementioned effects and decreased by a total of EUR 2.1 billion year-on-year in 2015.

Extraordinary expenses of EUR 17 million and a tax expense of EUR 301 million combined with the aforementioned factors resulted in income after taxes of EUR 1,889 million in the 2015 financial year. Taking into account EUR 2,410 million in unappropriated net income carried forward, unappropriated net income totaled EUR 4,299 million.

**FINANCIAL POSITION OF DEUTSCHE TELEKOM AG**

In addition to shareholders' equity, our financial position is determined in particular by noncurrent assets and receivables from and payables to Group companies.

The balance sheet total increased by EUR 1.4 billion year-on-year to EUR 105.8 billion.

The development of total assets was mainly influenced by the increase of EUR 3.1 billion in receivables and of EUR 0.2 billion in other assets, offset by the decrease of EUR 1.6 billion in noncurrent assets, of EUR 0.2 billion in cash and cash equivalents, and of EUR 0.2 billion in prepaid expenses and deferred charges.

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**Balance sheet of Deutsche Telekom AG under German GAAP**  
 millions of €

	Dec. 31, 2015	Dec. 31, 2015 %	Dec. 31, 2014	Change	Dec. 31, 2013
<b>ASSETS</b>					
Intangible assets	261	0.2%	310	(49)	285
Property, plant and equipment	3,295	3.1%	3,594	(299)	3,921
Financial assets	84,469	79.9%	85,705	(1,236)	86,215
<b>NONCURRENT ASSETS</b>	<b>88,025</b>	<b>83.2%</b>	<b>89,609</b>	<b>(1,584)</b>	<b>90,421</b>
Inventories	1	0.0%	5	(4)	3
Receivables	15,795	14.9%	12,655	3,140	10,888
Other assets	1,338	1.3%	1,135	203	1,654
Cash and cash equivalents	221	0.2%	387	(166)	1,122
<b>CURRENT ASSETS</b>	<b>17,355</b>	<b>16.4%</b>	<b>14,182</b>	<b>3,173</b>	<b>13,667</b>
Prepaid expenses and deferred charges	418	0.4%	581	(163)	603
Difference between plan assets and corresponding liabilities	16	0.0%	6	10	7
<b>TOTAL ASSETS</b>	<b>105,814</b>	<b>100.0%</b>	<b>104,378</b>	<b>1,436</b>	<b>104,698</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>					
Capital stock and reserves	50,615	47.8%	49,497	1,118	48,491
Unappropriated net income	4,299	4.1%	4,667	(368)	2,877
<b>SHAREHOLDERS' EQUITY</b>	<b>54,914</b>	<b>51.9%</b>	<b>54,164</b>	<b>750</b>	<b>51,368</b>
Pensions and similar obligations	1,717	1.6%	1,682	35	1,879
Tax accruals	255	0.2%	194	61	257
Other accruals	3,288	3.2%	3,110	178	2,894
<b>ACCRUALS</b>	<b>5,260</b>	<b>5.0%</b>	<b>4,986</b>	<b>274</b>	<b>5,030</b>
Debt	9,428	8.9%	5,977	3,451	5,307
Other liabilities	36,019	34.0%	39,037	(3,018)	42,764
<b>LIABILITIES</b>	<b>45,447</b>	<b>42.9%</b>	<b>45,014</b>	<b>433</b>	<b>48,071</b>
Deferred income	193	0.2%	214	(21)	229
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>105,814</b>	<b>100.0%</b>	<b>104,378</b>	<b>1,436</b>	<b>104,698</b>

The increase of EUR 3.2 billion in receivables from subsidiaries results from higher receivables from cash management, mostly from Telekom Deutschland GmbH, Bonn. The other receivables decreased.

The increase in other assets of EUR 0.2 billion was mainly attributable to higher receivables from U.S. dollar derivatives amounting to EUR 0.7 billion. Receivables from collateral developed in the opposite direction, at EUR 0.4 billion.

The EUR 1.2 billion decline in financial assets year-on-year was mostly due to the write-down of the carrying amount of the investment in T-Systems International GmbH, Frankfurt/Main, in the amount of EUR 1.0 billion. Other factors contributing to this decrease were the repayment of loans by Telekom Deutschland GmbH, Bonn, in the amount of EUR 0.4 billion, the further sale of shares in Scout24 AG, Munich, in the amount of EUR 0.1 billion, and equity repayments during the year by Scout24 AG, Munich, also amounting to EUR 0.1 billion. The acquisition of shares in Ströer SE, Cologne, in the amount of EUR 0.3 billion arising from the disposal of Digital Media Products GmbH, Cologne, by way of a capital increase in return for a non-cash contribution to Ströer SE, Cologne, had an offsetting effect.

The decrease of EUR 0.3 billion in property, plant and equipment was primarily due to the depreciation of real estate.

The development of total shareholders' equity and liabilities was mainly influenced by the increase of EUR 3.5 billion in financial liabilities, of EUR 0.8 billion in shareholders' equity, and of EUR 0.3 billion in accruals, offset by the decrease of EUR 3.0 billion in other liabilities.

The increase in financial liabilities was primarily due to a net effect of EUR 2.7 billion from the issue of commercial paper exceeding repayments and to the further increase in liabilities to banks of EUR 0.7 billion.

Other liabilities were reduced by the net repayment of liabilities from Deutsche Telekom International Finance B. V., Amsterdam, in the amount of EUR 3.4 billion. The reduction in liabilities from cash management in the amount of EUR 0.8 billion also had an effect. This was offset to some extent by the increase in liabilities from collateral in the amount of EUR 1.2 billion.

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**Statement of cash flows of Deutsche Telekom AG under German GAAP**

millions of €

	2015	2014	Change	2014 <sup>a</sup>
<b>INCOME AFTER TAXES</b>	<b>1,889</b>	<b>4,005</b>	<b>(2,116)</b>	<b>4,005</b>
Net cash (used for) provided by operating activities	(134)	1,424	(1,558)	129
Net cash provided by investing activities	1,470	2,905	(1,435)	2,232
Net cash used for financing activities	(1,502)	(5,064)	3,562	(3,096)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(166)</b>	<b>(735)</b>	<b>569</b>	<b>(735)</b>
Cash and cash equivalents, at the beginning of the year	387	1,122	(735)	1,122
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>	<b>221</b>	<b>387</b>	<b>(166)</b>	<b>387</b>

<sup>a</sup> Previous year, not including GAS 21 adjustments.

The increase in shareholders' equity was due in particular to income after taxes for the financial year of EUR 1.9 billion and its effect on unappropriated net income as well as to the deposits of EUR 1.1 billion reported in capital stock and reserves by shareholders who chose to exchange their dividend entitlement for the 2014 financial year for shares as part of the fulfillment of dividend entitlements. The EUR 2.3 billion dividend payment for the previous year had an offsetting effect.

In the reporting year, in compliance with German Accounting Standard (GAS) 21, interest received was allocated for the first time to net cash provided by investing activities, while interest paid was allocated to net cash used for financing activities. The presentation of the statement of cash flows for 2014 was adjusted to ensure comparability of the prior-year figures. The unadjusted figures from the prior year were shown separately.

Net cash used for/provided by operating activities declined year-on-year by EUR 1.6 billion, resulting in net cash used for operating activities of EUR -0.1 billion. After elimination of the non-cash write-downs in the amount of EUR 1.4 billion and the net interest expense of EUR 1.3 billion in income after taxes, this trend results in particular from the net increase of EUR 4.4 billion in receivables from cash management, which was largely attributable to higher profit transfers from subsidiaries as well as the issue of short-term loans in connection with cash management at the Group. After elimination of the divestment share in the Scout24 group in the amount of EUR 1.0 billion and the net interest expense of EUR 1.2 billion with income after taxes of EUR 4.0 billion, the prior-year net cash provided by operating activities of EUR 1.4 billion had primarily been affected by the net increase of EUR 2.9 billion in receivables from cash management.

Net cash provided by investing activities in the reporting year was mainly influenced by repayments in connection with medium- and long-term investments at subsidiaries in the amount of EUR 0.9 billion and interest received in the amount of EUR 0.9 billion. In addition, net cash provided by investing activities was influenced by the sale of around half of the investment in Scout24 AG, Munich, amounting to EUR 0.4 billion, by the repayment of company funds by Scout24 AG, Munich, amounting to EUR 0.1 billion, and by deposits of EUR 0.4 billion for cash collateral furnished to hedge derivatives. Medium- and long-term investments of EUR 1.2 billion at subsidiaries had an offsetting effect. In the previous year, in addition to the net repayment of medium- and long-term investments at subsidiaries in the amount of EUR 0.2 billion, net cash provided by investing activities of EUR 2.9 billion had been primarily influenced by the sale of 70 percent of the shares in the Scout24 group for EUR 1.6 billion, by interest received in the amount of EUR 0.7 billion, and by deposits of EUR 0.4 billion for cash collateral furnished to hedge derivatives.

Net cash used for financing activities improved by EUR 3.6 billion year-on-year to EUR 1.5 billion. In the reporting period, this item mainly related to the net issuance of medium- and long-term financial liabilities of EUR 1.0 billion and the net issuance of short-term liabilities of EUR 0.3 billion. Interest paid in the amount of EUR 1.6 billion as well as the payment of the cash dividend of EUR 1.2 billion for the 2014 financial year had an offsetting effect. In the prior year, net cash used for financing activities of EUR 5.1 billion had primarily been influenced by the net repayment of current liabilities in the amount of EUR 2.0 billion, by interest paid in the amount of EUR 2.0 billion, and by the payment of the cash dividend of EUR 1.2 billion for the 2013 financial year.

Combined, this resulted in a decrease in cash and cash equivalents of approximately EUR 0.2 billion in the reporting year.

**RISK MANAGEMENT IN HEDGE ACCOUNTING**

We use derivatives to hedge interest rate and currency exposures; i. e., exclusively for hedging purposes, not for speculative gains. In the process, we continuously monitor the effectiveness of the hedge.



Sustainability at Deutsche Telekom

## CORPORATE RESPONSIBILITY

- Outstanding supply chain management
- Broad commitment to refugee aid

As a leading European provider of telecommunications services, another of our objectives is to be a pioneer in sustainability. We are committed to acting responsibly along our entire value chain and play an important role in solving today's ecological, economic and social challenges. In 2015, we extended our portfolio with products and services that enable our customers to increase the focus on sustainability in their lives. For us, corporate responsibility also means providing help swiftly and unbureaucratically in urgent crises. This prompted our Board of Management to set up its own refugee aid task force in summer 2015.

### DIALOG AND COOPERATION FOR GREATER SUSTAINABILITY

We gear our sustainability commitment systematically to the expectations of our different stakeholder groups, such as customers and investors. In an ongoing online survey, we identify the aspects that are of particular importance to our stakeholders. In addition, we rate these topics from a Company perspective. In the reporting year, we also analyzed which of these topics have a very strong impact on such corporate value drivers as sales, productivity, innovation capacity, employee relationships, and reputation. The results of the materiality analysis are a key prerequisite for further integration of sustainability in Company reporting. They influence the structuring process for the 2015 CR Report and in part are also included in this combined management report.

GRAPHIC 31 shows a selection of the most important sustainability topics from the corporate and stakeholder perspective.

Direct exchange with our stakeholders is crucial to the further development of our sustainability strategy. We therefore provide regular opportunities for personal dialog. In November 2015 we issued invitations to attend our two-day CR Stakeholder Forum under the heading "Enabling sustainability – Turning visions into reality." There, we discussed such aspects as sustainable business models, product innovations, and social and ecological challenges in the supply chain with employees, suppliers, NGOs, and other stakeholders. Participants made clear recommendations for the future, for example greater consumer involvement and intensified cross-industry collaboration.

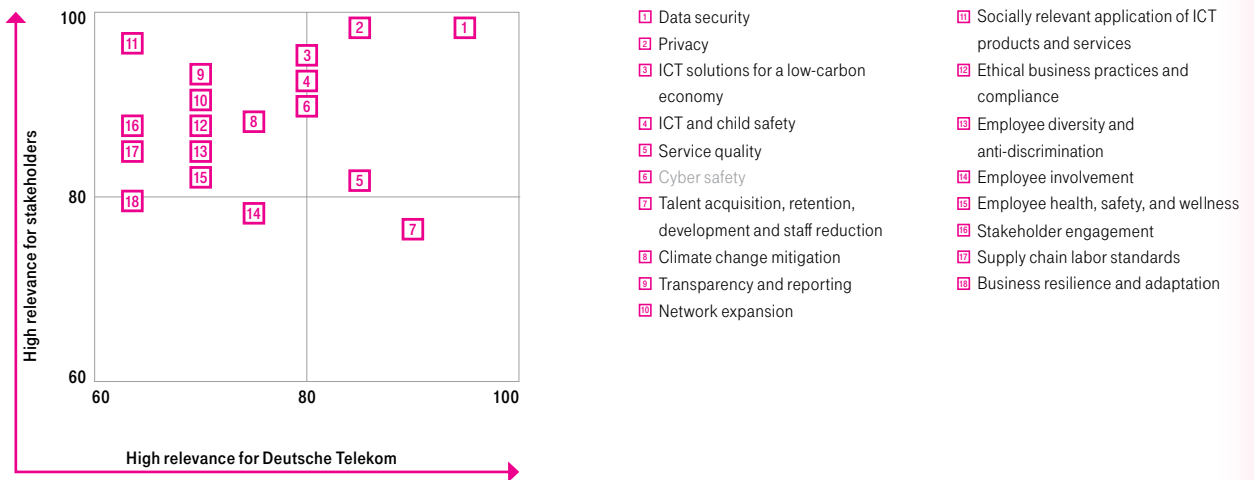
We give stakeholders a concrete chance to participate in numerous areas, for example through our Data Privacy Advisory Council, which held regular meetings again in 2015. This independent body was established in 2009 and its members include leading data protection experts from the fields of politics, science, business, and independent organizations. It advises the Board of Management and adds an external perspective to that of our internal data protection and security organization. In 2015, these different stakeholder perspectives were also integrated into industry-wide projects, for example, with the Global eSustainability Initiative (GeSI) and the Joint Audit Cooperation.

### MEASURABLE PROGRESS

Since the year 2010 we have measured the progress made as a result of our sustainability commitment using a set of metrics subsumed as the ESG KPIs (Environment, Social and Governance Key Performance Indicators). These performance indicators enable our stakeholder groups to assess our CR commitment. They also provide a transparent basis on which we can systematically improve our ESG performance on an ongoing basis. The most important ESG KPIs have been included in our annual report since 2011.

G 31

Materiality matrix of Deutsche Telekom



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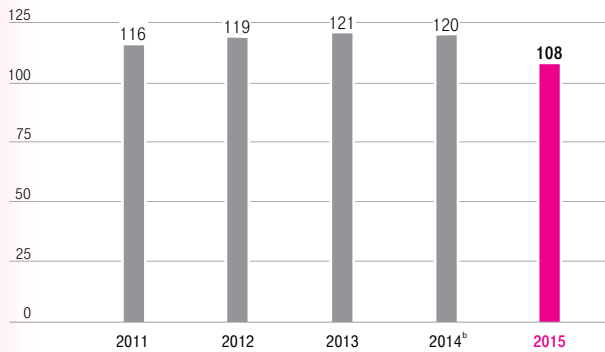
In the 2014 Annual Report, we forecast trends for 2015 for individual ESG KPIs, namely Energy Consumption, CO<sub>2</sub> Emissions and Sustainable Procurement. The figure for the Energy Consumption ESG KPI decreased in the reporting year compared with 2014, a positive trend that is even stronger than anticipated. As revenues increased, electricity consumption throughout the Group remained stable, and actually fell slightly in Germany, in 2015. In view of the lightning rise in worldwide data traffic and the continuing network build-out, this stable trend is a success and has only been possible due to the progress we have made in energy efficiency.

We had assumed there would be a slight decline in the CO<sub>2</sub> Emissions ESG KPI for 2015, i. e., a slight improvement. This is consistent with the actual trend, which is in particular due to the aforementioned stable development in electricity consumption and the slight fall in emissions from fuel and natural gas consumption. In the case of the Sustainable Procurement ESG KPI, which stands at 78 percent, we actually exceeded the target forecast for 2015.

G 32

**Energy Consumption ESG KPI<sup>a</sup>**

Expressed as MPEI: electricity consumption (thousand MWh)/revenue (billions of €)



Revenue billions of €	55.4	55.7	57.8	61.9	68.6
Electricity consumption (thousand MWh)	6,409.4	6,624.7	6,992.9	7,424.0	7,421.5

■ Energy Consumption ESG KPI: Ratio of electricity consumption to relevant revenue, calculated as Monetary Power Efficiency Indicator.

<sup>a</sup> Calculated on the basis of appropriate estimates and extrapolations.

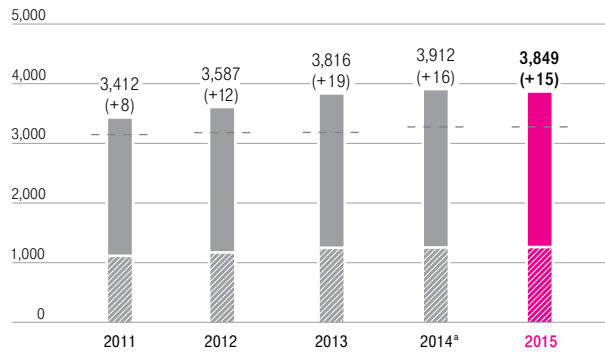
<sup>b</sup> Since data had mistakenly been entered twice, electricity consumption and the corresponding ESG KPI were adjusted retrospectively for 2014.

G 33

**CO<sub>2</sub> Emissions ESG KPI**

CO<sub>2</sub> emissions in thousands of metric tons

(Changes in %, compared against 2008 base year for the climate target)



■ CO<sub>2</sub> emissions (Scopes 1 and 2). Emissions are measured in CO<sub>2</sub>-equivalent values based on energy and fuel consumption employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

▨ T-Mobile US share

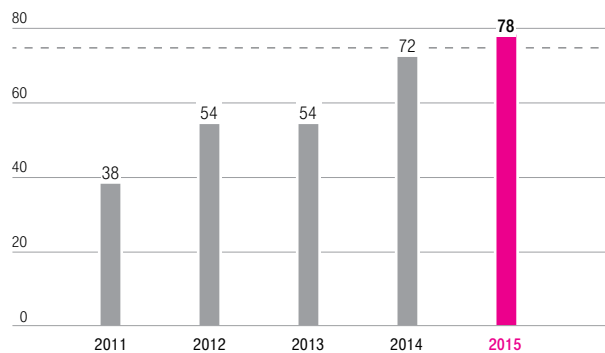
- - - Relevant base year for climate target (2008)

<sup>a</sup> Since data on energy and natural gas consumption had mistakenly been entered twice, CO<sub>2</sub> emissions and the ESG KPI were adjusted retrospectively (previously 3,872 and +18 percent respectively), in addition to the retrospective technical adjustment of the relevant base year for the climate target.

G 34

**Sustainable Procurement ESG KPI**

%



■ Procurement volume covered by supplier self-assessments and/or audits as a percentage of total sourcing volume.

- - - Target value

For the years 2016 and 2017, we anticipate a positive trend, namely that our Energy Consumption ESG KPI will decrease over the next two years. This trend is based on the ratio between the slight savings in power consumption and increasing revenues. We expect the reductions in power consumption in particular as a result of our network migration to IP technology in Germany, improved network utilization in general, and the consolidation of T-Systems data centers in various countries. These savings are expected to be partly counterbalanced by the expansion of T-Mobile US and the accompanying rise in power consumption.

The developments in power consumption are also the main drivers of the trend in our CO<sub>2</sub> emissions. We therefore also expect our CO<sub>2</sub> Emissions ESG KPI to fall slightly in 2016 and 2017. Our expectation for the Group units participating in the climate protection target is that, in 2020, CO<sub>2</sub> emissions will lie 20 percent below the rate of the base year 2008 (excluding T-Mobile US).

In the coming years we expect our Sustainable Procurement ESG KPI to rise slightly above the figure achieved in the reporting year.

The trend in the Social Commitment ESG KPI reflects the German public's growing expectations of our Company's social commitment, whereas Deutsche Telekom's performance receives the same rating as the previous year. Public expectations of our commitment have increased significantly - influenced primarily by the issue of refugees, which is the subject of heated public discussion at present.

G 35

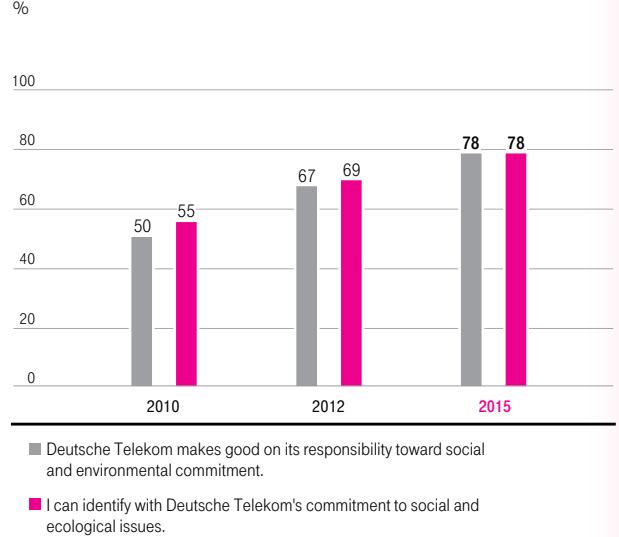
**Social Commitment ESG KPI**



Source: TNS Infratest: survey carried out by the Group in Germany on CRQI (Corporate Reputation Quality Indicator).

G 36

**Employee identification with CR commitment**



Source: Deutsche Telekom employee survey (excluding T-Mobile US)

We use the Employee Identification with CR Commitment ESG KPI to determine the degree to which our staff identify with, or how satisfied they are, with our CR commitment. It is based on our Group-wide employee survey, which is carried out every two to three years. Evaluation of the survey showed a marked upward trend in both areas.

**REDUCING CO<sub>2</sub> EMISSIONS, PROMOTING CLIMATE PROTECTION**

We are convinced that the use of innovative technologies will enable us to play a key role in global climate protection. For this reason, we help our customers reduce emissions by providing climate-friendly products and services. Alongside Scope 1 and Scope 2 emissions, we also give a full report of the Scope 3 emissions resulting from our Company's business activities in Germany in the CDP (Carbon Disclosure Project). These were first included in 2014. Scope 3 emissions are all emissions from the upstream and downstream stages of the value chain and emissions that are not directly accounted for by energy consumption in the Company. These Scope 3 emissions fell slightly year on year by about 1 percent to 4.2 million metric tons. The key drivers of this development are declining sales in devices, e.g., fixed-network telephones and tablets. Although several emission factors reflect changes on the previous year, the resulting arithmetical effects counterbalance each other in the final total. One encouraging feature is the rise in the proportion of leasing contracts for routers and media receivers due to improvements in average service life and better recycling rates. Emissions from business travel, commuter traffic, the supply chain, and use of products and services are recorded as Scope 3 for the entire Group and are being reported for the first time in the 2015 CR Report.

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With our climate protection measures in network build-out, facility management, and our vehicle fleet, our goal is to reduce our CO<sub>2</sub> emissions by 20 percent by the year 2020 compared with 2008. In this context, we achieved an important partial success in 2015. The CO<sub>2</sub> emissions of all cars we acquired in Germany during the year totaled an average of 110 g CO<sub>2</sub>/km, based on manufacturer specifications. This puts them below the EU target of 120 g CO<sub>2</sub>/km. Likewise, our national companies have also launched their own programs. One example is our Hungarian company Magyar Telekom, which operated on the basis of full climate neutrality for the first time in 2015. To make this possible, the company upgraded its networks and data centers, and increased the percentage of vehicles with alternative drive systems in the company fleet. Additionally, Magyar Telekom procures 100 percent of its electrical energy from renewable energy sources.

Beside our own activities, we again took a stand on climate protection at political level in 2015. In the run-up to the UN climate conference in Paris, we campaigned for an ambitious joint climate protection target for the participating states. For example, our CEO Timotheus Höttges signed the Paris Pledge and our Company participated in the Train to Paris initiative launched by the International Union of Railways. We are extremely pleased that the Paris Agreement plans to restrict global warming to well below 2 °C, if possible 1.5 °C. As ICT providers, we want to play a vital role in this field with our products and solutions.

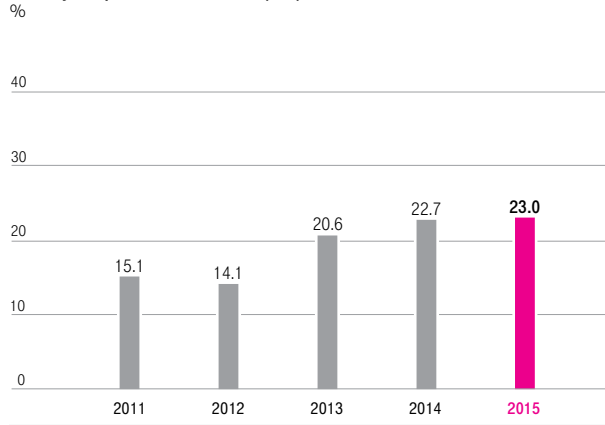
**INVESTORS OPT FOR RESPONSIBILITY**

Our Socially Responsible Investment ESG KPI gages perception of our CR activities by the finance markets. It measures the proportion of T-Shares held by investors whose investment strategies take into account not only the economic but also – at least to some degree – the ecological and social aspects of corporate governance. To inform investors in detail about our CR commitment, we staged two Socially Responsible Investment (SRI) roadshows in June and December 2015, and also provided them with information during separate telephone conferences. Besides this, we answered numerous direct inquiries on our sustainability performance from rating agencies, analysts, and investors. At the end of 2015, around 21 percent of T-Shares were owned by investors who consider

SRI criteria in their investment decisions at least to some extent. 2 percent of T-Shares were held by investors who give priority to SRI aspects when managing their funds. Increasingly, our efforts toward greater sustainability and social commitment pay off, not only in terms of reputation.

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**Socially Responsible Investment (SRI) ESG KPI**



■ Proportion of shares in Deutsche Telekom AG that is owned by investors whose investment strategies take environmental, social, and governance criteria into account (data source: Ipreo based on Deutsche Telekom’s shareholder structure as of Sept. 30, 2015). Please note that SRI classifications are subject to change regarding firms and funds depending on intelligence about sustainability and/or ESG policies researched by Ipreo Ltd. As a result, historical figures might not match due to reclassifications or inclusion of investors and funds due to more recent public filings or enhanced intelligence on the investors’ sustainability and ESG policies.

More and more investors also take CR ratings into account when deciding to invest. These ratings assess the sustainability performance of business enterprises. In line with our CR rating strategy, we confine ourselves to CR rating requests that serve as a basis for the sustainability indexes shown below (see TABLE 037). These indexes were chosen using criteria that take account of reputation, relevance for investors, and rating independence.

T 037

**Listing of the T-Share in sustainability indexes/ratings**

Rating agency	Indexes/ratings/ranking	Successfully listed in index				
		2015	2014	2013	2012	2011
RobecoSAM	DJSI World	✓	✗	✗	✓	✓
	DJSI Europe	✓	✗	✗	✓	✓
CDP	Carbon Disclosure Leadership <sup>a</sup>	✓	✓	✓	✗	✗
	Performance Leadership Report	✗	✗	✗	✗	✗
oekom research AG	"Prime" (sector leader <sup>b</sup> )	✓	✓	✓	✓	✓
Sustainalytics	STOXX Global ESG Leaders	✓	✓	✓	✓	✓
	iSTOXX 50 SD KPI	✓	✓	✓	n.a.	n.a.
	UN Global Compact 100	✓	✓	✓	n.a.	n.a.
FTSE Financial Times Stock Exchange	FTSE4Good	✓	✓	✓	✓	✓
MSCI	MSCI Global Climate	✗	✗	✗	✗	✓

✓ Successfully listed    ✗ Not listed

<sup>a</sup>Deutsche Telekom is sector leader in the DACH (Germany, Austria, Switzerland) region.

<sup>b</sup>Based on "oekom Industry Report" (2014).

In 2015, the T-Share was listed on leading sustainability indexes – and again on the eminent DJSI World and the DJSI Europe Index from RobecoSAM. In addition, rating agency oekom singled us out as the world's best telecommunications company in terms of ecological and social performance in 2015. A top score of 100 points can be achieved in the CDP Carbon Disclosure Leadership index. We improved slightly once again from 98 to 99 points, thereby gaining a firm foothold as industry leader for the DACH region (Germany, Austria, and Switzerland). Furthermore, we appear on the STOXX Global ESG Leaders Index for the fifth year in succession. In the Sustainalytics rating agency ranking on which this index is based, we emerged as no. 2 in the telecommunications industry worldwide and no. 3 among all German companies in the last financial year. Once again, our share was listed on the FTSE4Good index and the UN Global Compact 100 index in the reporting year.

### SMART TECHNOLOGIES FOR SUSTAINABLE DEVELOPMENT

State-of-the-art information and communication technologies not only simplify our lives but can also make our world cleaner and healthier – as well as providing people all over the globe with greater opportunities. This is the conclusion drawn by the SMARTer2030 study from GeSI, on which we collaborated. It confirms that smart use of ICT enables innovative, more cost-effective business models that use resources sparingly. This will make it possible to reduce global CO<sub>2</sub> emissions by 12.1 billion metric tons by the year 2030 and, at the same time, to achieve economic benefits of up to USD 11 trillion.

We have set ourselves the goal of systematically exploiting the potential offered by these smart technologies. On the basis of a comprehensive analysis of our 2015 product portfolio, we anticipate major sustainability advantages for many of our products and services. In the reporting year, we added more sustainable products and services for consumers and business customers to our portfolio. They include solutions that help our customers make sparing use of valuable resources, reduce their energy consumption and improve their safety.

- **Farm 2.0: More efficient farming.** The SMARTer2030 study states that using ICT in farming could cut CO<sub>2</sub> emissions by around 2 billion metric tons by the year 2030. At the 2015 Agritechnica trade show, we presented a solution that helps farmers to dispense seeds and fertilizer more efficiently and to optimize machine fuel consumption. To make this possible, precise position data is routed into the steering system via the mobile network, making it possible to avoid unnecessary multiple tillage passes during sowing, fertilizing, and harvesting. The new technology is affordable and can be upgraded without the need for a separate base station.
- **Smart cities: Intelligent street lighting in Dubrovnik and Budapest.** Smart street lights control illumination times with sensors and therefore save energy. We set up street lights with integrated motion, air pollution, temperature, and acoustic sensors as part of a pilot project in Dubrovnik in May 2015. In addition, the lighting solution which we installed in Budapest in November 2015 is equipped with a charging station for electric cars, a WiFi router, a security camera, and an emergency button. Intelligent street lighting is a module within our Smart City concept and offers state-of-the-art communication infrastructures to support sustainable city development.

- **Remote e-bike diagnosis, tracking, and emergency calls.** Bicycle maker BULLS, e-bike system vendor Brose, and Deutsche Telekom presented a jointly developed, connected electric bicycle in 2015. Owners can locate their bikes at any time on a smartphone or retrieve data on how far they can cycle before they need to charge the battery. Besides this, a motion sensor detects unusually fast braking activity and extreme tilting which could result in a fall. If the user stops for an unusually long time and does not react to a message on the display, the bike sends a text message with location data to a pre-defined contact person. In the event of an accident, this makes it easier to find the cyclist quickly and to provide assistance. BULLS is planning to launch the bike on the market as a special model in 2017.
- **Blue Angel award for Telekom Deutschland.** Deutsche Telekom is the only telecommunications company in the world to offer fixed-network telephones with a Blue Angel certificate. In acknowledgement of these efforts, Telekom Deutschland was awarded the Blue Angel prize within the context of the German Sustainability Award 2015. At present, DECT phones from the Sinus range and IP phones from the Speedphone range come with the Blue Angel. These models save energy thanks to the use of more energy-efficient switched-mode power supplies and transmission power which can be set to suit individual needs. On top of this, the devices also have replaceable batteries, which gives them a longer service life.

### SUSTAINABLE SUPPLY CHAIN AS AN OPPORTUNITY

We collaborate with more than 30,000 suppliers in over 80 countries. Our sustainable supplier management system not only reduces risk but also creates competitive advantages and boosts our reputation. In 2015, we were commended for this with two awards, the German CSR prize in the "Sustainability in the supply chain" category and the German Award for Excellence in the "Responsible sourcing" category.

We have established wide-reaching social standards throughout the Group and worldwide, and are committed to putting them into practice. Our Code of Conduct and our Social Charter also apply explicitly to our suppliers. When selecting them, we take sustainability criteria systematically into account, for example by giving sustainability a 10-percent weighting in our tenders. We include a binding CR clause, which obligates all suppliers to comply with our sustainability requirements. We also require them to provide self-assessments and conduct business audits. To ensure that our suppliers can meet our stringent requirements, we provide partner support in the form of training offers and development programs.

One example is our development program for strategic suppliers, with whom we cooperate to develop joint solutions for such aspects as environmental protection, working hours regulations and occupational health and safety. Better working conditions have a positive influence on employee loyalty and motivation, raise productivity, and improve the quality of products; a win-win situation for our suppliers as well as for our Company. Having launched the pilot with three suppliers in 2014, we extended the project in 2015 to build a comprehensive development program in which seven companies already participate. Preparations are under way to include more suppliers in the course of 2016. Since the program was launched, CO<sub>2</sub> emissions in our supply chain have been reduced along with the costs arising from fluctuation and associated recruitment activities. In addition, there has been a significant increase in



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the productivity of several participating suppliers, one of whom, for example, has improved assembly line productivity by 34 percent and cut CO<sub>2</sub> emissions in the supply chain by 16,000 metric tons.

### MAKING CONNECTIONS, ENABLING INCLUSION

Our goal is to connect people, not only with our products and services but also with our social commitment. We work actively to ensure that everyone, regardless of age, background, or education, can participate in our society. To promote equal opportunities, we support key skills, for instance to help young people shape their lives successfully, and launch various projects that teach them how to use today's information and communication technologies safely. As a result of the vast flow of refugees to Europe, activities in the year 2015 focused to a great extent on refugee aid.

#### TASK FORCE FOR REFUGEE AID

In view of the massive challenges involved in aid work for refugees, our Board of Management set up its own task force in August 2015. It pools our various aid programs in Germany to ensure that support can be provided faster and with less red tape.

- The link via e-mail or messenger services is usually the only way for people in refugee shelters to keep in touch with their families and friends. By the end of 2015, we had already supplied free WiFi to around 60 refugee reception centers.
- How can I apply for asylum? Where can I learn German? Am I allowed to work? Where can I get help? The answers to this and many other questions can be found on our "<https://refugees.telekom.de>" Internet platform. The portal also makes it possible to contact local helpers and organizations. It is available in 8 languages and is being continually expanded.
- We made the offer of Deutsche Telekom properties as refugee accommodation.
- In 2015, we advertised over 100 internships at Deutsche Telekom and offered grants for students to study at our HfTL University of Applied Sciences in Leipzig via the "workker.de" refugee platform. From September to December 2015, we were able to assign 26 internships to university and school students and seven grants for university courses.
- At their own request, we seconded civil servants in our Group to work at the Federal Office for Migration and Refugees.
- Many of our staff help out in the temporary shelters, accompany refugees on visits to the public authorities, and donate both clothing and money. We support this voluntary commitment via our "engagement@telekom.de" platform. Over 70 aid projects had been launched by the end of 2015. Other activities include German language courses and joint integration activities.

- We work with ministries, public authorities, adult education centers, and all operators of temporary shelters such as the German Red Cross, Caritas, and the German Workers' Samaritan Federation (ASB). We also cooperate with Germany's Relief Coalition "Deutschland hilft" and its partners. Furthermore, we work closely and pragmatically with over 30 other companies to achieve specific targets.

At our European sites along the refugee routes, we implement various aid projects to suit local needs. We offer people in many countries free Internet access to ensure they can keep in touch with their friends and relations. Several of our national companies have set up donation hotlines. The OTE group in Greece, for instance, provided financial support for the coastguard service, which has already helped to save 74,000 people from drowning. T-Mobile Austria has been working in refugee aid since 2010, helping for instance to give young refugees a new perspective in life. Since then, ten percent of trainee positions in Austria's T-Mobile shops have been reserved for young refugees who enter the country without their families and are supported by "lobby.16." This association organizes training and continuing education for young unaccompanied refugees.

#### KEY COMPETENCIES FOR THE INFORMATION AND KNOWLEDGE SOCIETY

Our "Yes, I can!" initiative teaches young people key skills to enable them to act independently and with self-confidence. In doing so, it promotes equal opportunities within our society. In the reporting year, more than 200 new projects went live with funding totaling over EUR 800,000. The focal theme in 2015 was "Exploring, understanding and shaping my environment," in which children and young people were encouraged to take a close look at their direct environments and to get to know their surroundings from a completely new perspective. Numerous other skill-enhancing projects, for example in the areas of crafts, the theatre, and geocaching, also received support from the initiative. Since it was launched six years ago, over 900 projects have been funded by the initiative nationwide with a total volume of EUR 5 million. This has made it possible to reach over 75,000 children and young people.

Our Teachtoday initiative supports children, young people, teachers, and parents by providing day-to-day, practical learning materials, an Internet portal, and local events to ensure that they can handle the new technologies safely. In 2015 our Teachtoday media obstacle course took to the German roads. Awareness was raised for safe media usage in a playful manner among over 4,900 school students between the ages of 9 and 12. Over 150 children participated in the Summit for Kids held in Bonn in November 2015. The climax of the event was the award ceremony for prizes in the safe media usage competition, which was open at international level for the first time and in which projects from five countries took part. The jury commended a total of seven projects in the two categories "Learning with digital media" and "Safe media usage." They included the joint media project Homeland!?, which focused on the refugee migration from Syria and was submitted by the Martin Luther King School in Saarlouis. Scroller is a new media magazine for children that we designed in 2015. The teachtoday.de portal is available in English in addition to German.

At international level, we are also committed to teaching young people how to use the Internet safely. For example, more than 60,000 children and young people have already participated in our Smart Digital program in Hungary. In 2015, we offered our first online courses for parents and teachers on this theme.



More information on the subject of innovation can be found online at: [www.telekom.com/innovation-en](http://www.telekom.com/innovation-en)

## INNOVATION AND PRODUCT DEVELOPMENT □

- Group Innovation<sup>+</sup> – Innovation you can trust
- Answers for the digital future

### INNOVATION PROVIDES ANSWERS FOR THE DIGITAL FUTURE

Innovation is a key cornerstone of our Group strategy. It is of crucial importance in our core business units, where it is vital to assert ourselves in the face of growing competition and to position ourselves as a premium provider in the long term. The basis that we use to do so remains unchanged, namely our high-speed broadband infrastructure for the fixed and mobile networks. We rely on digitization to offer our customers impressive experiences when using our products and our service.

We want to craft the digital future and, with our innovations, give our consumer and business customers answers today to the issues of the future. As a leading provider of telecommunications and information technology, we collaborate actively on developing and standardizing the 5th generation mobile communications standard (5G). Public acknowledgment for our innovations included a commendation from the Broadband World Forum for our hybrid router development as the “Greatest advancement in the field of fixed mobile convergence.” During the reporting year, we again improved our innovation capacity and realigned the organization and strategy underlying our innovation and product development activities.

### GROUP INNOVATION<sup>+</sup>

On May 1, 2015, we established Group Innovation<sup>+</sup> as the central innovation unit in the Group. It orchestrates all innovation activities at Deutsche Telekom and creates cross-segment product and service innovations. Group Innovation<sup>+</sup> merges innovations wherever we identify synergies for the Group. This gives rise to innovations not only within Group Innovation<sup>+</sup> but also in the units working on our traditional core business and direct marketing activities in the individual national companies.

Group Innovation<sup>+</sup> drives new areas of innovation with a longer development horizon of three to five years; the challenge it faces lies in backing the key solutions for the not-so-near future today. Secondly, Group Innovation<sup>+</sup> also provides classic product development services directly to our operating segments, in this case with a development horizon of one to two years. We strive to enrich our product portfolio with more new products and innovative solutions, which is vital if we are to position our operating segments as attractive and competitive elements of our core portfolio.

### INNOVATION YOU CAN TRUST

Group Innovation<sup>+</sup> is committed to “Innovation you can trust.” The unit delivers innovations that represent the essential brand attributes of our Group, namely trust and reliability. Our products and offers must naturally be safe, but “Innovation you can trust” means more than this. It means that our innovations will work easily, our products interact seamlessly with the network, service and partner offers. It is only the combination of innovation and core business activities that will ultimately grow successful innovations for our customers. Group Innovation<sup>+</sup>, our operating segments, and other innovation-oriented areas, such as Deutsche Telekom Capital Partners (DTCP), are closely networked and regularly exchange views so that we can identify our customers’ needs and supply them with innovative products and services.

“Innovation you can trust” is also the guiding theme of our internal collaboration. We can rely on each other and know that we are working on the right ideas. Innovation cannot be prescribed. Innovation is a culture that has to be nurtured and brought to life from the inside. Large enterprises like our Group, especially, need a vibrant corporate culture that fosters innovation. Key elements of this culture include fast decisions and implementation on the basis of lean internal processes, freeing up creative potential, promoting and challenging new ideas, and entrepreneurial initiative.

### INNOVATION FOCUS – FOUR AREAS OF INNOVATION

For innovation work to succeed, innovation activities must be geared to the Group as a whole and follow a holistic concept. We therefore rely – as GRAPHIC 38 shows – on our four inter-related innovation areas: consumer products, business customer products, network/infrastructure, and processes/service.

G 38

#### Areas of innovation



The focus is always placed on our customers, regardless of whether these are consumers or our business customers. Our concept involves identifying new customer issues, anticipating customer needs, and finding innovative solutions in response.

Here, it is essential to establish networking between the individual innovation areas, especially since many innovation topics relate to more than one of the four fields, e. g., convergent offers as a key strategic principle for our consumer products. We have made a splendid first move in Germany with the convergent products in our MagentaEins portfolio, and international roll-out has already begun. Group Innovation<sup>+</sup> is working to integrate more services in this convergence strategy, thus

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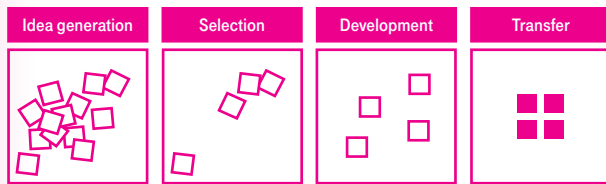
increasing the attraction of the MagentaEINS offers. In the case of business customers, our aim is to offer a simple, modular product portfolio and, at the same time, to combine our standard products intelligently with products from our partners. Our focus on the network side is on seamless, secure connectivity, above all for business customers – on a global scale and with quality differentiation. In the Processes/Service innovation area, we want to anticipate and respond to the requests and needs of our customers as specifically as possible and with consistent quality across all contact channels.

**INNOVATION GOVERNANCE**

Clear process structures give ideas the scope they need to grow and transform into innovative products and services. As GRAPHIC 39 shows, innovation processes in our Company pass through four phases.

G 39

**Deutsche Telekom’s innovation process**



- They all start with an idea – arising from market and trend research, customer feedback, from our staff in the product and innovation units, or from partnerships/collaboration with our partners.
- During the selection phase, we evaluate each idea: How easy is it to implement? How great is its potential? How high is customer interest rated?
- In the development phase, we integrate customer desires and requirements for design and handling into the product or service concept.
- Finally, the product or service is transferred to the market.

In each of the four phases, we naturally verify the extent to which the resources we use are in proportion to the anticipated result. This may well lead to development of a product being abandoned during one of the phases of the innovation process, which is a vital option, since not every good idea has the potential to become a good product or a good service. Every innovation must offer our customers added value.

We have set up an innovation governance concept to manage innovation processes in the Group. It includes the **Portfolio & Innovation Board**, which makes sure we get our priorities right. The board identifies and selects innovation focuses for our Group and decides how they will be executed in order to define and implement an innovative product portfolio

that offers maximum chances of success. In order to implement these strategic innovation focuses, we also continuously enhance our internal financing formats. This means that, with an additional innovation budget, we can equip new innovation projects or additional opportunities for existing strategic priorities with resources at short notice and without red tape. Such financing is granted independently of annual planning periods, and therefore intensifies our focus on market and customer requirements. With these resources, we finance both centrally managed innovations, e.g., through Group Innovation+, and local innovation developments, e.g., directly from our operating segments. This is subject to the proviso that the product and service ideas in question are in line with our Group’s central innovation focuses.

Sustainability is another of our product development drivers. The demand is growing for digital solutions that are secure, environment- and climate-friendly, and offer added value for our society. We therefore work intensively not only to improve the security of our services but also focus our development work on more energy-efficient technologies that will reduce CO<sub>2</sub> emissions, and on durable and recyclable products and digital care solutions in the areas of e-health and e-mobility. [ES](#)



**METHODS AND CONCEPTS**

**Design thinking.** The design thinking approach is the basis on which we tread new ground and acquire new insights. We have adopted it to ensure we differentiate ourselves from the market in general by offering outstanding customer experiences. Group Innovation+ has, for this reason, defined a standard design thinking concept. It includes a design process which is valid for the entire Group and can be transferred to development processes already in place in our two operating segments, Germany and Europe, as well as the different design thinking methods. Scope for learning, trying out and applying the defined content is offered by the Design Academy, our internal training platform. Design thinking will thus establish itself not only as an attitude within the Group but will also enrich and improve the actual cooperation across all Group units. Design thinking therefore produces design doing.

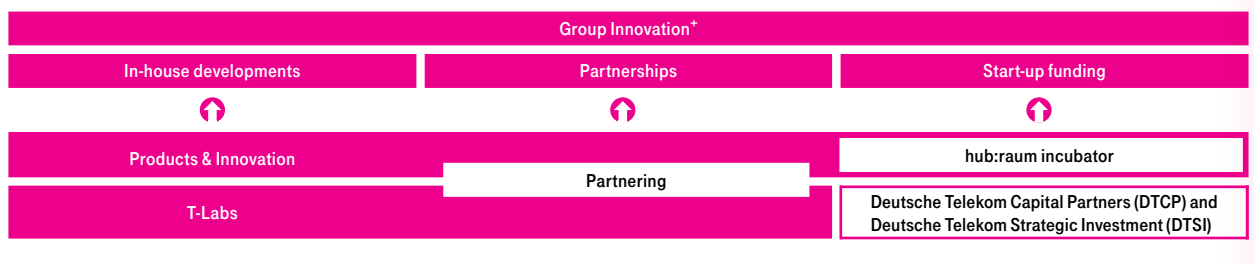
**Creating scope for ideas.** Our **Digital Innovation Arena** in Berlin creates the ideal scenario for ideas for digital life in the future. It offers first and foremost an optimal working environment, from a state-of-the-art IT infrastructure, modern premises and facilities for lively exchange which are available round the clock, through to creative rooms for relaxation. Here employees from T-Labs, from hub:raum, from the design and partnering areas work together on premises extending over around 8,000 square meters. The creative mix of people from all areas of our innovation business, ranging from entrepreneurs to developers and designers, makes the Digital Innovation Arena the hotspot for ideas in Germany.

### THREE-PRONGED INNOVATION STRATEGY

To develop even greater innovation capacity, we not only rely on our own innovations but also successfully integrate new ideas from outside Deutsche Telekom. Group Innovation<sup>+</sup> generates differentiation and growth from innovation in three different ways: from in-house developments, from partnerships and from start-up funding.

G 40


#### Three-pronged innovation policy




#### IN-HOUSE DEVELOPMENTS

In 2015, Group Innovation<sup>+</sup> played a key role in evolving and rolling out various innovative products, a selection of which we present below.

- Development of hybrid access commenced in 2010, and the product came to market in 2014. Over 150,000 customers now go online with hybrid technology. In 2015, the Broadband World Forum commended our hybrid router as the "Greatest advancement in the field of fixed mobile convergence."
- In response to the growing threats from cyber attacks, we offer self-employed people and small businesses end-to-end protection for their computers and mobile devices. We are the first provider in Europe to deliver the tried and proven Norton Small Business security package from the cloud. Users can subscribe, install, and operate the software easily through our cloud portal. In addition, IT consultants Experton Group named us Cloud Leader Germany 2015 in the categories "Communication as a Service" and "Cloud Marketplace (End-User)."
- In September 2015, Chip magazine tested our Smart Home solution in depth and rated it "very good." We added many new functions to Smart Home in the course of the reporting year. Since fall 2015, customers have been able to control Smart Home on their smartphones or tablets as well as with smart watches such as the Apple Watch or Samsung Gear S. We collaborated with BMW to present the integration of Smart Home into the ConnectedDrive system for the first time at IFA 2015. Users can now control a selection of Smart Home functions directly via their BMW entertainment system.

- With its Cloud of Things, Group Innovation<sup>+</sup> has taken an important step in the field of M2M solutions. Companies using the Cloud of Things can monitor their machines and devices from any place at any time, giving customers the broadest range of on-site service that can be performed from anywhere in the world. With this solution, Deutsche Telekom establishes the basis for many other services and products at various places in the Group.
- We now offer new devices, such as the PULS tablet and new tofino e-reader models.
  - PULS is a fully functioning Android 5.0 tablet, with which customers can operate the most popular Deutsche Telekom products from the start screen. It gives them an overview of their fixed-network calls, voice messages, program information, and Smart Home applications whenever they need it. MagentaZuhause products such as HomeTalk, SprachBox, and Entertain can therefore also be controlled even more quickly, directly from the start screen.
  - Two new devices with high-resolution displays were added to our tofino family in 2015 – tofino shine 2 HD and tofino vision 3 HD. The tofino shine 2 HD device won the DDC Design Award. 

**T-Labs.** With our central research unit, Telekom Innovation Laboratories (T-Labs), we operate our own research and development facilities at international locations, including Berlin, Darmstadt and Bonn in Germany, Beer Sheva and Tel Aviv in Israel, and Mountain View in the United States. There, some 500 experts and scientists from a broad range of disciplines develop and test new technologies. In doing so, they cooperate closely with industrial partners, international universities, and research institutions on the basis of open innovation and for our operating segments. At its main Berlin site, T-Labs has been associated with Technische Universität Berlin since 2004 in one of the biggest and best-known public-private partnerships in Europe. In 2015, T-Labs focused on a range of topics including the following:


 For more information on our new products, please refer to the section "Highlights in the 2015 financial year," PAGE 54 ET SEQ.

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- **Development of a digital carrier concept.** The main aspect of this work is to transfer the conventional telephony and messaging products into the digital world. Users will be able to communicate from all devices with their mobile number – without the need for SIM cards. This will pave the way for new products and services such as virtual phone numbers, multiple identities and group video communication.
- T-Labs develops systems and prototypes that make it possible to effectively bundle different access technologies and to assign them to the appropriate application. In 2015 they included further hybrid developments based on the OpenSource concept and the DSL community. The latter development bundles adjacent DSL lines and was the subject of a successful field test with customers in Berlin at the end of 2015. T-Labs also makes a significant contribution to our 5G program, for example to the EU-funded METIS project (Mobile and wireless communications Enablers for the Twenty-Twenty Information Society).
- In the digitization of industrial production processes, the focus was placed on the development of secure and programmable communications solutions for the industrial Internet. Alongside the technical challenges it faced, T-Labs supported cooperation among relevant players in Germany as a center of industry and innovation, e. g., through its commitment to the Industry 4.0 platform ([www.plattform-i40.de](http://www.plattform-i40.de)), the world's biggest and most versatile Industry 4.0 network uniting business, science, politics, associations, and trade unions. The highlight of the year was Germany's National IT Summit in November 2015, at which we presented "typical" scenarios from a digitized production system to the German Chancellor, using the Industry 4.0 Demonstrator jointly developed by Deutsche Telekom, SAP, Siemens, and Festo.
- In the area of **Data Analytics**, T-Labs works on use cases, pilot projects, and concepts that will enable the suitable use and analysis of big data. One example of this is the Synthetic Data research project. Algorithms are used to generate artificial data that no longer relates to the sensitive personal source data, yet still largely retains its features. T-Labs has founded a Smart Data Lab for knowledge exchange and Group-wide collaboration – a meeting point where staff dealing with data analytics can benefit from the infrastructure and tools, attend training and test use cases.

## PARTNERSHIPS

As well as developing in-house solutions, Group Innovation<sup>+</sup> repeatedly chooses to collaborate with partners on innovations, in accordance with our Group strategy. The object is to establish a broader range of innovative products and services that can be offered to customers. In doing so, Deutsche Telekom taps the vast innovative strength of Silicon Valley, Israel, Germany, and other innovation hotspots.

We would like to present some examples of these successful partnerships below. 

- For consumers, we have established a partnership with Fon in several countries, which strengthens our position in the fixed network. Fon is a WiFi community with access to over 17 million WiFi lines worldwide. By the end of 2015, we had reached a figure of more than one million WiFi lines and thus had a 6-percent share in Fon spots worldwide (compared with just over 2 percent at the end of 2014). The service is available in Germany, Croatia, Greece, and Romania.
- By rolling out the video and image processing solution from **Magisto**, we have made a service exclusively available in all our markets that enables users to share their photos and videos.
- We collaborate with such partners as **Cyan** in the area of mobile security in order to protect smartphones from all types of viruses.
- With our Hungarian **MiniCRM** package, we offer a cloud CRM solution for small and medium-sized enterprises throughout Europe. The collaboration covers more than just product sales, and includes consulting, training, and personalization. This partnership was integrated via the Easy2Partner hub, our "Steckerleiste" (power strip) model in Hungary. Through a single technical integration process, we can now offer the product in five national companies.

## START-UP FUNDING

In May 2012, Deutsche Telekom opened an incubator, a start-up support center, of its own in Berlin under the name "hub:raum." The object is to support young companies with new ideas for telecommunications and Internet services during the start-up phase. We use hub:raum to regularly monitor over 1,000 start-ups and maintain close contact with them. In the reporting year, hub:raum invested in four start-ups.

- **Flexperto:** A Software as a Service solution which helps insurance companies, for instance, to digitize their advice sessions with video chats.
- **M2MGO:** Offers an Internet of Things building kit, first and foremost for smaller businesses.
- **Teraki:** Develops a software package that selects relevant Internet of Things data.
- **CiValue:** Offers a cloud-based big data platform used by online shops to gear their delivery channels to the needs of their customers; the first Israeli start-up in our hub:raum portfolio.

In order to improve networking and support among the start-ups and help them in their internationalization efforts, we set up a Telecom Start-up Alliance. It includes our French partners from Orange with their Fab incubator, our Spanish colleagues from Telefónica with Wayra and Singtel from Singapore with Innov8. Besides this, we cooperated with Intel and Cisco to launch the first ChallengeUp IoT Accelerator program in 2015. The core task is to help IoT/loE start-ups on the way to a faster market launch.



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For more information on our cooperations and partnerships, please refer to the section "Highlights in the 2015 financial year,"

PAGE 54 ET SEQ.

We plan to greatly expand and restructure our commitment in the areas of venture capital and technology innovation for the subsequent phases, the early/late or growth phases, with Deutsche Telekom Capital Partners (DTCP), a company we formed at the beginning of 2015. DTCP is Deutsche Telekom's investment management group and is positioned at the center of our redesigned investment concept. DTCP offers growth capital for the early and late growth phases, investments in SMEs and mature companies, and strategic consulting in the technology, media, and telecommunications sectors. We plan to invest a total of EUR 500 million over the next five years via DTCP. Although DTCP also has a strategic focus, its investments will have a strong financial drive. DTCP aims to acquire shares in companies, to see these companies grow, and to sell the shareholdings again at a profit. By choosing the most successful start-ups and collaborating closely with them, strategically relevant cooperation options and business relationships with the Group arise virtually "automatically."

In cooperation with DTCP, we launched our new Deutsche Telekom Strategic Investment unit (DTSI) at the end of October 2015 to handle investments that are primarily strategically motivated. DTSI focuses its investment activities not only on external start-ups that are identified as being of major strategic relevance but also supports and implements in-house ventures as spin-offs. In this case, ideas from Deutsche Telekom are spun off as young companies, making greater entrepreneurial freedom and shorter decision paths possible. Additionally, DTSI manages the existing portfolio of DTVF (Deutsche Telekom Venture Funds GmbH), which was closed for new investments, with the object of supporting the further development of around 90 existing shareholdings (including follow-up investments) and divesting them at a profit.

The combination of an external, financially-oriented team and an in-house, strategically-oriented team enables us to forge the vital link between external and internal networks and know-how, and gives us the flexibility we need to provide each investment with precisely the support it needs.

## PATENTS

Patents are gaining more and more significance in the telecommunications industry. Market players and their areas of activity are changing, with a knock-on effect on our IPR (intellectual property rights) agenda. On the one hand, our Group's scope for action must be maintained. On the other, and alongside our own research and development activities, we want to open the door to open innovation through cooperation and partnerships. National and international IPRs are vital for these types of activity. We are strongly dedicated to generating our own property rights. In the reporting year, we filed 279 patent applications, taking the total number of IPRs held by the Group to around 8,400.

Thanks to our intense efforts to develop and structure our IPR portfolio, the rights we hold are highly valuable and firmly in line with our Group's strategic objectives. We have put in place a professional patent law management process to keep our IPR assets safe. Additionally, we are represented on various standardization bodies in our industry. We manage our IPRs on the basis of cost/benefit aspects, filing only selected applications and de-registering patents systematically.

## EXPENDITURE AND INVESTMENT IN RESEARCH AND DEVELOPMENT

Research and development (R&D) expenditure includes pre-production research and development, such as the search for alternative products, processes, systems, and services. By contrast, we do not class as research and development expenditure the costs of developing system and user software which is designed to improve productivity and make our business processes more effective. In 2015, R&D expenditure in the Deutsche Telekom Group amounted to EUR 108.1 million, above the level for the previous year. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure. At EUR 86 million, this amount lay above the prior-year level (2014: EUR 60 million). However, this figure may not be viewed in isolation from the three-pronged innovation strategy referred to above – of in-house developments, innovations from external partners and start-up funding.

Our Group's investments in internally generated intangible assets to be capitalized were also up year-on-year at EUR 101.3 million compared with EUR 93.2 million for the previous year. These investments predominantly relate to internally developed software, mainly in our Systems Solutions operating segment. In the reporting year, some 2,800 employees (2014: around 2,900) were involved in projects and activities to create new products and market them more efficiently.

T 038

### Expenditure and investment in research and development

millions of €

	2015	2014	2013	2012	2011
Research and development expenditure	108.1	95.6	97.0	65.9	121.4
Investments in internally generated intangible assets to be capitalized	101.3	93.2	112.0	78.0	122.4

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## EMPLOYEES

- Reorganization of work in the digitized ecosystem
- HR priorities for 2015

### REORGANIZATION OF WORK IN THE DIGITIZED ECOSYSTEM

Work in the digitized ecosystem is being given a complete overhaul. The important thing will be focusing on people. Digitization creates the perfect platform for innovation. We will see new forms of collaboration, new business models, but also an increase in the automation of tasks that are currently performed by people. This makes it all the more important that our employees build digital skills as they will be essential for anyone wanting to succeed in the future. In addition, we need work environments that are adapted to the respective conditions and standardized technologies that enable us to connect with each other. Looking ahead to the future, knowledge will be increasingly shared, and processes and communication will be democratized. 

Leadership will also change. Leadership in the future will be more participative and more virtual because managers will not have personal access to every employee. If we are to keep up with the pace of digitization, we will need to make decisions faster, i. e., organizations need to be more decision-oriented.

HR will actively shape and support the transformation process, which is why part of our focus in 2015 was on determining the following HR priorities:

### HR PRIORITIES

1. Talent strategy and planning
2. Performance management and leadership
3. Work in the digital age
4. Skills management and qualification to meet future needs

Below are some examples of the measures we will use to implement and drive our HR priorities forward.

### OUR HR WORK BASED ON THE HR PRIORITIES

#### 1. TALENT STRATEGY AND PLANNING

**Our talent management team is getting ready for the digital future.** We believe in global talent management and a worldwide recruitment process. These form the basis for our succession planning and the placement of talented people within the Company. The success of our business depends on having committed, ICT-savvy, service-oriented employees, and it is therefore crucial to develop these talented employees and secure their loyalty.

Training and advancing our employees has always been crucial for attracting junior staff and contributing to the Group's innovativeness and future viability. Individual talent must be identified and nurtured early on, for example with our Young IT Talents and Young Sales Talents programs. Additionally, each year, our 140 top apprentices and students on cooperative degree programs are offered a placement abroad.


**The digital future needs networking.** Our talent management approach encourages young talent to take responsibility for their own career management, using modern (IT) tools and processes. To foster networking among them, we also offer face-to-face networking events and a shared online platform. Digital collaboration is complemented by a talent conference for more than 300 young people and 100 managers from all countries, segments, functions, and organizations. In 2016, we will focus even more strongly on encouraging young talent to use their initiative and forge their own careers by seeking out interesting positions. We support and encourage job rotation, particularly across departments, functions, and countries.

Our Group is firmly committed to diversity, and we are always looking for creative spirits and technology-minded people who want to help us shape the digital future. The overriding goal of our recruitment activities is to make sure the right person is in the right job. Flexibility is pivotal to our search for suitable candidates. We speed up the process by actively approaching potential recruits. In recent years, our attractiveness as an employer has consistently grown, thanks to a creative, target group-specific presence in social media and a raft of attention-grabbing initiatives in the talent market. The 2015 Online Talent Communication Study confirmed this by ranking our career pages as the best employer website in Germany.

#### 2. PERFORMANCE MANAGEMENT AND LEADERSHIP

The skills of our managers, coupled with our performance orientation, diversity, and feedback from our employees, are the key success factors for competing in the global market.

**Lead to win.** Based on our new leadership principles "Collaborate," "Innovate" and "Empower to perform," coupled with our Guiding Principles, our leadership model "Lead to win" was launched in 2014, initially for our top management. In 2015, all executives worldwide were included in our leadership model for the first time. The key features are a continuous dialog between managers and employees on performance and development issues, a direct link between performance assessment and incentives, and personal development paths. The new leadership principles apply to all managers. In particular, managers are being urged to identify and nurture innovation potential. It is also important to establish a working culture in which people continually challenge the status quo and reflect on their own conduct, where no-one is afraid to make mistakes, and where new ideas are bravely and passionately championed.

**Embracing diversity.**  For over a decade now, we have been sustainably supporting diversity throughout our entire Group on the basis of an extremely forward-looking policy. We integrate all aspects of diversity and support these with a host of flagship projects, such as our initiatives for the advancement of women or the introduction of generational tandems, where a senior manager and a junior employee share the same role in parallel for a limited period. Additionally, our 2015 campaign on unconscious bias brought fresh stimulus for greater diversity within the company. This campaign, along with measures to raise employee awareness and practical workshops on unconscious bias and stereotypes held across Germany, was also a key element of our activities for our third Diversity Day and the diversity conference organized by the Diversity Charter, of which Deutsche Telekom is a founding member.



For more information, visit:  
[www.telekom.com/media/publications](http://www.telekom.com/media/publications)



Sustainability at Deutsche Telekom



Sustainability at Deutsche Telekom



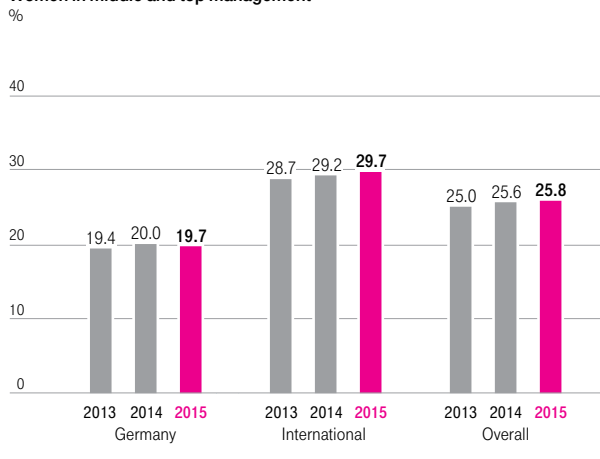
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Gender equality remains a special concern to us for which we have been campaigning strongly since 2010 by introducing a quota of 30 percent of leadership roles filled worldwide with women. Following changes to the law in summer 2015, we have extended our deadline, focusing on the two management levels below managing board level. We also implemented a pilot program in summer, which trained 24 women to take on national and international Supervisory Board mandates. The follow-on program was launched in fall 2015 and opened to men as well. Additionally, in November 2015 we signed the UN Women's Empowerment Principles drawn up by UN Women and UN Global Compact, with the aim of empowering women in the workplace. Proven measures, such as managing the advancement of women throughout the entire talent acquisition strategy, or the specific targeting of women with, for example, a website on more opportunities for women, advertisements, or trade fairs that address women as the target group, remain pivotal methods for advancing women.

Overall, the proportion of women in management positions has risen since 2010. Group-wide, it increased from 19 percent in February 2010 to 25.8 percent in December 2015. The percentage of female members of our supervisory boards in Germany also rose from 17.7 percent in 2010 to 30.6 percent in December 2015. The proportion of women representing the shareholders in our international supervisory boards likewise increased from 7.4 percent in 2010 to 25.5 percent at the end of 2015. We are also one of only a handful of DAX corporations with an established track record of women on its Board of Management. The number of women on the international management team below Board level is also on the rise. The figure has grown from two back in February 2010 to nine as of December 2015 from a management staff totaling 58.

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#### Women in middle and top management



**Work-life balance.** We offer a whole host of different options to help employees of all ages achieve an even better work-life balance. In 2015, we focused on marketing the entire portfolio both internally and externally, which included relaunching our intranet site in 2015. Meanwhile, Telekom Children's Day at our Bonn, Darmstadt, and Dresden locations gave employees the opportunity to show their children where they work and let them experience the Deutsche Telekom world at first hand. Employees were also able to visit our information stands for advice on improving their work-life balance. In July 2015 we began our Family Manager pilot, in which we offer employees personal advisory services on site on all kinds of topics relating to a healthy work-life balance – supported by a family hotline that employees can also use to get advice on these matters. This pilot project is being trialed for one year, and is initially available in Bavaria only.

In 2016, we will further digitize and market the entire offering. For the first time ever, from 2016 we will also be offering employees lifetime work accounts. These accounts give them the option to finance a temporary leave of absence of longer than a month; for example, to take some downtime, to top up their part-time hours, or for early retirement. Until now, lifetime work accounts have only been available to executives. Employees can finance the account either from their gross salary or (to a limited extent) with time credits. In certain circumstances, we will also support employees with an annual contribution.

**Employee satisfaction.** Our image as an attractive employer continues to grow, and internally our employees are giving us good grades. The latest – and the sixth since 2005 – employee survey for the entire Group (excluding T-Mobile US) was held in 2015. We asked some 184,000 employees in 22 languages and from 30 countries to give us their feedback. Over 144,000 employees worldwide took part, a response rate of 78 percent. We also conduct regular pulse surveys to obtain feedback from our employees. Consistently high participation rates bear witness to the high level of interest and a growing desire among employees to help actively shape our Group. In 2015, the commitment index rose again from its high level, and now stands at 4.1 on a scale of 1.0 to 5.0. We expect the pulse survey planned for 2016 to indicate a continuing high level of employee support for our Company. The next employee survey is scheduled for 2017.

**Health.** Our health management strategy is designed to maintain our employees' health and performance capability. We view occupational health and safety legislation as minimum requirements and encourage our employees to take responsibility for their own health. Our managers play an important role in fostering an appropriate corporate culture.



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### 3. WORK IN THE DIGITAL AGE

The digital society is not only accelerating the speed of transformation facing our employees and managers, but also offers opportunities for the humanization of work, improved working and learning conditions, and new methods of digital collaboration. The opportunities and challenges arising from digitization, and the associated requirements to be met by the organization, HR work, and employees, were published in the expert study *The Future of Work*. We define our own mandate with a focus on the areas of People, Places, and Technologies, and take the measures required.

**People:** The escalating speed of transformation and greater flexibility is both the biggest challenge and the greatest opportunity of the digital age. Because employees are no longer tied to working from a conventional office, this creates options for a better work-life balance. We are preparing our employees with targeted training courses and seminars, and investing in the latest equipment. Across the Group, we are introducing the design thinking methodology (a systematic approach to solving complex problems) – from upper management level through to operational teams. We are confident that this will inspire innovative solutions for our customers and ensure faster development cycles in this rapidly evolving environment.

**Places:** Creating modern working environments is becoming ever more important. We are keen to foster a communicative, performance-driven working climate, innovativeness, and agility. As well as modern workplaces, this demands flexibility, virtual collaboration and leadership, and a culture of sharing. We are creating open office worlds and tearing down the proverbial walls to promote inter-departmental collaboration. Desk-sharing and the option to choose your own desk are being rolled out. Mobile working is essential for flexible work organization. In 2015, one of our top priorities was to redesign our locations in Bonn, Frankfurt, and Hamburg. We want to continue driving the shift away from a culture of presenteeism and toward a results-driven culture and aim to reach some 25,000 employees in Germany with our concept by the end of 2017. In addition, we encourage and expect virtual collaboration in self-organized working groups, in which employees work together across functions and hierarchies to find solutions and build up knowledge on an informal basis. 40 such working groups were already set up in the reporting year.

**Technologies:** Standardizing our HR processes is a central topic for us and another milestone in our efforts to automate HR work. One important element of this plan is the roll-out of our HR Suite IT system across the Group. The suite allows standardized Group-wide HR processes such as for recruitment, professional development, and performance management to be offered via a single platform.

Encouraging virtual collaboration is a driver for maximum performance. Our own Telekom Social Network (TSN), which now has around 100,000 users, is elemental to this strategy. It is (technically) integrated with our intranet and provides a central, dialog-based communications platform for all employees. The direct channel to Board level on TSN has also been expanded again with our Board members and many executives using intranet blogs as lines of communication. Furthermore, a range of solutions is now available to most employees worldwide for collaboration between departments and across national borders thanks to video and

web conferencing services, live broadcasts and chat/messaging services, and knowledge-sharing using secure data rooms.

A new Magenta MOOC online course is scheduled for 2016 on the topic of digitization. This innovative digital format is used to teach employees throughout the Group about the significance of digitization technologies for customer requirements, derived business models and products, and the evolving work environment in terms of automation, virtualization, and greater flexibility.

Prompted by the growing significance of digitization for the organization and employees alike, 2016 will see the creation of a new unit, which will further empower managers and employees to use digital collaboration and new work forms, and explore the opportunities for using digital assistants and automation technologies in the workplace.

### 4. SKILLS MANAGEMENT AND QUALIFICATION TO MEET FUTURE NEEDS

We are honing our employees' skills to make them fit for the digital future. Apart from analyzing the required skillset, it is also essential to provide the correct range of skills development measures:

**Digital working means digital learning.** ☑ Thanks to the Internet and digital learning methods such as web-based training courses and virtual classrooms, knowledge today can be accessed at any time and from any location. Learning can be intelligently integrated into work operations and become even more practical and effective. Mindful of this fact, we have supported digital learning for many years. 30 percent of all formal learning hours in our Group are now in digital format, and the trend is rising. We successfully combine existing digital offerings on the market with our own in-house products to create Group-specific content, such as All-IP Basic Training – a 90-minute web-based course designed to ensure that all employees are well prepared for the requirements of our future network. By the end of 2015, this course had been accessed more than 3,700 times, both nationally and internationally. Another example is the MagentaEins learning portfolio, which uses videos and a lighthearted approach to learning with elements such as a digital quiz to help our employees become ambassadors for our new rate plan structure. We also promote digital learning at many different levels, from the cooperative Bachelor's degree course to the part-time Master's degree.

Increasingly, we are using informal (digital) learning as a valuable tool and are promoting this with a new training program for employees who take on the challenge of strengthening informal learning in networks. The process to convert our training curriculum to digital formats is still ongoing, and we also encourage informal learning as an alternative to conventional formats. While until now the focus has been on courses in Germany, in 2016 we will be broadening our sights to global skills development. We are also standardizing our training catalogs, processes and IT systems.

**Spotlight on the digitization of learning.** ☑ In terms of content, training in 2015 focused on strategically relevant topics. In particular, we analyzed our Group-wide training courses on IP transformation, big data and IT security to gauge their suitability in terms of content, teaching, and availability. Our aim here is to offer a comprehensive range of options for all key subject areas in the form of an education chain.



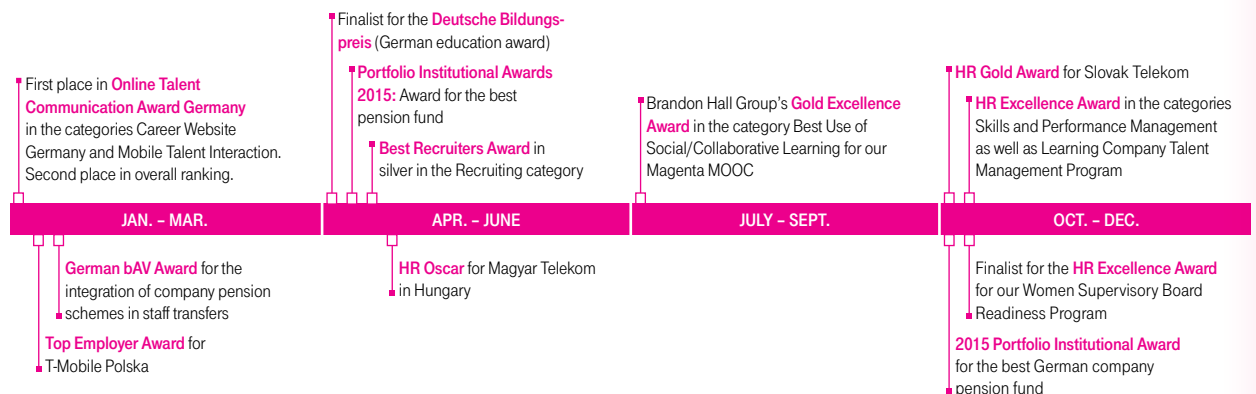
Specifically, we want our portfolio elements to intelligently build on one another, from trainee to professional level. As a result, we made a number of changes in the reporting year – we developed a new portfolio of different but interlinked training courses on big data. In the IT security field, we offer training on data privacy and data security. Meanwhile, a new e-training course on project management offers additional opportunities for skills development.

## Awards

In 2015, we again received multiple awards for our HR work. GRAPHIC 42 below shows a selection of awards and prizes.

G 42

### HR awards



## HEADCOUNT DEVELOPMENT

The Group's headcount decreased slightly by 1.1 percent compared with the end of 2014. Our segments showed countervailing trends to some extent. In the Germany operating segment, the headcount decreased slightly by 0.2 percent compared with the end of 2014 with the staff taken on for network build-out offset by the staff downsizing measures implemented primarily in shared functions. The total number of employees in our United States operating segment increased by 11.5 percent due to an increase in retail, customer support and administrative employees to support the growing T-Mobile U.S. customer base. In our Europe operating segment, staff levels decreased by 4.5 percent compared with December 31, 2014, due in particular to efficiency enhancement measures in several countries in our operating segment. Headcount in our Systems Solutions operating segment declined by 3.7 percent, largely due to staff restructuring measures in Germany and abroad. The number of employees in the Group Headquarters & Group Services segment was down 14.7 percent compared with the end of 2014, mainly due to the continued staff restructuring program – including the placement of employees within the Group – and the sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015.

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## WORKFORCE STATISTICS

T 039

### Headcount development

Employees in the Group	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
<b>TOTAL</b>	<b>225,243</b>	<b>227,811</b>	<b>228,596</b>	<b>229,686</b>	<b>235,132</b>
Of which: Deutsche Telekom AG	26,205	28,569	29,577	30,637	33,335
Of which: civil servants (in Germany, with an active service relationship)	18,483	19,881	20,523	21,958	23,516
Germany operating segment	68,638	68,754	66,725	67,497	69,574
United States operating segment	44,229	39,683	37,071	30,288	32,868
Europe operating segment	49,638	51,982	53,265	57,937	58,794
Systems Solutions operating segment	45,990	47,762	49,540	52,106	52,170
Group Headquarters & Group Services	16,747	19,631	21,995	21,858	21,726
<b>BREAKDOWN BY GEOGRAPHIC AREA</b>					
Germany	110,354	114,749	116,643	118,840	121,564
International	114,888	113,061	111,953	110,846	113,568
Of which: other EU member states	60,710	63,032	63,939	63,244	64,257
Of which: rest of Europe	2,945	3,127	3,238	9,422	9,736
Of which: North America	44,803	40,346	37,856	31,037	33,511
Of which: rest of world	6,431	6,556	6,920	7,143	6,064
<b>PRODUCTIVITY TREND<sup>a</sup></b>					
Net revenue per employee thousands of €	306	275	262	250	244

<sup>a</sup>Based on average number of employees.

T 040

### Personnel costs

billions of €

	2015	2014	2013	2012	2011
Personnel costs in the Group	15.8	14.7	15.1	14.7	14.8
Special factors <sup>a</sup>	1.2	0.9	1.4	1.2	1.2
Personnel costs in the Group (adjusted for special factors)	14.6	13.8	13.7	13.5	13.6
Net revenue	69.2	62.7	60.1	58.2	58.7
<b>ADJUSTED PERSONNEL COST RATIO</b> %	<b>21.2</b>	<b>22.0</b>	<b>22.7</b>	<b>23.2</b>	<b>23.1</b>
<b>PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP</b>	<b>2.9</b>	<b>2.8</b>	<b>3.1</b>	<b>3.3</b>	<b>3.4</b>

<sup>a</sup>Expenses for staff-related measures.

## SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

**Sale of our EE joint venture.** After the British Competition and Markets Authority (CMA) had approved the sale of the EE joint venture to the UK company BT unconditionally and without remedies in January 2016, we and the French telecommunications provider Orange consummated the transaction on January 29, 2016 at an adjusted purchase price of GBP 13.2 billion. In return for our stake in the EE joint venture, we received a financial stake of 12.0 percent in BT and a cash payment of GBP 25.7 million. In total, the sale is expected to generate income of around EUR 2.5 billion; around EUR 0.9 billion of this amount will result from effects recognized directly in equity in prior years. In addition, on January 25, 2016, the shareholders received a final dividend totaling GBP 0.3 billion from the EE joint venture, which we participated in with the capital share we had at that date of 50.0 percent.

**Acquisition of mobile spectrum in the United States.** In January 2016, T-Mobile US acquired spectrum licenses covering nearly 20 million people in seven major metropolitan markets for approximately USD 0.6 billion in cash. In January 2016, T-Mobile US entered into agreements with third parties for the exchange and acquisition of spectrum licenses covering approximately 23 million people in seven major metropolitan markets. In the first quarter of 2016, spectrum licenses to be exchanged of USD 0.3 billion will therefore be reclassified to non-current assets and disposal groups held for sale. A non-cash gain is expected to be recognized upon closing of the exchange transaction, which is expected to occur in mid-2016, subject to regulatory approval and other customary closing conditions.

**Acquisition of mobile spectrum in Poland.** At the spectrum auction in Poland which ended in October 2015, T-Mobile Polska was the highest bidder, acquiring spectrum of some EUR 0.5 billion, which was paid at the start of February 2016. We are also in negotiations with the Polish regulatory authority UKE to accept additional spectrum amounting to around EUR 0.5 billion. This was offered to T-Mobile Polska by UKE after the highest bidder had declined to accept the spectrum. In accordance with the rules of the auction, T-Mobile Polska was offered the spectrum for purchase as the second highest bidder. T-Mobile Polska submitted an application for the allocation of this spectrum block on February 8, 2016.

## FORECAST<sup>1</sup>

### STATEMENT BY THE BOARD OF MANAGEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP

We remain on a course of successful growth and emphasize again our goal of becoming Europe's leading telecommunications provider. We already have the best state-of-the-art integrated network which will allow us to meet our customers' expectations with integrated products in future. This positioning is in line with our financial ambitions up to 2018, which we communicated at our Capital Markets Day in February 2015. For the period from 2014 to 2018, we are aiming for the following average annual growth rates (CAGR):

- Revenue: 1 to 2 percent
- Adjusted EBITDA: 2 to 4 percent
- Free cash flow: approx. 10 percent

In the short term – in our guidance for 2016 – we also expect our main financial performance indicators to increase compared with the 2015 financial year; all estimates assume a comparable consolidated group structure and constant exchange rates:

- We expect **revenue** to increase in 2016 compared with the prior year.
- **Adjusted EBITDA** is expected to reach some EUR 21.2 billion in 2016, up from EUR 19.9 billion in 2015.
- **Free cash flow** is to increase from EUR 4.5 billion in 2015 to around EUR 4.9 billion in 2016.

### ECONOMIC OUTLOOK

In its economic forecast from January 2016, the International Monetary Fund (IMF) expects global economic growth of 3.4 percent in 2016. For 2017, the IMF anticipates an increase of 3.6 percent. This acceleration will be driven by industrial nations and emerging and developing economies alike. We continue to expect a stable economic trend in our core markets. The economies in Germany, the United States, and the countries of our Europe operating segment – with the exception of Greece – are currently enjoying a lasting upturn, bolstered primarily by the positive trends in consumer spending, low oil and energy prices, and rising investments. The Greek economy is expected to begin its recovery in 2017.

The positive economic development will also lead to a moderate further recovery on the labor markets (see TABLE 041).

T 041

### Forecast on the development of GDP and the unemployment rate in our core markets for 2016 and 2017

	GDP for 2016 compared with 2015	GDP for 2017 compared with 2016	Unemployment rate in 2016	Unemployment rate in 2017
Germany	1.8	1.6	6.3	6.4
United States	2.4	2.5	4.8	4.7
Greece	(1.1)	0.5	25.1	25.1
Romania	4.0	3.4	4.8	4.7
Hungary	2.3	2.5	6.5	6.5
Poland	3.5	3.4	9.9	9.6
Czech Republic	2.6	2.7	6.2	6.2
Croatia	1.5	1.8	17.7	17.5
Netherlands	1.9	1.8	8.6	8.5
Slovakia	3.2	3.3	11.3	10.8
Austria	1.4	1.5	5.5	5.4
United Kingdom	2.3	2.3	5.3	5.1

Source: Consensus Economics, Oxford Economics; January 2016.

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## MARKET EXPECTATIONS

### GERMANY

We expect the telecommunications market in Germany to be still on a slight downward trend in 2016; positive growth is forecast from 2017. EITO (European Information Technology Observatory) expects a market decline of 0.6 percent for 2016, with the growth in mobile and stationary data services almost completely compensating the clear revenue decline in traditional and mobile voice telephony as a result of changes in the EU roaming regulation. Innovative, integrated products and attractive solutions offered together with partners play an ever greater role for positioning in competition. Other important differentiators include the available download and upload bandwidths and the data volumes included in rate plans. At the level of products and services, we expect consumer business to grow, especially in market segments like television and Smart Home, and both business customer and consumer business to grow in terms of cloud services and data security.

While the infrastructure in the mobile market has a comparable structure and now the majority of the population also has access to high-speed mobile Internet with 4G/LTE, the market for fixed-network broadband is characterized by a large number of competitors and different infrastructures. We expect continued growth not only for cable network operators, but also for providers with DSL- or fiber-optic-based networks.

In terms of a broader-based ICT market that includes IT services as well as telecommunications, EITO even expects slight growth of a little over one percent in Germany for 2016. This is attributable to growth of 2.5 percent in the IT market, driven above all by strong growth in services for business customers, e. g., outsourcing, projects, and consulting, as well as in software.

### UNITED STATES

The U. S. mobile market continues to be characterized by intense competition among mobile carriers. Competitive factors within the U. S. mobile market include dynamic changes in pricing, voice market saturation, service and product offerings, customer experience, network quality, development and deployment of technologies, availability of spectrum licenses, and regulatory changes. The mobile postpaid market in the United States is embracing device financing options, such as T-Mobile us' equipment installment plans and device leasing through JUMP! On Demand, allowing customers to subscribe for wireless services separately without the purchase of or payment for a bundled device. Additionally, data services continue to be a growth driver, and despite the high level of competition, the U. S. mobile market is expected to grow from mobile broadband data services in 2016 and 2017 further supporting network investment by mobile carriers in the U. S. mobile market.

### EUROPE

Our European markets will continue to be dominated in 2016 and 2017 by intense competition between market players from the traditional telecommunications industry, alternative broadband providers, such as cable and fiber-optic network operators, and providers of Internet-based services such as short messaging (e. g., WhatsApp) and Internet TV (e. g., Netflix).

In Europe, the trend towards convergent products comprising fixed-network and mobile (FMC) offerings continued to accelerate in the reporting year. We expect most market players to move towards an integrated business model in the future. As a result, consolidation pressure will continue to grow in the telecommunications market, especially on non-integrated providers, and at the same time, the already high competitive and price pressure will increase.

We expect the macro-economic framework conditions in most of our European markets to continue improving. Fiscal interventions again had a negative impact on telecommunications markets, in Croatia and Romania, for example. Furthermore, we expect decisions by national regulatory authorities and the European Union, which will put the markets under pressure and have a negative impact on mobile revenues in future, such as the EU roaming regulation. Overall, we expect the decline in revenue in the telecommunications markets in the individual countries of our Europe operating segment to be less pronounced in 2016 than in the prior year and to stabilize from 2017. This is due to the fact that the reduction in termination rates is lower than in prior years and the propagation of smartphones with mobile broadband is growing, especially in Eastern Europe, as is demand for broadband and pay-TV lines in the fixed network.

### SYSTEMS SOLUTIONS

We expect the global economic recovery to hold such that the growth trend in the ICT market intensifies again over the next two years. In our view, the ICT market will be shaped by digitization, ongoing cost pressure, and strong competition. Digitization is leading to greater demand for solutions from the areas of cloud services, big data, intelligent network services like Industry 4.0, the Internet of Things, and M2M, as well as the mobilization of business processes.

We expect the ICT markets in both our market segments to develop in different ways:

- **Telecommunications:** A range of factors are leading to new challenges in the intensely contested telecommunications market. Innovative change, the high intensity of competition, and persistent price erosion, as well interventions by national regulatory authorities result in a steady market decline, even though business with mobile data services will continue to grow over the next few years.

- **IT services:** After clear growth in the reporting year, we expect the market for IT services to grow steadily in 2016 and 2017. The IT services market is undergoing major change, however, brought about by progressive standardization, demand for intelligent services, changes in outsourcing business caused by cloud services, and new challenges posed by issues such as ICT security, big data, and increasing mobility. Traditional ICT business will only grow slightly due to price competition, whereas growth in areas such as cloud services, mobility, and cyber security may even reach double digits. So we will continue to increase investments in growth markets such as cloud services, cyber security, and intelligent network solutions for the healthcare sector or the automotive industry.

### EXPECTATIONS OF THE GROUP

**Expectations up to 2017 and ambition up to 2018.** Our Group is also set to continue to grow profitably in the next few years. From 2017, we expect our revenues and our adjusted EBITDA in all operating segments to at least remain stable or even increase. That puts us in an excellent position to achieve our financial ambitions by 2018 – as communicated at our Capital Markets Day in February 2015.

Overall, we expect to see the following developments in our financial performance indicators:

- We expect **revenue** to increase year-on-year in 2016 and 2017, driven mainly by our United States operating segment, which enjoys great success on the market with its innovative business model.
- We expect **adjusted EBITDA** to increase to around EUR 21.2 billion in 2016, and to rise sharply again in 2017. In addition to the positive revenue trend, the switch to the terminal equipment lease model at T-Mobile US is one of the key drivers. Under this model, expenses for terminal equipment do not impact adjusted EBITDA, but rather are recognized in depreciation over the term of the contract. We expect the development of our financial figures to be more volatile in the future in connection with the terminal equipment lease model, since they are increasingly dependent on the trend in customer numbers and on customer decisions in the United States.
- **EBIT and EBITDA** will grow significantly year-on-year in the next two years, primarily as a result of the positive trend in adjusted EBITDA in the same period, as well as a positive special factor in 2016 following the sale of our stake in the UK mobile joint venture EE. Due to the switch to the terminal equipment lease model at T-Mobile US, depreciation will increase substantially from 2016 as a result of the capitalization of the leased mobile devices. This will reduce the positive effect in EBIT resulting from the reduction of expenses in EBITDA.
- **Return on capital employed (ROCE)** is expected to increase moderately in 2016 and sharply in 2017. We are thus well on track to achieve our ambition of exceeding our weighted average cost of capital (WACC) from 2018.

- Our investments – in terms of **cash capex** (before spectrum investments) – are expected to amount to around EUR 11.2 billion in 2016. We will continue to invest heavily in modernizing and building-out our network infrastructure in our Germany, United States, and Europe operating segments. In 2017, we expect capital expenditure to increase against 2016. We partly generate the funds needed for our investments by taking measures to enhance cost efficiencies, for example the implementation of the target costing approach and the establishment of Deutsche Telekom Services Europe, in which we pool various functional services of Deutsche Telekom in a cost-efficient way.

- Our **free cash flow** (before dividend payments and spectrum investment) is expected to reach around EUR 4.9 billion in 2016 and is to continue increasing strongly in 2017. This will make a substantial contribution to keeping our relative debt – measured as the ratio of net debt to adjusted EBITDA – within the target corridor of 2 to 2.5 over the next two years.

- At the end of 2015, the **rating agencies** Standard & Poor's, Fitch, and Moody's rated us as a solid investment grade company at BBB+/BBB-/Baa1. The outlook from all three rating agencies was "stable." In order to retain unrestricted access to the international financial markets in the future, a solid investment grade rating within the range A- to BBB is part of our finance strategy.

Our Debt Issuance Program puts us in a position to place issues on the international capital markets at any time at short notice. In addition, our Commercial Paper Program enables the issue of short-term papers on the money market. Under our finance strategy, we plan to continue maintaining a liquidity reserve that covers all our capital market maturities over the next 24 months at least.

Repayments totaling EUR 3.7 billion in bonds and promissory notes will be due in 2016. In 2016, maturities will be refinanced and the liquidity reserve maintained according to plan by means of active debt management and/or through new issues of bonds. The execution of potential transactions depends on developments on the international finance markets. We will also cover the liquidity requirement by issuing commercial papers.

In order to provide preliminary financing for the planned investments in mobile licenses in the course of 2016, T-Mobile US issued new bonds in the amount of USD 2.0 billion in the reporting year and generated another USD 2.0 billion by taking out a Term Loan B. T-Mobile US may carry out further transactions in the capital and banking market in 2016 to finance mobile licenses.

We intend to continue leveraging economies of scale and synergies in the future, through partnerships or appropriate acquisitions in our footprint markets. There are no plans for major acquisitions or expansion in emerging markets. We will continue to subject our existing cooperation activities and investments to strategic review with the focus on maximizing the value of our Company.

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The expectations for the Group and the operating segments are shown in TABLES 042 and 043, and assume a comparable consolidated group structure and constant exchange rates. The same applies for the ambition until 2018. Expectations may change if the macroeconomic situation deteriorates and/or there is any unforeseen government or regulatory intervention. All trends denote year-on-year changes.

To show the intensity and trends of our forecasts, we use the following assessment matrix: strong decrease, decrease, slight decrease, stable trend, slight increase, increase, strong increase.

T 042

## Financial performance indicators

		Results in 2015	Pro forma for 2015	Expectations for 2016 <sup>b</sup>	Expectations for 2017 <sup>b</sup>	Ambition up to 2018 <sup>b</sup>
<b>NET REVENUE</b>						
Group	billions of €	69.2	69.0	increase	increase	CAGR of 1-2 % <sup>f</sup>
Germany	billions of €	22.4	22.4	slight decrease	stable trend	
United States (in local currency)	billions of USD	32.1	32.1	strong increase	strong increase	
Europe	billions of €	12.7	12.9	decrease	stable trend	
Systems Solutions	billions of €	8.6	8.2	stable trend	increase	
Of which: Market Unit	billions of €	7.1	6.7	stable trend	increase	
<b>PROFIT (LOSS) FROM OPERATIONS (EBIT)</b>	billions of €	7.0	7.0	strong increase	strong increase	
<b>EBITDA</b>	billions of €	18.4	18.4	strong increase	strong increase	
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>						
Group	billions of €	19.9	19.9	around 21.2	strong increase	CAGR of 2-4 % <sup>f</sup>
Germany	billions of €	8.8	8.8	around 8.8	slight increase	
United States (in local currency)	billions of USD	7.4	7.4	around 9.1	strong increase	
Europe	billions of €	4.3	4.3	around 4.3	stable trend	
Systems Solutions	billions of €	0.8	0.7	around 0.8	slight increase	
<b>ROCE</b>	%	4.8		slight increase	strong increase	ROCE > WACC <sup>g</sup>
<b>CASH CAPEX<sup>c</sup></b>						
Group	billions of €	10.8	10.8	around 11.2	increase	CAGR 1-2 % <sup>f</sup>
Germany	billions of €	4.0	4.0	increase	strong increase	
United States (in local currency)	billions of USD	4.6	4.6	stable trend	increase	
Europe	billions of €	1.6	1.6	strong increase	slight decrease	
Systems Solutions	billions of €	1.2	1.2	slight decrease	slight decrease	
<b>FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)</b>	billions of €	4.5	4.5	around 4.9	strong increase	CAGR of ≈ 10 % <sup>f</sup>
<b>RATING</b>						
Standard & Poor's, Fitch		BBB+		from A- to BBB	from A- to BBB	from A- to BBB
Moody's		Baa1		from A3 to Baa2	from A3 to Baa2	from A3 to Baa2
<b>OTHER</b>						
Dividend per share <sup>d, e</sup>	€	0.55		Dividend based on free cash flow growth Minimum € 0.50	Dividend based on free cash flow growth Minimum € 0.50	Dividend based on free cash flow growth Minimum € 0.50
EPS (adjusted for special factors)	€	0.90		strong decrease	strong increase	≈ 1
Equity ratio	%	26.5		25 to 35	25 to 35	25 to 35
Relative debt		2.4 x		2 to 2.5 x	2 to 2.5 x	2 to 2.5 x

<sup>a</sup>Significant changes in the composition of the Group included up to the date of preparation of the consolidated financial statements and the combined management report.

<sup>b</sup>On a like-for-like basis.

<sup>c</sup>Before any spectrum investments.

<sup>d</sup>The indicated expectation regarding the dividend per share refers to the respective financial year indicated.

<sup>e</sup>Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

<sup>f</sup>Average annual growth rates in the period between 2014 and 2018.

<sup>g</sup>Weighted average cost of capital.

TABLE 042 shows key non-financial performance indicators up to 2017, which also assume a comparable consolidated group structure. Expectations may change if the macroeconomic situation deteriorates and/or there is any unforeseen government or regulatory intervention. All trends denote year-on-year changes.

T 043

**Non-financial performance indicators**

		Results in 2015	Expectations for 2016	Expectations for 2017
<b>GROUP</b>				
Customer satisfaction (TRI*M index)		67.4	slight increase	slight increase
Employment satisfaction (commitment index)		4.1	stable trend	stable trend
<b>FIXED-NETWORK AND MOBILE CUSTOMERS</b>				
<b>GERMANY</b>				
Mobile customers	millions	40.4	slight increase	strong increase
Fixed-network lines	millions	20.2	slight decrease	slight decrease
Of which: retail IP-based	millions	6.9	strong increase	strong increase
Broadband lines	millions	12.6	slight increase	increase
Television (IPTV, satellite)	millions	2.7	strong increase	strong increase
<b>UNITED STATES</b>				
Branded postpaid	millions	31.7	strong increase	increase
Branded prepay	millions	17.6	slight increase	slight increase
<b>EUROPE</b>				
Mobile customers	millions	52.2	decrease	stable trend
Fixed-network lines	millions	8.7	slight decrease	decrease
Of which: IP-based	millions	4.1	strong increase	strong increase
Retail broadband lines	millions	5.2	increase	increase
Television (IPTV, satellite, cable)	millions	3.9	strong increase	strong increase
<b>SYSTEMS SOLUTIONS</b>				
Order entry	millions of €	6,005	increase	strong increase
<b>ESG KPIs</b>				
CO <sub>2</sub> Emissions ESG KPI	thousands of metric tons	3,849	slight decrease	slight decrease
Energy Consumption ESG KPI <sup>a, b</sup>	MPEI	108	decrease	decrease
Sustainable Procurement ESG KPI	%	78	slight increase	slight increase

<sup>a</sup> Calculated using fact-based estimates and/or extrapolations.<sup>b</sup> MPEI describes electricity consumption in thousands of MWh/revenue in billions of euros.See  
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For more information on the development of the non-financial performance indicators of our operating segments, please refer to "Expectations for the operating segments" in this section.

We are aiming to achieve a slight improvement in the development of our customer retention/customer satisfaction in 2016 and 2017 respectively, measured in terms of the TRI\*M index performance indicator.

In 2015, the commitment index was up again from its high level, and now stands at 4.1 on a scale of 1.0 to 5.0. We expect the pulse survey planned for 2016 to indicate a continuing high level of employee support for our Company. The next employee survey is scheduled for 2017.

For detailed information on our ESG KPIs and our expectations, please refer to the section "Corporate responsibility."

Our plans are based on the exchange rates assumed in TABLE 044.

T 044

**Exchange rates**

Croatian kuna	HRK	7.61/€
Polish zloty	PLN	4.19/€
Czech koruna	CZK	27.28/€
Hungarian forint	HUF	310.01/€
U.S. dollar	USD	1.11/€



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The following TABLE 045 contains a summary of our model calculations and analyses of the key potential external factors.

T 045

**Factors that may affect results**

Premises	Current trend	Impact on results
<b>ECONOMY:</b>		
Macroeconomic trends in Europe (incl. Germany)	steady	○
Macroeconomic trends in the United States	steady	○
Inflation in Europe (incl. Germany)	steady	○
Inflation in the United States	steady	○
Development of USD exchange rate	improving	+
Development of exchange rates of European currencies	steady	○
<b>REGULATORY/STATE INTERVENTION:</b>		
Regulation of mobile communications in Europe (incl. Germany)	steady	○
Regulation of the fixed network in Europe (incl. Germany)	steady	○
Additional taxes (in Europe/the United States)	steady	○
<b>MARKET DEVELOPMENT:</b>		
Intensity of competition in telecommunications sector in Europe (incl. Germany) and the United States	steady	○
Intensity of competition in telecommunications sector in the United States	steady	○
Price pressure in telecommunications markets	steady	○
ICT market	steady	○
Data traffic	improving	+

+ positive  
 ○ unchanged  
 - negative

**Expectations for Deutsche Telekom AG.** The development of business at Deutsche Telekom AG as the parent company of the Group is reflected particularly in its commercial relationships with our subsidiaries, the results from our subsidiaries' domestic reporting units, and other income from subsidiaries, associated, and related companies. In other words, our subsidiaries' results from operations and the opportunities and challenges they face are key factors shaping the future development of Deutsche Telekom AG's figures. Accordingly, in addition to our expectations for the Group, the expectations described on the following pages concerning the operating segments' revenue and earnings – such as strong competition, regulatory intervention, market and economic expectations, etc. – have an impact on our expectations concerning the development of Deutsche Telekom AG's future income after taxes.

Based on the described expectations for our operating segments and the resulting effects, and taking existing retained earnings into account, Deutsche Telekom AG also expects to distribute a dividend of at least EUR 0.50 per dividend-bearing share for the financial years 2016 to 2018, subject to approval by the relevant bodies and the fulfillment of other legal requirements. Relative growth of free cash flow is also to be taken into account when measuring the amount of the dividend for the specified financial years.

In relation to the dividend for the 2015 financial year, we are considering once again offering our shareholders the choice of converting their dividend into Deutsche Telekom AG shares instead of having it paid out in cash.

**EXPECTATIONS FOR THE OPERATING SEGMENTS**

**GERMANY**

In our Germany operating segment, we continue to work on our comprehensive transformation program, which we started in 2013 and plan to largely complete by the end of 2018. Our aim is to secure our position on the market as the leading integrated telecommunications provider in Germany, and we plan to do so through innovative, competitive offers.

Fiber-optic-based products form the basis with which we meet our customers' wishes in the fixed network. We are paving the way for this with our integrated network strategy. We are building an IP-based network with high transmission bandwidths so that in the future, we can offer our customers competitive high-speed lines, e. g., by migrating our VDSL network to vectoring technology. In addition, we are investing massively to offer greater coverage and even more speed in rural areas. If necessary, we use innovative products for this purpose – like our hybrid router, which combines the transmission bandwidths of fixed-network and mobile communications, thus enabling much higher transmission speeds, even in rural areas.

In 2014, we were the first provider in Germany to launch an integrated fixed-network/mobile (FMC) product on the market with MagentaEins. We added new products to this range in the reporting year, such as an FMC offering specifically for our business customers. When designing our products, we pay particular attention to high quality and a simple rate plan structure. Furthermore, with our multiple-brand strategy in mobile communications, we address the entire customer spectrum – from smart shoppers through to premium customers.

We want our growth rates in TV business to exceed the general growth trend in this market. To this end, we are investing in our IPTV platform and winning new customers with attractive content and services. As part of our IPTV strategy, we offer appropriate TV services to our wholesale partners and the housing sector.

We want to remain the market leader in both mobile communications and the fixed network. As our customers' demand for bandwidth is constantly growing, we will continue to invest in broadband networks, innovative products, and customer service. Our success bears us out: In 2015, both our broadband revenues and customer satisfaction grew compared with 2014. We now want to cement these two positive trends. Over the next few years, "progress through digitization" will be one of the drivers of our further development. Issues include, for example, how customer processes can be digitized to appear simpler for the customer.

In our Germany operating segment, we expect revenue to decline slightly year-on-year in 2016, mainly due to the fact that some previous merchandise transactions are to be replaced by pure brokering transactions in connection with distribution. Revenue is also impacted by the following factors: The ongoing downward trend in traditional voice telephony will drive down fixed-network revenue further. This decrease will only be partly compensated by the increase in revenue from bundled products and from broadband. Since text messaging is increasingly being replaced by free-of-charge IP messaging services such as WhatsApp, these revenues

will continue to decline in the future. Regulatory price cuts, for example, in roaming in 2016, will also reduce our mobile revenues. We will compensate this negative development, however, with increasing service revenues, in particular through the success of our MagentaMobil rate plan. We also expect growth in TV revenues. At the same time, we will continue to expand our fiber-optic services, including business models with wholesale products such as the contingent model and further collaboration, for example in the housing sector. Furthermore, together with partners, we will provide new services for our customers.

From 2017, we plan to stabilize our revenue and secure our mobile and broadband market leadership. We expect our continuing outstanding network quality and progress in the fiber-optic roll-out to drive up demand for mobile communications and broadband products compared with 2016. Our multiple-brand strategy in mobile business is also set to have a positive impact. In addition, we expect growth in the M2M market from 2017, in which we want to participate. Hence we expect stronger customer growth through M2M for 2017. This trend is supported by our IT revenues from the SME initiative and technical support services. Wholesale revenues will stabilize due to high demand for our contingent model.

For our Germany operating segment, we expect adjusted EBITDA to remain stable in 2016 and to increase slightly in 2017, due to the revenue trend described, savings in indirect costs such as IT costs, the reduction in shared functions, and increased productivity. For the next two years, we expect the adjusted EBITDA margin to increase slightly to around 40 percent.

We are laying the foundation for innovation and growth: While we will continue to drive forward investments in new technologies with even greater intensity in the future, we are reducing investments in old technologies. Thus we will increase our investment in our network infrastructure in the coming years, particularly in the vectoring/fiber-optic build-out and our mobile network. Increased investments in the subsidized broadband roll-out as part of the "More broadband for Germany" initiative in particular will lead to an increase in cash capex in 2016 and a strong increase in 2017. We expect cash capex to decrease in subsequent years, as we plan to have implemented the majority of the measures as part of the investment program by the end of 2017.

## UNITED STATES

In 2016, T-Mobile US will continue to execute on its Un-carrier promise to deliver the best value experience in the U.S. wireless industry. Key elements of the Un-carrier promise include delivering distinctive value for consumers in all customer segments – postpaid and prepay – by eliminating customer pain points and providing excellent 4G/LTE services through a strong mid-band spectrum position supplemented by low-band spectrum in key metropolitan areas and a nationwide fourth-generation LTE network. Additionally, the Un-carrier initiatives focus on attracting and retaining a loyal customer base by offering devices when and how customers want them, and plans that are simple, affordable and without unnecessary restrictions to deliver the best value in wireless.

T-Mobile US expects a strong increase in branded postpaid customers in 2016 and a further increase in 2017. In branded prepay customers we expect a slight increase in 2016 and 2017. However, competitive pressures and unforeseen changes in the wireless communications industry in the United States may significantly affect the expected ability to attract and retain branded postpaid and prepay customers.

T-Mobile US expects a strong increase in total revenues in U.S. dollars in 2016 and a further increase in 2017. Revenue is expected to be positively impacted by continued customer growth momentum offset partially by lower equipment revenues as customers move to leasing devices.

T-Mobile US also expects a strong increase in adjusted EBITDA – in U.S. dollars in 2016 and 2017. As a result of the significant growth in customers over the past year, revenue growth is expected to outpace increases in expense. Adjusted EBITDA is also expected to be positively impacted from customers leasing devices. Under this lease model, the cost of devices are capitalized as an asset and depreciated outside of adjusted EBITDA. Additionally, T-Mobile US expects continued focus on cost saving initiatives and the full realization of operational and network synergies from the business combination with MetroPCS. However, adjusted EBITDA is expected to be impacted by continued investment in the network and increased marketing of the T-Mobile US brand focused on attracting and retaining customers. Continuing strong competitive pressures may also significantly affect expected revenues and adjusted EBITDA in U.S. dollars and exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2016 and 2017.

T-Mobile US intends to participate in the 2016 broadcast incentive auction of low-band spectrum. Excluding the expenditures relating to spectrum, T-Mobile US expects a generally stable trend in U.S. dollars in cash capex in 2016 and an increase in 2017 as it continues to roll out its 4G/LTE network.

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## EUROPE

In spite of the persistently tough competitive conditions in most of our footprint countries in this operating segment, we intend to defend and extend our market position. In the case of our integrated companies, we will work on maintaining our market leadership in both the fixed network and mobile communications, as well as on using our strong position in the fixed network to push ahead with our mobile business, depending on the position of the respective company in its market. As of January 1, 2016, we took over operational management of T-Systems Hungary's business customers; for this purpose, the corporate customer base was transferred from the Systems Solutions operating segment to the Europe operating segment. This enables us to offer consumers and business customers a much broader product portfolio at our national company in Hungary.

On the road to becoming Europe's leading telecommunications provider, we continue to increasingly rely on technology leadership: With the pan-European all-IP network (Pan-Net), we are building a simplified, standardized network across all national companies. Following on from the F.Y.R.O. Macedonia and Slovakia in 2014, we successfully completed the migration of PSTN lines to IP in Croatia and Montenegro in the reporting year. Hungary is to follow in 2016. By 2018 we plan to have converted all of our integrated national companies to IP.

Thanks to this harmonized network and IT architecture, we want to provide innovative services for our customers in all countries efficiently on a centralized basis. In this way, we want to create the best customer experience with our products and services and achieve the greatest possible efficiency in production. In 2015, we further improved our competitive position in TV offerings; on the one hand, we further developed our TV platforms and renewed and acquired exclusive transmission rights, for example for the UEFA Champions League; on the other hand, we are partnering up with OTT TV providers. As a result, our TV and entertainment offerings have become an important core component in consumer business, where we will continue to invest in constantly improving our entertainment services over the next two years. This entails, on the one hand, a portfolio with an impressive selection of film, sports and television rights, as well as on the other, a service that our customers can use in high quality anywhere, on all their devices.

With our integrated network strategy, we plan to continue to strongly drive forward the fiber-optic roll-out in the fixed network. Network coverage of households in our Europe operating segment stood at 19 percent as of December 31, 2015. In Greece, we continue to lay optical fiber up to the cable distribution box, which in the next step will enable us to roll out vectoring technology. In the other integrated companies, we have been investing in the FTTH roll-out for a number of years now, and plan to continue to do so in 2016 in combination with FTTC and vectoring. By 2018, we want 50 percent of households – in our integrated national companies – to have access to a 100 Mbit/s service with FTTx.

To meet the demand of our customers for more bandwidth we acquired new spectrum at auction in addition to existing mobile frequencies for the mobile standard LTE in Albania and Poland in 2015 and we plan to continue taking part in more spectrum auctions in the coming years. We are focusing our investments in mobile communications on two areas: extending reach and implementing LTE-Advanced technology with transmission rates of more than 150 Mbit/s. We already covered 71 percent of the population in our footprint countries with LTE in the 2015 reporting year. By 2018, we want to achieve network coverage of between 75 and 95 percent in other countries of our operating segment.

We increasingly merge broadband lines with different access technologies. As an integrated telecommunications provider, we are driving forward the convergence of fixed-network and mobile communications and offer FMC products in all of our already integrated national companies. We are developing our other national companies where possible towards an integrated business model, so that they, too, can offer our customers FMC products. In the reporting year, we successfully introduced the concept of our convergence brand MagentaOne in five countries, thereby significantly increasing the attractiveness of our portfolio. Next year, further national companies are to follow suit.

We can also win over business customers with our high-performance ICT products. We will direct our offering not only at corporate customers, but also increasingly at small and medium-sized enterprises. We will continue to further expand our business with secure cloud solutions for this customer group in particular. At the heart of our offering will be convergent products comprising fixed network, mobile communications, and cloud applications. They will constitute a new category of services under the MagentaOne Business brand that generate new, additional benefits for customers along the lines of security and intelligent collaboration. Based on this systematically convergent strategy, the GTS Central Europe group was successfully integrated, which puts us in a position, especially in the core markets of Poland and the Czech Republic, to serve business customers from a single source.

In the future we expect to win more customers for our product packages in our Europe operating segment. Consequently, we expect a sharp increase in TV lines and an increase in broadband lines over the next two years. We expect the number of mobile customers to decline year-on-year in 2016, mainly due to prepay registration regulations planned by the regulatory authority in Romania. The number of mobile customers is expected to remain stable in 2017. Voice telephony in the fixed network will come under pressure, primarily due to substitution by mobile communications, and will thus also have a negative impact on fixed-network business in the next two years. We therefore expect a slight decrease in fixed-network lines in 2016 and a decline in 2017.

Changes in legislation, for example regarding taxes and duties, and national austerity programs may negatively impact on our revenue and

earnings in the next few years. In Greece in particular, developments in the fiscal situation on top of the uncertain macroeconomic trend could have a negative impact on the disposable income of households, limiting our revenue and earnings, and hence restricting our ability to invest in this national company. Exchange rate effects could also affect our earnings on a euro basis.

Based on these assumptions and parameters, we expect revenues in our Europe operating segment to decline on a like-for-like basis in 2016, assuming constant exchange rates and based on assumptions about regulation, new market players, spectrum auctions, and the same organizational structure. As described above, we plan to intensify our investments in our pan-European all-IP network and in our integrated network strategy. As a result, cash capex will increase significantly in 2016 and fall again slightly in 2017. We plan to boost our productivity and cut our indirect costs so as to invest part of these cost savings in building out the network. Hence we expect adjusted EBITDA to remain more or less on a par with the prior-year level in 2016. For 2017, we expect revenues and adjusted EBITDA to remain stable.

#### SYSTEMS SOLUTIONS

In line with our Group strategy, we want to "lead in business." On the way to becoming the preferred provider of telecommunications and IT services, T-Systems had launched a two-year transformation program in 2014. Under this program, we have driven forward the development and expansion of growth areas, improved the efficiency of our existing business, and discontinued or handed over to partners a number of activities that were not sufficiently profitable for us. As part of our realignment, we divided our operational organization into three divisions: the IT Division, the TC Division (Telecommunications) and the Digital Division; we also adjusted our workforce.

In the reporting year, we underlined the important role Systems Solutions plays in the digitization of the economy and society in general and thus the role it plays for the Group in particular. The transformation program of the last two years has kick started a forward strategy, which we will continue to pursue in the future.

We are among the top players in the European IT market and strive to be the number one in cloud computing by 2018. Despite high cost pressure, we aim to achieve profitable growth with traditional IT services, systems integration, and outsourcing. Customer satisfaction increased again in 2015: from 84 to 90 TRI\*M index points. This is an important building block for permanently establishing T-Systems on the European IT market with our core business. On top of that, we are successfully differentiating ourselves from our competitors in more and more business areas. In cloud services, for example, we have made substantial progress through new offers. The number of dynamic services in our portfolio is growing: Customers can book infrastructure, SAP and much more as needed and pay only for what they use.

We want to expand our international telecommunications business with business customers. On our way to becoming Europe's leading telecommunications provider, we are concentrating on customers from Germany, Switzerland, Austria, Spain, Scandinavia, the United Kingdom, the Netherlands, and Belgium. The TC Division is expanding its sales in these countries and extending our offering to include innovative services such as Managed LAN, Unified Communications, and IP VPN. We also want to win over customers internationally with consistent offerings, new products, and competitive prices. The all-IP migration and cloud services also offer the best opportunities for this in our telecommunications business.

We are building digital ecosystems and business models. With partners like Microsoft, Salesforce, Huawei and Cisco, we have created a cloud ecosystem (i. e., state-of-the-art technical products from global market leaders and specialist providers on our platforms), thereby giving ourselves a competitive edge. The core of this system comprises highly-scalable, platform-based and standardized products for business customers. We are deploying our core expertise – IT and telecommunications from a single source – in full, for mega topics, such as the introduction of the health card, the set-up of platforms for the Internet of Things, M2M solutions for the automotive industry, or products for the analysis of large data volumes.

As a service provider for the Group, Telekom IT constantly develops our Group's IT landscape, thus making an important contribution to our Company's competitiveness. Standardized and optimized systems and processes contribute to systematic efficiency management and to reducing the Group's IT costs further. This is reflected in falling revenues.

**Successful launch of Telekom Security.** We aim to be the market leader in terms of cyber security. To this end, we are pooling the various Group units for internal and external security into a new business unit, Telekom Security, under the umbrella of T-Systems. The potential of the more than 1,000 specialists in this area is immense. We are combining our expertise, experience and processes with our product portfolio and sales – thereby creating a unique offering for our customers.

Overall, in the Systems Solutions operating segment, we expect order entry to increase, revenue to remain stable, and adjusted EBITDA to increase slightly in 2016, mainly due to growth in the Market Unit, which will more than offset the decline in the Telekom IT business unit. For 2017, we expect order entry to increase sharply, revenue to rise at segment level and in the Market Unit, and adjusted EBITDA to increase slightly. We expect the Systems Solutions operating segment's cash capex to decrease slightly year-on-year for the next two years.

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## GROUP HEADQUARTERS & GROUP SERVICES

In the next few years, we will also stay focused on continuously improving processes and structures in Group Services, to which end we will systematically further develop organizational structures in particular (for example, through our multi-shared service center Deutsche Telekom Services Europe), as well as systematically fine-tune the cost structures of both Group Services and Group Headquarters. The resulting savings will on the one hand contribute to improving earnings, and on the other enable us to offer efficiencies realized in the form of low-cost services.

## RISK AND OPPORTUNITY MANAGEMENT

- Risk early warning system
- Identification of opportunities

### BOARD OF MANAGEMENT'S ASSESSMENT OF THE AGGREGATE RISK AND OPPORTUNITY POSITION

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material risk categories or individual risks. The aggregate risk position did not change fundamentally in 2015 compared with the previous year. Our major challenges particularly include the regulatory factors, intense competition, and strong price erosion in the telecommunications business. As it stands today, Deutsche Telekom's Board of Management sees no risk to the Group's continued existence as a going concern. As of the reporting date and the time of preparing the statement of financial position, there were no risks that jeopardize Deutsche Telekom AG's and key Group companies' continued existence as a going concern.

We are convinced that we will also be able to master challenges and exploit opportunities in the future without having to take on any unacceptably high risks. We strive to achieve a good overall balance between opportunities and risks, with the aim of increasing added value for our Company and our shareholders by analyzing new market opportunities.

### RISK AND OPPORTUNITY MANAGEMENT SYSTEM

As one of the world's leading providers in the telecommunications and information technology industry, we are subject to all kinds of uncertainties and change. In order to operate successfully in this ongoing volatile environment, we need to anticipate any developments at an early stage and systematically identify, assess and manage the resulting risks. It is equally important to recognize and exploit opportunities. We therefore consider a functioning risk and opportunity management system to be a central element of value-oriented corporate governance.

The need for a risk management system arises not only from business management requirements, but also from regulations and law, in particular § 91 (2) of the German Stock Corporation Act (Aktiengesetz – AktG). The Audit Committee monitors the effectiveness of the internal control system and the risk management system as required by § 107 (3) sentence 2 AktG.

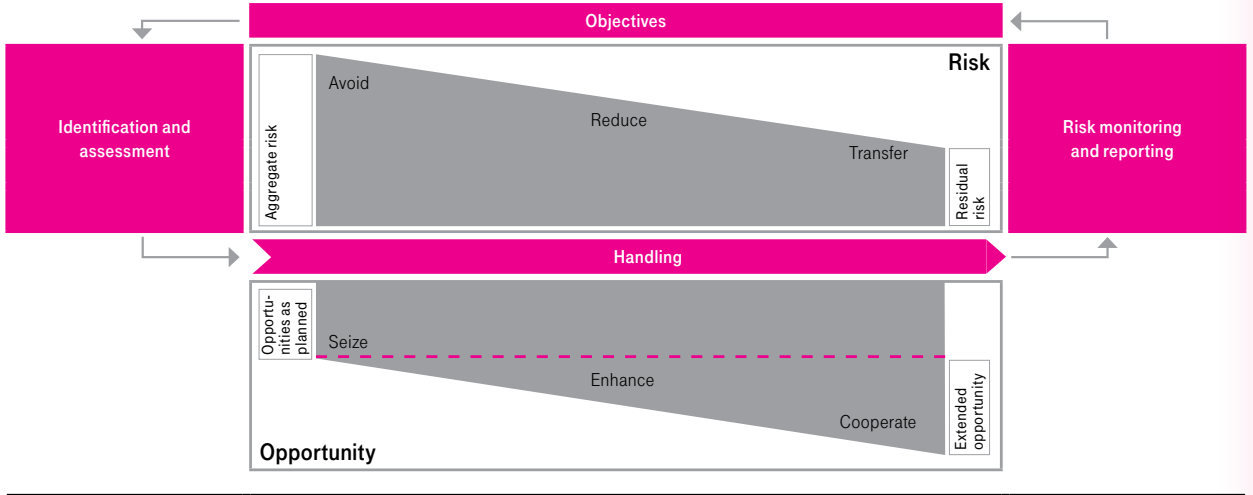
Our Group-wide risk and opportunity management system covers all strategic, operational, financial, and reputational risks – as well as the corresponding opportunities – for our fully consolidated entities. The aim is to identify these early on, monitor them, and manage them in accordance with the desired risk profile.

We base our system on an established standard process (GRAPHIC 43). Once risks and opportunities have been identified, we move on to analyze and assess them in more detail. The effects of risks and opportunities are not offset against each other. This is followed by a decision on the actual action to be taken, e. g., reducing risks or seizing opportunities. The respective risk owner implements, monitors, and evaluates the associated measures. All steps are repeatedly traversed and modified to reflect the latest developments and decisions.

<sup>1</sup> The forecasts contain forward-looking statements that reflect management's current views with respect to future events. Words such as "assume," "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "plan," "project," "should," "want," and similar expressions identify forward-looking statements. These forward-looking statements include statements on the expected development of revenue, EBIT, EBITDA, adjusted EBITDA, ROCE, cash capex, and free cash flow. Such statements are subject to risks and uncertainties, such as an economic downturn in Europe or North America, changes in exchange and interest rates, the outcome of disputes in which Deutsche Telekom is involved, and competitive and regulatory developments. Some uncertainties or other imponderabilities that might influence Deutsche Telekom's ability to achieve its objectives, are described in the section "Risk and opportunity management," PAGE 125 ET SEQ., of the combined management report, and the "Disclaimer," PAGE 256 at the end of the Annual Report. Should these or other uncertainties and imponderabilities materialize or the assumptions underlying any of these statements prove incorrect, the actual results may be materially different from those expressed or implied by such statements. We do not guarantee that our forward-looking statements will prove correct. The forward-looking statements presented here are based on the current structure of the Group, without regard to significant acquisitions, dispositions, business combinations or joint ventures Deutsche Telekom may choose to undertake. These statements are made with respect to conditions as of the date of this document's publication. Without prejudice to existing obligations under capital market law, we do not intend or assume any obligation to update forward-looking statements.

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**The risk and opportunity management system**



Our risk and opportunity management system is based on the globally applicable risk management standard of the International Standards Organization (ISO). ISO standard 31 000 "Risk management – Principles and guidelines" is regarded as a guideline for internationally recognized risk management systems.

Our Internal Audit unit reviews the functionality and effectiveness of our risk management system at regular intervals. The external auditor mandated by law to audit the Company's annual financial statements and consolidated financial statements in accordance with § 317 (4) of the German Commercial Code (Handelsgesetzbuch – HGB) examines whether the risk early warning system is able to identify at an early stage risks and developments that could jeopardize the Company's future. Our system complies with the statutory requirements for risk early warning systems and conforms to the German Corporate Governance Code.

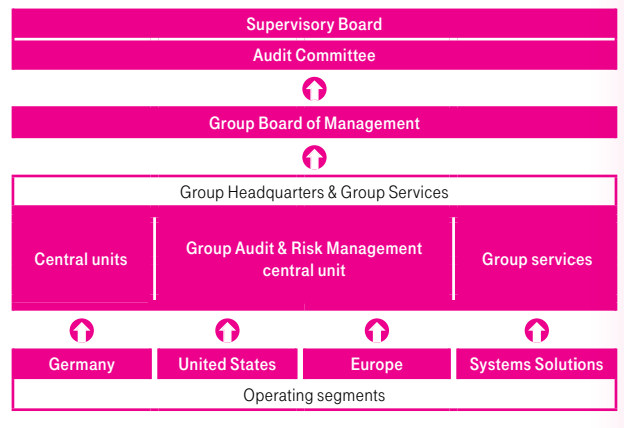
In addition, our Group Controlling unit specifies a series of Group guidelines and processes for the planning, budgeting, financial management, and reporting of investments and projects. These guidelines and processes guarantee the necessary transparency during the investment process and the consistency of investment planning and decisions in our Group and operating segments. They also provide decision-making support for the Board of Management and the Board of Management Assets Committee. This process additionally includes the systematic identification of strategic risks and opportunities.

**ORGANIZATION OF RISK MANAGEMENT**

The Group Risk Management & Insurance unit has central responsibility for the methods and systems used in an independent risk management system that has been standardized across the Group, and the associated reporting. Our Germany, United States, Europe, and Systems Solutions operating segments are connected to the central risk management via their own risk management. The relevant risk owners in the operating segments and central Group units are responsible for managing and reducing risks.

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**Risk management**



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**RISK IDENTIFICATION AND REPORTING**

Each operating segment produces a quarterly risk report according to the standards laid down by the central Risk Management unit and based on specific materiality thresholds. These reports assess risks, taking into account their extent in terms of impact on results of operations or financial position, as well as their probability of occurrence, and they identify action to be taken and suggest or initiate measures. The assessment additionally includes qualitative factors that could be important for our strategic positioning and reputation and also determine the aggregate risk. We base our assessment of risks on a period of two years. This is also the length of our forecast period.

The Group risk report, which presents the main risks, is prepared for the Board of Management on the basis of this information. The Board of Management informs the Supervisory Board. The Audit Committee of the Supervisory Board also examines this report at its meetings. If any unforeseen risks arise outside regular reporting of key risks, they are reported ad hoc.

In addition to the quarterly risk report, we use additional tools for monitoring and analyzing risks, in which we collect a large number of early-warning and economic indicators, e. g., on macroeconomic, political, and legal developments in our markets.

**IDENTIFICATION OF OPPORTUNITIES THROUGH THE ANNUAL PLANNING PROCESS**

In addition to the systematic management of risks, the Company's long-term success must be secured through integrated **opportunities management**. The identification of opportunities and their strategic and financial assessment play a major role in our annual planning process.

The short-term monitoring of results and the medium-term planning process help our operating segments and Group Headquarters to identify and seize the opportunities in our business throughout the year. While short-term monitoring of results mainly targets opportunities for the current financial year, the medium-term planning process focuses on opportunities that are strategically important for our Group. We distinguish between two types of opportunities:

- Opportunities with external causes over which we have no influence, for example, the revocation of additional taxes in Europe.
- Opportunities created internally, for example by focusing our organizational structure on innovation and growth areas and products, or through business partnerships and collaborations from which we expect synergies.

We have continuously increased the efficiency of our planning process so as to give us greater scope. This puts the organization in a position to identify and seize new opportunities and generate new business. The preliminary plans of our operating segments form the basis for a concentrated planning phase during which members of the Board of Management, business leaders, senior executives, and experts from all business areas intensively discuss the strategic and financial focus of our Group and our operating segments on a daily basis, and from all of which they ultimately produce an overall picture. The identification of opportunities from innovation and their strategic and financial assessment play a major role throughout this phase. This daily "brainstorming" may result in opportunities being rejected, passed back to the respective working groups for revision, or adopted and transferred to the organization.

**RISK ASSESSMENT AND RISK CONTAINMENT**

**ASSESSMENT METHOD**

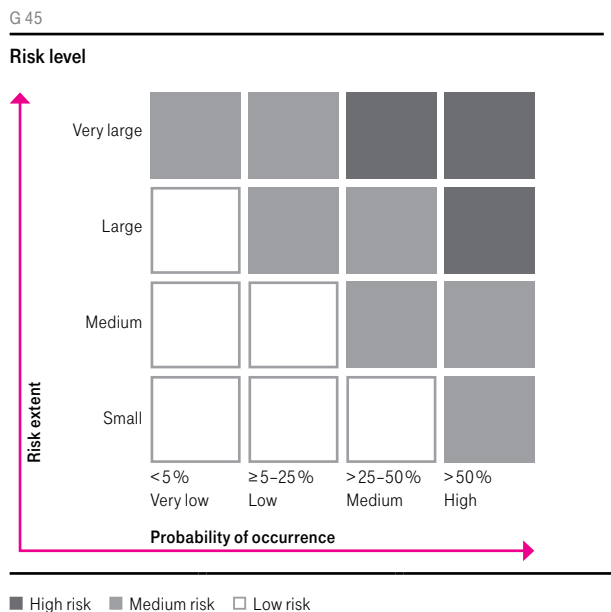
Risks are assessed on the basis of "probability of occurrence" and "risk extent." The following assessment yardsticks apply:

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Probability of occurrence	Description
< 5 %	very low
≥ 5 to 25 %	low
> 25 to 50 %	medium
> 50 %	high

Risk extent	Description
Small	Limited negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk < € 100 million
Medium	Certain negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 100 million
Large	Significant effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 250 million, and/or affects more than one Group entity
Very large	Damaging negative effects on business activities, results of operations, financial position, and reputation; individual EBITDA risk ≥ € 500 million, and/or affects more than one Group entity

By assessing risks according to the aspects of probability of occurrence and risk extent, we classify them into low, medium and high risks, as shown in GRAPHIC 45.



We report all risks classified as “high” and “medium.” Exceptions are possible in specific cases: For the sake of reporting continuity, for example, we also report risks from prior years that are classified as low for the current reporting period.

It should be noted that risks with an extent currently assessed as being small may in the future acquire a larger extent than risks that are currently assessed as having a larger extent. This may be due to uncertainties that cannot be assessed at present and over which we have no influence. Uncertainties that cannot be assessed at present also give rise to risks that are currently unknown to us or that we presently consider to be insignificant and that may affect our business activities in the future.

### RISK CONTAINMENT MEASURES

**Risk management and insurance.** To the extent possible and economically viable, we take out adequate Group-wide insurance cover for insurable risks. DeTeAssekuranz GmbH – a wholly owned subsidiary of Deutsche Telekom AG – acts as an insurance broker for our Group Risk Management & Insurance unit and supports insurance risk management. The company develops and implements solutions for the Group’s operational risks using insurance and insurance-related tools and places them on the national and international insurance markets.

Taking out insurance cover is an essential option for our external **risk transfer**. The coverage of risks in our Group insurance programs requires a risk transfer for the purpose of protecting the Group’s financial position (i. e., the possible risk extent reaches a volume “relevant for the Group”) or for risks to be bundled and managed at Group level to protect the Group’s interests (opportune reasons/cost optimization/risk reduction).

**Business Continuity Management (BCM).** BCM is a support process within operational risk management that protects business processes from the consequences of damaging incidents and disruptions, and ensures the continuation of business processes through ongoing analysis, assessment, and management of relevant risks for people, technology, infrastructure, supply and service relationships, and information. The aim is therefore to identify potential threats and to reduce the impact and duration of a disruption of critical business processes to an acceptable minimum by ensuring appropriate resilience in the organization plus the ability to effectively cope with threats.

For this, BCM identifies critical business processes and business processes needing protection including any supporting processes, process steps, and assets (people, technology, infrastructure, supply and service relationships, and information). Appropriate precautionary measures are also defined. In particular, Security Management works in coordination with the relevant units and process owners to analyze the possible consequences of external and internal threats with relevance for security, such as natural disasters, vandalism, or sabotage. Once the extent of potential losses and probability of occurrence have been assessed, preventive measures can be put in place and contingency plans developed.

The risk owners initiate and execute further measures to contain the risks. A wide range of measures are available, depending on the risk type. A few examples of these measures are:

- We tackle market risks with comprehensive sales controlling and intensive customer management.
- We manage interest and currency risks with the help of our systematic risk management and hedge them using derivative and non-derivative financial instruments.
- We also take a large number of measures for dealing with operational risks: For example, we improve our networks through continuous operational and infrastructural measures. We continuously enhance our quality management, the related controls, and quality assurance. We offer systematic training and development programs for our employees.
- We deal with risks from the political and regulatory environment through an intensive, constructive dialog with authorities and politics.
- We endeavor to minimize risks in connection with legal proceedings by ensuring suitable support for proceedings and designing contracts appropriately in the first place.
- The Group Tax unit identifies potential tax-related risks at an early stage and systematically records, assesses and monitors them. It takes any measures necessary to minimize tax-related risks and coordinates them with the Group companies affected. The unit also draws up and communicates policies for overcoming or avoiding tax risks.

### RISKS AND OPPORTUNITIES

In the following section, we present all risks and opportunities that have been identified as significant for the Group and, as things currently stand, could affect the results of operations, financial position, and/or reputation of Deutsche Telekom and, via the subsidiaries’ results, the results of operations, financial position and/or reputation of Deutsche Telekom AG. We describe the majority of the risks before the measures for risk containment are taken. If any remaining risks have been identified despite such measures for risk containment, they are labeled as such. If risks and opportunities can be clearly allocated to an operating segment, this is subsequently presented.

In order to make it easier to understand and explain their effects better, we have allocated the individually assessed risks to the following categories:



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**Corporate risks**

	Probability of occurrence	Risk extent	Risk level	Change against prior year
<b>INDUSTRY, COMPETITION, AND STRATEGY</b>				
Economic risks, Germany	low	small	low	↔
Economic risks, United States	low	medium	low	↔
Economic risks, Europe	low	medium	low	↔
Risks relating to the market and environment, Germany	medium	small	low	↔
Risks relating to the market and environment, United States	medium	large	medium	↔
Risks relating to the market and environment, Europe	medium	medium	medium	↔
Risks relating to innovations (substitution)	medium	medium	medium	↔
Risks relating to strategic transformation and integration	medium	medium	medium	↔
<b>REGULATION</b>	see PAGES 131 and 132			
<b>OPERATIONAL RISKS</b>				
Personnel, Germany and Systems Solutions	medium	small	low	↔
Risks relating to IT/NT network operations, Germany	very low	very large	medium	↔
Risks relating to IT/NT network operations, United States	very low	very large	medium	↔
Risks relating to IT/NT network operations, Europe	very low	large	low	↔
Risks relating to existing IT architecture, United States	medium	medium	medium	↔
Future viability of the IT architecture, United States	medium	large	medium	↔
Procurement	low	small	low	↔
Data privacy and data security	medium	medium	medium	↔
<b>BRAND, COMMUNICATION AND REPUTATION</b>				
Brand and reputation (reporting in the media)	low	small	low	↔
Sustainability risks	very low	small	low	↔
Health and environment	low	medium	low	↔
<b>LITIGATION AND ANTI-TRUST PROCEEDINGS</b>				
	see PAGE 135 ET SEQ.			
<b>FINANCIAL RISKS</b>				
Liquidity, credit, currency, interest rate risks	low	small	low	↔
Tax risks	see PAGE 139			
Other financial risks	see PAGE 140			

↔ improved   ↔ unchanged   ↘ deteriorated

**RISKS AND OPPORTUNITIES FROM INDUSTRY, COMPETITION AND STRATEGY**

Risks and opportunities relating to the macroeconomic environment. The economic development and outlook are positive for most of our markets. The European economies are profiting from strong consumption, low oil and energy prices, an expansive monetary policy, and favorable euro exchange rates. We expect stable growth in the U.S. economy over the next few years. However, economic and political developments have shown that uncertainties have increased with regard to the economic situation globally and in our footprint countries. Geopolitical crises, resulting for example from the increased terror threat or large numbers of refugees, can have an adverse effect on the economies of the countries in which we operate. In addition, persistent economic weakness, especially in the emerging economies, could negatively impact on global trade and the markets of our operating segments. Especially for the European countries in which we operate, the biggest economic risk remains a renewed intensification of the sovereign debt crisis with a potential

impact on the banks and financial markets of an individual country or an entire region. The political situation in Greece essentially stabilized in 2015 following the new elections and the agreement on the European Stability Mechanism (ESM). However, risk factors remain, such as the marginal parliamentary majority of the governing coalition and potentially growing resistance among the population to austerity measures such as the pensions reform. For this reason, a renewed escalation towards crisis in the political situation cannot be entirely ruled out.

Risks to economic development could manifest themselves in different ways in some of our countries, where consumers and business customers could rein in their consumption if the economy slows again sharply and uncertainty continues to rise. Government austerity measures could also have negative effects on demand for telecommunications services – caused by reduced public demand or lower disposable incomes in the private sector. On account of national efforts at consolidation, our operational business also faces the risk of further, unannounced tax rises

or special taxes, in particular in our Southern and Eastern European markets. Furthermore, the risks arising from the sovereign debt crisis also give rise to volatile exchange rates.

If the economic situation in the countries in which we operate, especially in the United States and our Europe operating segment, were to improve further, or if the political situation in Greece were to stabilize and the Greek economy were to recover more quickly than expected, there could be a further revival in private consumption as well as in business and public investment activity. As a result, demand for telecommunications and IT services from consumers, business customers, and the public sector could also see a moderate increase.

**Risks relating to the market and environment.** The main market risks we face include the steadily falling price levels for voice and data services in the fixed network and in mobile communications. In addition to price reductions imposed by regulatory authorities, this is primarily attributable to intensive competition in the telecommunications industry, cannibalization effects due to new products and services, and technological progress. As consolidations and partnerships in several markets resulted in stabilization in the market, the effects of these risks were reduced compared with the prior year and further positive effects may follow in the future.


Competitive pressure is expected to continue, especially in the fixed network in Germany and Europe. In the broadband market, we observe that the market shares of regional network operators are growing, in particular in Germany, and that they are increasing their market coverage by building out their own infrastructure. In certain regions, our competitors are extending their own fiber-optic network to the home so that they are independent of our network in the local loop, too. Another competitive risk lies in the fact that we are increasingly faced with competitors who are not part of the telecommunications sector as such, but are increasingly moving into the traditional telecommunications markets. This mainly relates to major players in the Internet and consumer electronics industries. We continue to be exposed to the risk of a further loss of market share and falling margins and of increasingly losing direct customer contact.

We also expect prices for mobile voice telephony and mobile data services to fall further, which could adversely affect our mobile revenue. Among the main reasons for the decrease in prices are providers that are pursuing aggressive pricing policies (MVNOs) and expanding in Germany and other European markets. Pure eSIM smartphone offerings could put even more downward pressure on prices for mobile voice telephony and mobile data services. Our national companies in Europe continue to operate in a highly competitive environment. Even though partnerships and consolidations, e. g., in Austria, are providing impetus for stabilization, competition remains intense. This is due to new players entering the market through frequency auctions and wholesale agreements, in particular in mobile communications. In addition, the risk remains that smaller competitors will take unforeseen, aggressive pricing measures.

Our relative market position in the United States entails particular risks, especially with regard to our market shares, brand positioning, network quality, and network coverage, including in roaming agreements. We expect joint ventures, mergers, acquisitions, and strategic business combinations in the U. S. mobile industry to result in even greater competition in the U. S. market. Thanks to their market position and market shares, our three strongest competitors (Verizon Wireless, AT&T, Sprint) can react faster and more effectively to market opportunities and invest more in customer acquisition. In the future, T-Mobile US will require additional spectrum in order to meet the rising demand for capacity. If spectrum is not acquired, risks primarily include a deterioration in the quality of services due to saturated frequency capacities. In 2016, T-Mobile US plans to acquire more spectrum to enhance its portfolio. T-Mobile US is also pursuing the option of acquiring spectrum from other providers and to conclude agreements on sharing network capacity with other network operators.


The improved market situation of T-Mobile US could have a positive impact on revenue; this could be stimulated through further innovative rate plans. Savings in operational expenditures could be made in the next few years by also proactively driving forward the transformation and investing in front-line systems. The continued roll-out of low-band spectrum can improve network coverage and thus customer retention.

Our Systems Solutions operating segment also faces challenges. After all, the information and communications technology market is impacted by continued strong competition, persistent price erosion, long sales cycles and restraint in the awarding of projects. This creates a potential risk of revenue losses and declining margins at T-Systems.

**Opportunities relating to the market and environment.** The telecommunications and IT market is extremely dynamic and highly competitive. The economic conditions affect our actions and impact on our Company indicators. We generally expect the situation to develop as described in the section "Market expectations." 

In the following section, we present opportunities which we believe will allow us to achieve above-average market growth and which could be significant for us in terms of our future financial position and results.

Consolidation continues in the German telecommunications and IT market. We hope that this – and also less aggressive pricing policy pursued by cable network operators and resellers – will result in a positive development of prices, such that they cease to fall so dramatically.

In October 2015, the EU parliament and the European Council decided to completely abolish roaming surcharges in the EU from June 15, 2017, unless justified under a still to be specified fair usage policy. 



See the section "Forecast," PAGE 116 ET SEQ.



For further information, please refer to the section "Risks and opportunities resulting from regulation," PAGES 131 and 132.

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**Risks relating to innovations.** Innovation cycles are getting shorter and shorter. This confronts the telecommunications sector with the challenge of bringing out new products and services at shorter and shorter intervals. New technologies are superseding existing technologies, products, or services in part, in some cases even completely. This could lead to lower prices and revenues in both voice and data traffic. These substitution risks could impact our revenue and earnings, in particular in the Europe and United States operating segments. We deal with the impact of substitution risks by, for example, offering package rates: We offer new and existing customers an integrated solution from our product portfolio.

**Risks relating to strategic transformation and integration.** We are in a continuous process of strategic adjustments and cost cutting initiatives. If we are unable to implement these projects as planned, we will be exposed to risks. In other words, the benefit of the measures could be less than originally estimated, or the measures could take effect later than expected, or not at all. Each of these factors, on their own or combined with others, could have a negative impact on our business situation, financial position, and results of operations.

#### RISKS AND OPPORTUNITIES RESULTING FROM REGULATION

In the following section, we describe our main regulatory risks and opportunities which, as things currently stand, could affect our results of operations and financial position, and our reputation.

Our German and international companies remain subject to sector-specific market regulation. The national regulatory authorities have extensive powers to intervene in our product design and pricing, with significant effects on our operations. We can only to a limited extent anticipate such regulatory interventions, which may additionally increase existing price and competitive pressure.

There are concerns that regulation in Germany and other European countries may continue to impact the development of revenue and earnings in the fixed network and in mobile communications in the medium and long term.

**Awarding of frequencies.** With regard to risks and opportunities in relation to spectrum regulation, particular note should be made of the proceedings currently in preparation or in planning in some countries for the awarding of spectrum. The award processes mainly relate to the auctioning of spectrum in the 0.8 GHz, 1.8 GHz, and 2.6 GHz ranges. Risks could arise from the fact that inappropriate auction rules and frequency usage requirements, excessive reserve prices and disproportionately high annual spectrum fees could jeopardize the acquisition of our target spectrum. By contrast, we see an opportunity in particular in the fact that via such spectrum award procedures, mobile operators can acquire sufficient spectrum that is ideal for future business. We would thus be equipped for further growth and innovation. In such cases, award processes are currently being prepared in Albania, Greece, the Czech Republic and Slovakia, which are expected to take place in the first half of 2016. In addition, according to current estimates, frequency auctions will also be held in the medium term in the United Kingdom, Montenegro, Hungary, and the United States.

**Consumer protection.** In February 2014, the Federal Network Agency had presented a draft regulation designed to achieve more transparency and greater cost control in telecommunications services. The extensive requirements are to give consumers and other end users the opportunity to check their Internet speeds in the mobile and fixed network on request, for example. At present, these new regulations mean substantial modification costs for Telekom Deutschland. In the main part, the draft regulation takes up the EU regulations on the single market for electronic communications, which entered into force at the end of November 2015 with a transposition period until the end of April 2016. Since the Federal Network Agency's draft regulation is expected to be adopted by the end of the first quarter of 2016 following agreement with the relevant ministries, the Federal Network Agency has already begun to develop a measuring system to be used throughout Germany to show available access line bandwidths. The regulation will enter into force after a six-month transposition period. An extended transposition period of twelve months is envisaged for individual rules.

**Retrospective new ruling on rate approvals.** In Germany, in addition to the general regulatory risks already described, there are also uncertainties arising from the fact that administrative courts can reverse rate rulings made by the national regulatory authority. In such cases, the regulatory authority then has to decide again on the rates for past periods. It is generally not clear at all, whether, to what extent, and in which direction rates will be revised. In 2015, Deutsche Telekom concluded settlement agreements with the major complainants concerning the ULL one-time charges, in which the originally approved rates were agreed and the contractual parties undertook to withdraw pending claims. Based on this, we submitted corresponding rate applications to the Federal Network Agency on September 23 and November 30, 2015. These were approved on November 5, 2015 and February 1, 2016, respectively. As agreed, the first claims were also withdrawn by several complainants in December 2015. In the reporting year, Telekom Deutschland GmbH also agreed settlements with complainants in open administrative and legal proceedings concerning mobile communications, and with one complainant concerning fixed-network termination rates. These settlement agreements significantly reduced the risks and opportunities arising from the new ruling proceedings.

At EU level, the relevant regulatory framework is largely determined by regulations to be applied directly by the member states, by directives to be transposed into national law by the member states, and by recommendations by the European Commission that, while not directly binding, must be taken into account by the national regulatory authorities. Further development of the European legal framework in the form of new EU regulations or directives provides opportunities for greater legal certainty; however, risks of additional regulatory restrictions also arise.

As part of a strategy for the digital single market, the European Commission announced its upcoming European regulation initiatives in early May 2015. These include, for example, a complete **review of the applicable EU legal framework for telecommunications**, initiated in fall of 2015 with a public consultation. The process comprises a review of the current ex-ante regulation for network access, a reform of service regulation whose aims include more equal treatment of telecommunications services and Internet-based (communications) services, as well as a renewed initiative to create a more harmonized framework for the



For more information on the administrative court processes, see the section "Litigation," PAGE 135 ET SEQ.



For information on frequency auctions that are currently in preparation or were completed in the reporting year, please refer to the section "The economic environment," PAGE 67 ET SEQ.

awarding of mobile spectrum. Furthermore, the Commission announced a review of the role of Internet platforms in the digital economy with a view to potential legislative measures. The review began in fall 2015 with a consultation. All these initiatives offer the opportunity to achieve more balanced competitive conditions between telecommunications and Internet companies. The revision of this legal framework also offers the opportunity to reduce the intensity of the ex-ante regulation for network access. At the same time, risks arise for additional obligations, for example in the area of customer protection or universal service. It is not possible at present to conclusively assess the specific opportunities and risks arising from these initiatives.

On October 27, 2015, the EU parliament and the European Council adopted the **EU Regulation concerning the single market for electronic communications**, which contains provisions on net neutrality, international roaming, and obligations to provide information.

- **Net neutrality.** The regulation concerning the single market for electronic communications allows for the provision of "specialized services" with assured quality, and Internet access services on a shared IP network. However, the permissibility of special services is linked to the fact that an assured quality is required for the provision of the service. Equal treatment of all data traffic will be established as a principle, with exceptions to traffic management being permitted in limited cases, for instance to ensure the objectively different technical requirements of different service categories and to prevent potential overloads in the network. Zero rating, i. e., not charging for certain amounts of data traffic in connection with volume-based rate plans, remains permissible; corresponding offers are subject to control by the Federal Network Agency. The regulation provides regulatory authorities with extensive powers to monitor and intervene, and includes provisions on fines.

- **International roaming.** With regard to international roaming, the regulation on the single market for electronic communications provides for an initial reduction of roaming rates as of April 30, 2016 to the level of national rates plus a strictly limited surcharge. From June 15, 2017, surcharges for roaming services within the EU will then be eliminated entirely (Roam like at Home), unless permitted under a still to be specified fair usage policy. The introduction of Roam Like at Home will give rise to corresponding revenue losses as well as substantial implementation costs. On November 26, 2015, the European Commission began a consultation on further measures to abolish roaming surcharges. This consultation is examining the future regulation of inter-operator tariffs (IOTs), which network operators charge to other network operators when their customers use the other operator's network. It is also looking into whether and to what extent network operators can continue to bill a surcharge to customers who use roaming well above the average even after June 15, 2017. A general reduction in regulated IOTs would give rise to arbitrage risks – i. e., risks from the misuse of the international roaming mechanism to circumvent national terms and conditions – for us and our international subsidiaries.

- **Information requirements.** The regulation stipulates requirements for the provision of information concerning network neutrality and Internet speeds. This information, which must be included in the contract with the respective customer, and published, includes, for example, the impact of special services on the performance of the Internet connection, the speed available most of the time at the customer's line, and the bandwidth purchased. If the technical parameters stated in the contract differ from the customer's actual connection, legal consequences ensue – depending on the national provisions. Speeds are to be checked using measuring systems certified by the regulatory authorities.

#### OPERATIONAL RISKS AND OPPORTUNITIES

**Personnel.** In 2015, we once again used socially responsible measures to restructure the workforce in the Group, essentially by means of voluntary redundancies, partial and early retirement, and employment opportunities for civil servants and employees offered by Vivo/Telekom Placement Services, especially in the public sector. Staff restructuring will continue in the coming financial year. If it is not possible to implement the corresponding measures as planned or at all (for example, due to limited interest in severance payments) this may have negative effects on our financial targets. To avoid the risk of high potentials leaving the Group as a result of the staff reduction instruments, we make sure that the arrangement is voluntary on both sides in each individual case.

The right of civil servants to return to Deutsche Telekom also carries risks: When Group entities that employ civil servants are disposed of, it is generally possible to continue to employ them at the Group entity to be sold, provided the civil servant agrees or submits an application to be employed at the respective unit in future. However, there is a risk that they may return to us from a sold entity, for instance after the end of their temporary leave from civil-servant status, without the Company being able to offer them jobs. There are currently around 2,138 civil servants who are entitled to return to Deutsche Telekom in this way (as of December 31, 2015). On the assumption that all these civil servants had returned to us in the reporting year, the direct maximum risk would be around EUR 0.13 billion per year. The maximum risk is calculated as an average cost per civil servant, based on the assumption that adequate productive deployment is no longer possible (worst case scenario). This risk could be reduced by compensation payments, for example, but not completely eliminated. ☐

**Risks relating to IT/NT network operations.** We have an increasingly complex information/network technology (IT/NT) infrastructure, which we constantly expand and upgrade to ensure the best customer experience and consolidate our technology leadership. Outages in the current and also future technical infrastructure cannot be completely ruled out and could in individual cases result in revenue losses or increased costs. After all, our IT/NT resources and structures are the key organizational and technical platform for our operations.

Risks could arise in this area relating to all IT/NT systems and products that require Internet access. For instance, faults between newly developed and existing IT/NT systems could cause interruptions to business processes, products and services, such as smartphones and Entertain. In order to avoid the risk of failures, e. g., arising from natural disasters or fire, we use technical early warning systems and duplicate IT/NT systems.



For information on major litigation in connection with personnel, please refer to the section "Litigation,"

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The Computer Emergency Response Team (CERT) at T-Systems is in charge of protecting our corporate customers' servers. In cloud computing, all data and applications are stored at a data center. Our data centers have security certification and meet strict legal data protection provisions and EU regulations. All data relating to companies and private persons are protected from external access. Constant maintenance and automatic updates keep the security precautions up to date at all times. Based on a standardized Group-wide Business Continuity Management process, we are also taking organizational and technical measures to prevent any damage or to minimize the effects. Furthermore, we have Group-wide insurance cover for insurable risks.

**Risks relating to the existing IT architecture in the United States.** T-Mobile US is exposed to risks in relation to its IT infrastructure: The performance of sales and customer service systems has decreased over time, which led to interruptions or outages. For as long as it takes to upgrade our IT systems, T-Mobile US will have to continue to expect limitations in sales and service.

**Future viability of the IT architecture in the United States.** If T-Mobile US is not ready in time to exploit the benefits of technological advances, we will have reason to fear a decline in demand for our services. System failures, security breaches, data protection violations, disruptions of operation, and unauthorized use or impairment of our network and other systems could damage our reputation and adversely impact our financial situation. In 2014, T-Mobile US began to introduce a new billing system which, once implemented successfully, is to substantially support the transformation. The integration of the new billing system entails operational risks and is currently being implemented. Furthermore, T-Mobile US had to take IT measures in 2015 in order to maintain its ability to act quickly on the market and ensure compliance with recognized standards for authorization management and access protection.

**Opportunities relating to the IT architecture in the United States.** T-Mobile US is making significant investments in the IT infrastructure with the aim of improving the customer service systems. If this results in a significant improvement in processes, then the savings we make could be higher than previously assumed.

**Procurement.** As a service provider and an operator and provider of telecommunications and IT products, we cooperate with a variety of suppliers of technical components, such as software, hardware, transmission systems, switching systems, outside plant, and terminal equipment.

Supply risks cannot be entirely ruled out. Delivery bottlenecks, price increases, changes in the prevailing economic conditions, or suppliers' product strategies may have a negative impact on our business processes and our results. Risks may result from the dependence on individual suppliers or from individual vendors defaulting. We employ organizational, contractual, and procurement strategy measures to counteract such risks. We set up the Ideas Garden program together with Procurement, Controlling and Technology: With this program, we plan to make our technical investments even more efficient and save costs. In a range of projects in the program, we have therefore developed a large number of cross-functional and in some cases disruptive measures. The initial results of these projects give us confidence that the Ideas Garden can further improve our cash capex.

**Data privacy and data security.** After more than three years of negotiations, the EU institutions have agreed on a new law to govern data protection: the European General Data Protection Regulation will broadly replace the existing national legislation and thus create a consistent standard for Europe. We welcome the fact that the long negotiation process has been brought to a positive close. The General Data Protection Regulation is a vital step on the way to a true single European market in which the same rules apply to all its players. The newly adopted regulations assure Europe of a high level of data protection and, at the same time, will pave the way for new digital business models. Thus our fundamental demands have been met. Additionally, the new data protection legislation closes a major regulatory gap when it comes to service providers outside of the EU. The impact of the new European General Data Protection Regulation on the competition situation with non-European market players (e.g., Google, Facebook, or Apple) in particular remains to be seen. However, opportunities have also been missed: Despite the aim of creating one single legislation for all of Europe, the member states have again been granted the option in a few key areas of permitting special national solutions, for instance in profiling and in the assignment of a data protection officer. Regrettably, data in the hands of telecommunications providers will still be subject to separate, more stringent regulation until the ePrivacy Directive is revised. This will still mean competitive disadvantages for European telecommunications providers in some areas. The adoption of the law marks the start of a two-year transition period in which the companies concerned have time to adjust to the new situation. The increased data protection requirements will not change much for us, since, for example, new processes such as the Privacy Impact Assessment for assessing risks in the event of data privacy violations have long been common practice for us.

Our products and services are subject to risks in relation to data privacy and data security, especially in connection with unauthorized access to customer, partner, or employee data. The security and privacy of this data are always our top priority. This also applies to the growing cloud computing business, which is subject to the same rigorous requirements for security and data privacy as all our other products. In order to maintain these high standards and largely exclude risks, we welcome the European General Data Protection Regulation, which has laid the foundation for the same rules to apply for all companies offering their services on the European market. Thus consumers have the same rights and there is a level playing field all over Europe. With regard to IT security, we are faced with numerous new challenges. In recent years, the focus has shifted from prevention to analysis. This is where our early warning system comes in: It detects new sources and types of cyber attack, analyzes the behavior of the attackers while maintaining strict data privacy, and identifies new trends in the field of security. Along with the honeypot systems, which simulate weaknesses in IT systems, our early warning system includes alerts and analytical tools for spam mails, viruses, and Trojans. We exchange the information we obtain from all these systems with public and private bodies to enable new attack patterns to be detected and new protection systems to be developed.



Sustainability at  
Deutsche Telekom

Cyber crime and industrial espionage are on the rise. We are addressing these risks with comprehensive security concepts. In order to create greater transparency and thus be better able to tackle the threats, we are increasingly engaging in partnerships, e. g., with public and private organizations. With the Security by Design principle we have established security as a fixed component in our development process for new products and information systems. In addition, we carry out intensive and mandatory digital security tests.



We provide regular reports on the latest developments in these areas on our websites [www.telekom.com/dataprotection](http://www.telekom.com/dataprotection) and [www.telekom.com/security](http://www.telekom.com/security)

Deutsche Telekom plans to accelerate its growth through IT security solutions. To this end, it has pooled all of the security departments under the umbrella of T-Systems. With the help of this end-to-end security portfolio, Deutsche Telekom plans to secure new market shares and to drive forward the current megatrends, such as the Internet of Things and Industry 4.0, which require new security concepts. Furthermore, the Group is planning to substantially build out its partner ecosystem in the area of IT security. □

#### RISKS AND OPPORTUNITIES ARISING FROM BRAND, COMMUNICATION, AND REPUTATION

**Negative media reports.** An unforeseeable negative media report on our products and services or our corporate activities and responsibilities can have a huge impact on the reputation of our Company and our brand image. Social networks have made it possible that such information and opinions can spread much more quickly and extensively than they could just a few years ago. Ultimately, negative reports can impact on our revenue and our brand value. In order to avoid this, we engage in a constant, intensive and constructive dialog, in particular with our customers, the media, and the financial world. For us, the top priority is to take as balanced a view as possible of the interests of all stakeholders and thereby uphold our reputation as a reliable partner.



Sustainability at Deutsche Telekom

**Sustainability risks.** ☒ For us, comprehensive risk and opportunities management also means considering the opportunities and risks arising from ecological or social aspects or from the management of our Company. To this end, we actively and systematically involve all relevant stakeholders in the process of identifying current and potential risks and opportunities. We also participate in a number of working groups and committees. In parallel to continuously monitoring ecological, social and governance issues, we also systematically determine our stakeholders' positions on these issues. The key tools here are: our year-round open online materiality survey for all stakeholders ☒; our bi-monthly NGO report, which systematically analyzes press publications of the NGOs relevant for us; our involvement in working groups and committees, countless national and international business associations and social organizations, e. g., GeSI, BITKOM, Econsense, and BAGSO; stakeholder dialog formats organized by us, such as the CR Forum and Dialog Days on sustainability in procurement; and our various publications, such as the press review and newsletter.



See section "Corporate responsibility," PAGE 100 ET SEQ.

We have identified the following as the main issues for our sustainability management:

- **Reputation.** How we deal with sustainability issues also entails both opportunities and risks for our reputation. A high level of service quality is one of the most important factors for improving customer perception. This is why customer satisfaction has been embedded in our Group management as a non-financial performance indicator. Transparency and reporting help to promote the trust of other external stakeholders in our Group. Our annual and CR reports also serve this purpose. However, issues such as business practices, data protection, or work standards in the supply chain also entail reputational risks: If there are negative media reports in connection with our brands, products, or services, this can cause substantial damage to our reputation. As part of our sustainability management, we continuously review such potential risks and take measures to minimize them.
- **Climate protection.** At present, we do not see any severe risks to the achievement of our climate protection targets for our reference period ☒. We see climate protection above all as an opportunity: ICT products and services have the potential to save almost ten times as many carbon emissions in other industries as the ICT industry causes itself (SMARTer2030 study). This creates an opportunity to reduce 20 percent of global carbon emissions by 2030, and to maintain worldwide emissions at the level of 2015 with simultaneous economic growth. The additional revenue potential here amounts to USD 6.5 trillion, USD 2.0 trillion thereof for the ICT industry alone. Furthermore, the ICT industry can save costs totaling USD 4.9 trillion. Specifically, this means for Germany, for example, that potential savings of more than 19 million metric tons of CO<sub>2</sub> could be made by 2020 based on the 2012 level, for example, through broadband in Germany. In addition, the economic stimulus resulting from the broadband roll-out could create an estimated 162,000 new jobs. Additional opportunities arise, for example, from changed customer expectations, political measures to ensure the transition to renewable energy sources, and the growing interests of sustainable investors (SRI) in the subject of renewable energy. Environmentally-friendly products and services enable us to tap into new customer groups.
- **Suppliers.** We see more sustainability in our supply chain as an opportunity. It helps to enhance our reputation and our economic success. Thus through a development program, we help strategic suppliers to introduce business practices that are socially and ecologically acceptable and economically efficient. The program showed measurable successes again in its second year; we will expand it further in 2016. Better working conditions at our suppliers reduce the number of work-related accidents and the turnover rate. This increases productivity, while at the same time lowering costs for recruitment and training. Thus not only do we strengthen CR performance at our suppliers, we also significantly reduce identified risks. As part of our global procurement activities, we can be exposed to country- and supplier-specific risks. These include, for example, the

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use of child labor, the conscious acceptance of environmental damage or inadequate local working and safety conditions. However, the reporting of NGOs or media can give rise to risks to the Company's reputation, but also to supply risks. We systematically review our suppliers and in that way reduce these risks. In the renowned RobecoSAM sustainability rating, our supply chain management in the reporting year was rated just as highly as in the prior year with 93 out of 100 points. Our partnerships with suppliers that comply with international sustainability standards ensure a high level of product quality and reliable procurement.

**Health and environment.** Mobile communications, or the electromagnetic fields used in mobile communications, regularly give rise to concerns among the general population about potential health risks. There is intense public, political, and scientific debate of this issue. Acceptance problems among the general public concern both mobile communications networks and the use of mobile handsets. In mobile communications, this affects projects like the build-out of the mobile communications infrastructure and the use of mobile handsets. In the fixed network, it affects sales of traditional DECT (digital cordless) phones and devices that use Wi-Fi technology. There is a risk of regulatory interventions, such as reduced EMF thresholds or the implementation of precautionary measures in mobile communications, e. g., amendments to building law or labeling requirements for handsets.

Over the past few years, recognized expert organizations such as the World Health Organization (WHO) and the International Commission on Non-Ionizing Radiation Protection (ICNIRP) have repeatedly reviewed the current limit values for mobile communications and confirmed that – if these values are complied with – the use of mobile technology is safe based on current scientific knowledge. ICNIRP regularly reviews the recommendations for the limit values based on current scientific knowledge.

We are convinced that mobile communications technology is safe if specific threshold values are complied with. We are supported in this conviction by the assessment of the recognized bodies. The basis of our responsible dealing with this issue is our EMF Policy, with which we commit ourselves to more transparency, information, participation, and financial support of independent mobile communications research, far beyond that which is stipulated by legal requirements. We aim to overcome uncertainty among the general public by pursuing an objective, scientifically well-founded, and transparent information policy. Thus, we remain committed to maintaining our trust-based, successful communication with local authorities over and above the statutory requirements. This also applies after many years of collaboration with municipalities with regard to building out the mobile network were enshrined in law in 2013; previously, this collaboration was based on voluntary self-commitments by the network operators.

**LITIGATION**

**Major ongoing litigation.** Deutsche Telekom is party to proceedings both in and out of court with government agencies, competitors, and other parties. The proceedings listed below are of particular importance from our perspective. If, in extremely rare cases, required disclosures on the significance of individual litigation and anti-trust proceedings are not made, we conclude that these disclosures may seriously undermine the outcome of the relevant proceedings.

T 048

**Major ongoing litigation**

Toll Collect arbitration proceedings
Prospectus liability proceedings
Claims for damages concerning the provision of subscriber data
Claims by partnering publishers of telephone directories
Claims relating to charges for the shared use of cable ducts
Litigation concerning decisions by the Federal Network Agency
Monthly charges for the unbundled local loop
Auction of LTE frequencies
Reduced pay tables
Claim for compensation against OTE
Patents and licenses
Reduction of the Company's contribution to the civil-service pension of the former Deutsche Bundespost

■ **Toll Collect arbitration proceedings.** The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom AG. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. In this statement, the Federal Republic claimed to have lost toll revenues of approximately EUR 3.51 billion plus interest owing to a delay in the commencement of operations. The total claims for contractual penalties amount to EUR 1.65 billion plus interest; these claims are based on alleged violations of the operator agreement: alleged lack of consent to subcontracting, allegedly delayed provision of on-board units and monitoring equipment. In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages for lost toll revenues and reduced it by EUR 169 million. The claim is now approximately EUR 3.33 billion plus interest. The main claims by the Federal Republic – including the contractual penalty claims – thus amount to around EUR 4.98 billion plus interest. Further hearings took place in spring and fall 2014. In connection with the hearing in spring 2014, the proceedings and the share of the risk borne by Deutsche Telekom were reexamined and, as a result, appropriate provisions for risk were recognized in the statement of financial position. A further hearing took place in June 2015, which was resumed in January 2016. There is no reason to adjust the provisions for risk recognized in 2014 in the statement of financial position.

See section "Corporate responsibility," PAGE 100 ET SEQ.

Sustainability at Deutsche Telekom


- **Prospectus liability proceedings.** There are around 2,600 ongoing actions filed by around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 (second public offering, or DT2) and May 26, 2000 (third public offering, or DT3). The complainants assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. In the model proceedings (“Musterverfahren”) on the second public offering (DT2) on July 3, 2013, the Frankfurt/Main Higher Regional Court issued a decision and ruled that the disputed stock exchange prospectus did not contain any errors. On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled in the model proceedings (“Musterverfahren”) on the third public offering (DT3) that there were also no errors in the prospectus for Deutsche Telekom AG’s third public offering. The Frankfurt/Main Higher Regional Court therefore believes there is no basis for holding Deutsche Telekom AG liable. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. A decision on possible liability for damages was not made. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages. It is currently not possible to estimate the financial impact with sufficient certainty.
- **Claims for damages concerning the provision of subscriber data.** In 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 86 million plus interest from telegate AG. telegate AG alleges that Deutsche Telekom AG charged excessive prices for the provision of subscriber data between 1997 and 1999, resulting in telegate AG not having sufficient funds available for marketing measures, thus preventing it from reaching its target market share. Also in 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 329 million plus interest from Dr. Harisch, the founder of telegate AG. Dr. Harisch alleges that the excessive prices for the provision of subscriber data between 1997 and 1999 caused telegate AG’s equity ratio to decrease significantly on several occasions, resulting in the need for capital increases. This required Dr. Harisch and another shareholder to release shares from their own holdings, which diluted their remaining shareholdings. Dr. Harisch has since lodged an increased claim for EUR 612 million plus interest. The Cologne Regional Court dismissed both actions in its rulings on May 28, 2013. Both Dr. Harisch and telegate AG appealed against the rulings. In its ruling on July 2, 2014, the Düsseldorf Higher Regional Court dismissed the appeal filed by Dr. Harisch. Dr. Harisch filed a complaint against the non-allowance of appeal with the Federal Court of Justice on July 8, 2014, which the Federal Court of Justice rejected on April 14, 2015. Dr. Harisch’s claim of approximately EUR 612 million plus interest has therefore been dismissed with final and binding effect. In the appeal proceedings brought by telegate AG, the Düsseldorf Higher Regional Court dismissed the appeal filed by telegate AG in a ruling dated April 22, 2015 and did not allow further
- appeal. telegate AG filed a complaint against the non-allowance of appeal with the Federal Court of Justice in May 2015.
- **Claims by partnering publishers of telephone directories.** Several publishers that had set up joint ventures with DeTeMedien GmbH, a wholly owned subsidiary of Deutsche Telekom AG, to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The complainants are claiming or claimed damages or refund from DeTeMedien GmbH and to a certain extent from Deutsche Telekom AG as joint and several debtor next to DeTeMedien GmbH. The complainants base or based their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. The amounts claimed by the complainants totaled around EUR 470 million plus interest at the end of 2014. So far, the Frankfurt/Main Regional Court rejected 22 out of 81 claims in the first instance. Two of these rulings are legally binding, the claim total was accordingly reduced to approximately EUR 467 million plus interest. The complainants filed appeals against the other rulings with the Frankfurt/Main Higher Regional Court. On October 22, 2015, Deutsche Telekom AG, DeTeMedien GmbH and the majority of the partnering publishers of telephone directories concluded an agreement to settle their disputes, as a result of which 54 publishers applied to the court to waive their claims. Seven publishers withdrew their appeals, as a result of which the rulings of the first instance that rejected the claims became legally binding with immediate effect upon receipt by the court of the withdrawals. At present, 18 proceedings are still pending with a remaining claim total of approximately EUR 132 million (plus interest).
- **Claims relating to charges for the shared use of cable ducts.** With an action filed in spring 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) – now Vodafone Kabel Deutschland GmbH – is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004. KDG quantified the amount of the claims incurred up to and including 2012 at approximately EUR 340 million plus interest. In its ruling on August 28, 2013, the Frankfurt/Main Regional Court dismissed the complaint. In the appeal proceedings, KDG also quantified its claims for 2013 through an extension of claim and is now seeking a refund of charges allegedly paid in excess of approximately EUR 407 million as well as the alleged benefit for Telekom Deutschland GmbH from additional interest around EUR 34 million, plus interest in each case. On December 9, 2014, the Frankfurt/Main Higher Regional Court rejected the appeal and disallowed a further appeal. In response to the subsequent complaint against non-allowance of appeal filed by KDG, the Federal Court of Justice allowed KDG’s appeal in a ruling dated December 15, 2015. In similar proceedings, Telekom Deutschland GmbH also received a claim filed on January 23, 2013 in which Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH and Kabel BW GmbH demand that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. For charges allegedly paid in excess for the shared use of cable ducts from 2009 up to and including 2012, Unitymedia Hessen GmbH & Co. KG is currently demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million



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plus interest. It is currently not possible to estimate the financial impact of either of the proceedings with sufficient certainty.

- **Litigation concerning decisions by the Federal Network Agency.** Several competitor companies have requested the revocation of decisions by the Federal Network Agency that had been in favor of Deutsche Telekom or Telekom Deutschland GmbH. If these applications were to be successful, they would normally require a new decision by the Federal Network Agency. The proceedings listed below are of particular importance from our point of view:

- **Monthly charges for the unbundled local loop.** With the exception of the approvals of one-time charges from 1999, 2001, 2005, and 2010, approvals in connection with unbundled local loop lines (ULLs) are not binding for companies demanding ULLs, having applied to have them revoked by the competent courts. Certain approvals have been revoked with final and binding effect, so the Federal Network Agency has to decide again on the charges in relation to the former complainants. Currently, this applies specifically to the approvals of the ULL monthly charges from 2003, 2005, and 2007 and to the new ruling on the ULL one-time charges from 2002 with regard to the cancellation charges. 

- **Auction of LTE frequencies.** In 2010, the Federal Network Agency auctioned off additional frequencies in the 0.8 GHz, 1.8 GHz, 2.0 GHz, and 2.6 GHz ranges, with all four German mobile network operators participating in the auction. Several companies appealed against the order of the Federal Network Agency with regard to the auction. In addition to the already final and binding dismissals of the appeals of broadcasting and cable network operators, the last decision by the Cologne Administrative Court in the ruling dated September 3, 2014 to dismiss the claim of a telecommunications company is now also final and binding. All complainants have also appealed against the allocation of frequencies to Telekom Deutschland GmbH; this has not yet been ruled upon. The risk remaining due to the appeal proceedings still pending is classified as low and consequently we will not report further on the series of proceedings in the future.

- **Reduced pay tables.** With the entry into force of the reform of civil-service law (Dienstrechtsneuordnungsgesetz), in 2009 the legislator integrated the previous year-end bonus paid annually in accordance with the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz) into the basic monthly salary for all federal civil servants. In accordance with § 78 of the Federal Civil Service Remuneration Act (Bundesbesoldungsgesetz – BBesG), this does not apply for civil servants employed by the successor companies to Deutsche Bundespost. Several appeals against the new, reduced pay tables were filed, including at the Stuttgart Administrative Court. After the Federal Constitutional Court issued an order for reference advising that it deems this provision to be constitutional, the majority of the appeals were withdrawn or dismissed by the Stuttgart Administrative Court. We thus consider it unlikely that recourse will be taken to the courts in the cases still pending. Accordingly, the risk remaining is classified as low and consequently we will not report further on the proceedings in the future.

- **Claim for compensation against OTE.** In May 2009, Lannet Communications S.A. filed an action against OTE claiming compensation for damages of around EUR 176 million plus interest arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. A hearing took place on May 30, 2013; a ruling has not yet been issued.

- **Patents and licenses.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that we may have to pay license fees and/or compensation; we are also exposed to a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

- **Reduction of the Company's contribution to the civil-service pension of the former Deutsche Bundespost.** Deutsche Telekom complies with its obligation to pay contributions to the Civil Service Pension Fund in accordance with the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). The Act on the Legal Provisions for the Former Deutsche Bundespost Staff states that the obligation to contribute to the Civil Service Pension Fund may be reduced to a level that is in line with the market and a peer company if a former Deutsche Bundespost company bound by such payment obligations can provide evidence to the German government that the payment would constitute an unreasonable burden on its competitiveness. Deutsche Telekom previously filed an application with the responsible Federal Ministry of Finance to have its contribution obligations reduced, which was rejected. After the application had been rejected, Deutsche Telekom filed an appeal with the responsible administrative court seeking reimbursement of a portion of the paid contributions and a reduction of the contributions to be paid in future. In the ruling dated October 2, 2015, the competent administrative court dismissed the claim of Deutsche Telekom for a reduction in the payment obligation. Deutsche Telekom filed an appeal against this ruling in November 2015.

Furthermore, Deutsche Telekom intends to defend itself and/or pursue its claims resolutely in each of these court, conciliatory, and arbitration proceedings.

#### Proceedings concluded

- **Claims for damages due to price squeeze.** Various competitors had filed lawsuits against Deutsche Telekom AG or Telekom Deutschland GmbH seeking damages on the grounds of a price squeeze between wholesale and retail prices in the local network after the European Commission had identified a squeeze in 2003 as part of a decision to impose fines. In the last proceedings still pending and brought by EWE Tel GmbH against Telekom Deutschland GmbH with a claim of approximately EUR 82 million plus interest, the parties settled the dispute in October 2015. The Federal Court of Justice had previously rejected the complaints filed by the respective parties against non-allowance of appeal, in a ruling dated June 16, 2015. Thus no more claims are pending in this series of proceedings.



For information on the retrospective new rulings on rate approvals and settlement agreements concluded in this connection, see "Risks and opportunities resulting from regulation," PAGES 131 and 132.

- **Claim for compensation against Slovak Telekom.** In 1999, an action was filed against Slovak Telekom based on the allegation that the legal predecessor of Slovak Telekom had ceased broadcast of an international radio program contrary to the underlying contract. The claimant originally demanded approximately EUR 100 million plus interest for damages and lost profit. On November 9, 2011, the Bratislava Regional Court ruled partly in favor of the claimant and ordered Slovak Telekom to pay approximately EUR 32 million plus interest. On December 27, 2011, Slovak Telekom appealed to the Supreme Court against this judgment. In March 2015, the parties agreed on a settlement of the dispute. The settlement was confirmed by the responsible court in Bratislava in May 2015; the proceedings are therefore terminated with final and binding effect. In July 2015, Deutsche Telekom was able to realize its contractual claims to a refund of the amount paid by Slovak Telekom for the settlement, in accordance with the amount of its shareholding in Slovak Telekom at the time.

#### ANTI-TRUST PROCEEDINGS

Like all companies, our Group is subject to the regulations of anti-trust law. Against this background, we have also significantly expanded our compliance activities in this area in recent years. In 2015, independent auditors certified our anti-trust compliance management system as effective in accordance with IDW AuS 980. Nevertheless, Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to proceedings under competition law or civil follow-on actions in individual countries. In the following, we describe major anti-trust and consumer protection actions. We consider the respective allegations and claims for damages to be unfounded.

**Proceedings by the Anti-Monopoly Commission in Poland.** On November 23, 2011, the national Anti-Monopoly Commission (UOKiK) concluded investigations started in 2010. It decided that T-Mobile Polska (formerly PTC) and other Polish telecommunications companies had fixed prices in breach of anti-trust law and imposed a fine on T-Mobile Polska of PLN 34 million (approximately EUR 8 million). T-Mobile Polska believes these allegations are unfounded and thus appealed the decision. On June 19, 2015, the competent court canceled the fine on the grounds that the competition authorities were unable to prove the alleged price fixing. The national competition authorities appealed the decision of the court and a decision is pending. Any fine would only fall due after the decision becomes final and legally binding. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on T-Mobile Polska on January 2, 2012 for an alleged breach of consumer protection law. Overall, the risk remaining is classified as low and consequently we will not report further on the proceedings in the future.


**European Commission proceedings against Slovak Telekom and Deutsche Telekom.** The European Commission decided on October 15, 2014 that Slovak Telekom had abused its market power on the Slovak broadband market and as a result imposed fines on Slovak Telekom and Deutsche Telekom. The European Commission is of the opinion

that Slovak Telekom refused unbundled access to its local loop and had margins squeezed for alternative providers. The fines amount to EUR 38.8 million for Slovak Telekom and Deutsche Telekom and a further EUR 31.1 million for Deutsche Telekom because a fine had already been imposed on Deutsche Telekom in 2003 for a margin squeeze in Germany. The fines were paid in January 2015. Slovak Telekom and Deutsche Telekom challenged the European Commission's decision on December 29, 2014 before the Court of the European Union. In particular, we see no basis for holding Deutsche Telekom liable for the alleged breach of anti-trust law by Slovak Telekom. Furthermore, we are convinced that Slovak Telekom complies and complied with applicable law. In particular, intense competition and the ongoing retail price decline on the Slovak broadband market argue against any obstruction of competitors by Slovak Telekom.

**Claims for damages against Slovak Telekom following the European Commission's decision to impose fines.** Following the decision of the European Commission on October 15, 2014, both Orange Slovensko and SWAN filed civil action against Slovak Telekom with the competent court in Bratislava in August 2015, claiming compensation for damages of EUR 232 million and EUR 50 million respectively, plus interest. These claims seek compensation for alleged damages due to Slovak Telekom's abuse of a dominant market position, as determined by the European Commission. In December 2014, Slovak Telekom and Deutsche Telekom filed an appeal against the decision of the European Commission with the Court of the European Union; in addition, Slovak Telekom considers the complaint by Orange Slovensko to be largely unfounded. The complaint by SWAN has not yet been officially served to Slovak Telekom. It is uncertain whether SWAN is waiting for the outcome of the proceedings in relation to Orange Slovensko or, following publication of the European Commission's decision, considers it unlikely that a claim will be successful. It is currently not possible to estimate the financial impact of these proceedings with sufficient certainty.

#### FINANCIAL RISKS

##### Liquidity, credit, currency, interest rate risks

With regard to its assets, liabilities and planned transactions, our Group is particularly exposed to liquidity risks, credit risks, and the risk of changes in exchange and interest rates. Our financial risk management aims to contain these risks through ongoing operational and finance activities. To contain the risks, we use selected derivative and non-derivative hedging instruments (hedges) depending on the risk assessment. However, we only hedge the risks that affect our Group's cash flow. We use derivatives exclusively as hedging instruments, i. e., not for trading or other speculative purposes. The following risk areas of liquidity, credit, currency, and interest rate risks are evaluated after implementation of risk containment measures. 

**Liquidity risks.** To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, we maintain a liquidity reserve in the form of credit lines and cash as part of our liquidity management. This liquidity reserve is to cover the capital market maturities of the next 24 months at any time. For medium- to long-term financing, we primarily



For the evaluation,  
please refer to  
TABLE 047, PAGE 129.

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use bonds issued in a variety of currencies and jurisdictions. These instruments are generally issued via Deutsche Telekom International Finance B.V. and are forwarded within the Group as internal loans.

GRAPHIC 46 below shows the development of the liquidity reserve in relation to maturity dates. As of the end of 2015 and in the preceding quarters, we clearly met our targets for the liquidity reserve to cover maturities due in the respective coming 24 months.

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 23 banks for a total of EUR 13.5 billion at December 31, 2015. As of December 31, 2015, we had utilized EUR 0.2 billion of these credit lines. According to the credit agreements, the terms and conditions depend on our rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. In November 2015, T-Mobile US issued bonds with a total volume of USD 2.0 billion. In addition, T-Mobile US took out a USD 2.0 billion syndicated loan (Term Loan B). These two transactions serve the purpose of prefinancing the spectrum auction expected to begin in spring 2016. In December 2015, OTE issued a bond with a total volume of EUR 0.4 billion and repaid two bonds worth EUR 0.3 billion at the same time, one of which prematurely.

**Credit risks.** Through our operating business and certain financing activities, we are exposed to a credit risk, i. e., the risk that a counterparty will not fulfill its contractual obligations. As a rule, we only conclude transactions with regard to financing activities with counterparties that have at least a credit rating of BBB+/Baa1; this is connected with an operational credit management system. On a decentralized basis, we continuously monitor accounts receivable in operations at the individual units. Our business with corporate customers, especially international carriers, is subject to special solvency monitoring.

For derivative transactions, we agreed with counterparties as part of collateral agreements that, in the event of insolvency, all existing contracts will be netted and only a receivable or liability in the amount of the balance will remain. We reduce the credit risk arising from derivative transactions further by exchanging collateral. For receivables balances for existing collateral agreements, we receive security from the counterparty in the form of readily available cash; in the event of payables balances, we provide such security in return.

**Currency risks.** The currency risks result from investments, financing measures, and operations. Risks from foreign currency fluctuations are hedged if they affect the Group's cash flows (i. e., if the cash flow is not denominated in the functional currency of the respective Group company). Foreign-currency risks that do not influence the Group's cash flows (i. e., the risks resulting from the translation of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. We may nevertheless also hedge this foreign-currency risk under certain circumstances.

**Interest rate risks.** Our interest rate risks mainly result from interest-bearing liabilities and exist primarily in the eurozone and the United States. To minimize the effects of interest rate fluctuations in these regions, we manage the interest rate risk for net debt denominated in euros and U. S. dollars separately. Once a year, our Board of Management stipulates the desired mix of fixed- and variable-interest net debt for a planning period of at least three years. In order to adjust the interest structure of net debt to this prescribed composition, Group Treasury uses interest rate derivatives, taking into account the existing and planned debt structure.

#### Tax risks

In many countries, we are subject to the applicable legal tax provisions. Risks can arise from changes in local taxation laws or case law and different interpretations of existing provisions. As a result, they can affect our tax expense and benefit as well as tax receivables and liabilities.

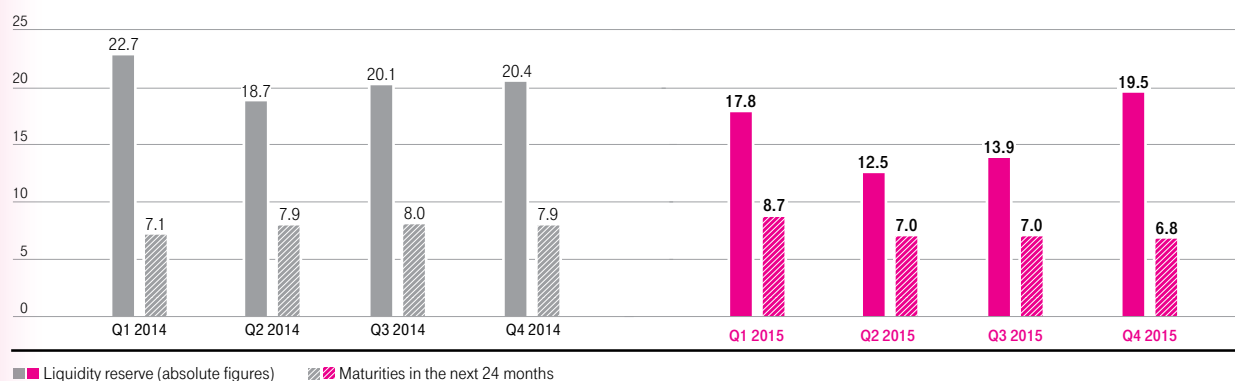


For additional explanations, please refer to Note 37 "Financial instruments and risk management" in the notes to the consolidated financial statements, PAGE 226 ET SEQ.

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#### Liquidity reserve and maturities in 2015 compared with 2014

billions of €




### Other financial risks

This section contains information on other financial risks that we consider to be immaterial at present or cannot evaluate based on current knowledge.

**Rating risk.** As of December 31, 2015, Deutsche Telekom's credit rating with Moody's was Baa1, while Fitch and Standard & Poor's rated us BBB+. All three agencies gave us a "stable" outlook. A lower rating would result in interest rate rises for some of the bonds issued.

**Sales of shares by the Federal Republic or KfW Bankengruppe.** As of December 31, 2015, the Federal Republic and KfW Bankengruppe jointly held approximately 31.8 percent in Deutsche Telekom AG. It is possible that the Federal Republic will continue its policy of privatization and sell further equity interests in a manner designed not to disrupt the capital markets and with the involvement of KfW Bankengruppe. There is a risk that the sale of a significant volume of Deutsche Telekom AG shares by the Federal Republic or KfW, or any speculation to this effect, could have a negative impact on the price of the T-Share.

**Impairment of Deutsche Telekom AG's assets.** The value of the assets of Deutsche Telekom AG and its subsidiaries is reviewed periodically. In addition to the regular annual measurements, specific impairment tests may be carried out, for example where changes in the economic, regulatory, business or political environment suggest that the value of goodwill, intangible assets or property, plant and equipment might have decreased.  These tests may lead to the recognition of impairment losses that do not, however, result in cash outflows. This could impact to a considerable extent on our results, which in turn may negatively affect the T-Share price.



For a detailed explanation, please refer to the section "Summary of accounting policies – Judgments and estimates" in the notes to the consolidated financial statements, PAGE 172 ET SEQ.

## ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM

Deutsche Telekom AG's internal control system (ICS) is based on the internationally recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework, COSO I, as amended on May 14, 2013.

The Audit Committee of the Supervisory Board of Deutsche Telekom AG monitors the effectiveness of the ICS as required by § 107 (3) sentence 2 AktG. The Board of Management has the responsibility to define the scope and structure of the ICS at its discretion. Internal Audit is responsible for independently reviewing the functionality and effectiveness of the ICS in the Group and at Deutsche Telekom AG, and, to comply with this task, has comprehensive information, audit, and inspection rights.

In addition, the external auditors conduct a risk-oriented audit to verify the effectiveness of those parts of the ICS that are relevant to financial reporting.

The accounting-related ICS comprises the principles, methods, and measures used to ensure appropriate accounting. It is continuously being refined and aims to ensure the consolidated financial statements of Deutsche Telekom are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as with the regulations under commercial law as set forth in § 315a (1) HGB. Another objective of the accounting-related ICS is the preparation of the annual financial statements of Deutsche Telekom AG and the combined management report in accordance with German GAAP.

It is generally true of any ICS that regardless of how it is specifically structured there can be no absolute guarantee that it will achieve its objectives. Regarding the accounting-related ICS, there can therefore only ever be relative, but no absolute certainty, that material accounting misstatements can be prevented or detected.

Group Accounting manages the processes of Group accounting and management reporting. Laws, accounting standards, and other pronouncements are continuously analyzed as to whether and to what extent they are relevant and how they impact on financial reporting. The relevant requirements are defined in the Group Accounting Manual, for example, communicated to the relevant units and, together with the financial reporting calendar that is binding throughout the Group, forms the basis of the financial reporting process. In addition, supplementary process directives such as the Intercompany Policy, standardized reporting formats, IT systems, as well as IT-based reporting and consolidation processes support the process of uniform and compliant Group accounting. Where necessary, we also draw on the services of external service providers, for example, for measuring pension obligations. Group Accounting ensures that these requirements are complied with consistently throughout the Group. The staff involved in the accounting process receive regular training. Deutsche Telekom AG and the Group companies are responsible for ensuring that Group-wide policies and procedures are complied with. The Group companies ensure the compliance and timeliness of their accounting-related processes and systems and in doing so, are supported and monitored by Group Accounting.

Operational accounting processes at the national and international level are increasingly managed by our shared service centers. Harmonizing the processes enhances their efficiency and quality and in turn, improves the reliability of the internal ICS. The ICS thus safeguards both the quality of internal processes at the shared service centers and the interfaces to the Group companies by means of adequate controls and an internal certification process.

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Internal controls are embedded in the accounting process depending on risk levels. The accounting-related ICS comprises both preventive and detective controls, which include:

- IT-based and manual data matching
- The segregation of functions
- The dual checking principle
- Monitoring controls
- General IT checks such as access management in IT systems, and change management

We have implemented a standardized process throughout the Group for monitoring the effectiveness of the accounting-related ICS. This process systematically focuses on risks of possible misstatements in the consolidated financial statements. At the beginning of the year, specific accounts and accounting-related process steps are selected based on risk factors. They are then reviewed for effectiveness in the course of the year. If control weaknesses are found, they are analyzed and assessed, particularly in terms of their impact on the consolidated financial statements and the combined management report. Material control weaknesses, the action plans for eradicating them, and ongoing progress are reported to the Board of Management and additionally to the Audit Committee of the Supervisory Board of Deutsche Telekom AG. In order to ensure a high-quality accounting-related ICS, Internal Audit is closely involved in all stages of the process.

## OTHER DISCLOSURES

### CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH § 289a HGB

The Corporate Governance Statement in accordance with § 289a HGB forms part of the combined management report. □

### CLOSING STATEMENT BY THE BOARD OF MANAGEMENT ON THE DEPENDENT COMPANY REPORT

Since the Federal Republic of Germany, as minority shareholder of Deutsche Telekom AG, represents a solid majority at the shareholders' meeting due to the average level of attendance, Deutsche Telekom is a dependent company of the Federal Republic of Germany in accordance with § 17 (1) AktG.

Deutsche Telekom is not subject to any control or profit and loss transfer agreement with the Federal Republic of Germany. Under § 312 AktG, the Board of Management of Deutsche Telekom AG has therefore prepared a dependent company report describing relations between the controlling entity and dependent companies. The Board of Management issued the following statement at the end of the report: "The Board of Management hereby declares that under the circumstances known to the Board of Management at the time the corporate transactions were performed, the Company received appropriate remuneration for such transactions. The Company did not perform or omit any actions on behalf of, or on the instructions of, the controlling company or any dependent companies."

### LEGAL STRUCTURE OF THE DEUTSCHE TELEKOM GROUP

Deutsche Telekom AG, Bonn, is the parent of the Deutsche Telekom Group. Its shares are traded on the Frankfurt/Main Stock Exchange as well as on other stock exchanges. □

### SHAREHOLDERS' EQUITY

**Each share entitles the holder to one vote.** These voting rights are restricted, however, in relation to treasury shares and shares allocable to Deutsche Telekom in the same way as treasury shares (at December 31, 2015: around 20 million in total). The "trust" shares, as they are known, (at December 31, 2015: around 19 million) relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001 and are allocable to Deutsche Telekom at December 31, 2015 in the same way as treasury shares. As regards the shares issued to trusts, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The trusts were dissolved at the beginning of 2016 and the trust assets transferred to a custody account of Deutsche Telekom AG.

**Capital increase.** The resolution on the dividend payout of EUR 0.50 per share for the 2014 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.1 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2015 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2015. This increased capital reserves by EUR 0.9 billion, the number of shares by 71,080,623.

**Treasury shares.** The shareholders' meeting resolved on May 24, 2012 to authorize the Board of Management to purchase shares in the Company by May 23, 2017, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,715.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.



For information on the composition of capital stock in accordance with § 289 (4) HGB and direct and indirect equity investments, please refer to Note 15 "Shareholders' equity" in the notes to the consolidated financial statements, PAGE 206 ET SEQ.



The Statement is available to the public on Deutsche Telekom's website [www.telekom.com/289aGerman-CommercialCode](http://www.telekom.com/289aGerman-CommercialCode)

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 24, 2012 under item 7 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 24, 2012, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the above authorization by the shareholders' meeting on May 24, 2012 and a corresponding authorization by the shareholders' meeting on May 12, 2011, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively.

In the 2015 financial year, Deutsche Telekom made use of the authorization by the shareholders' meeting on May 24, 2012. The Board of Management decided on September 29, 2015 to acquire a total of 950 thousand shares. On September 30, 2015 and October 1, 2015, shares were acquired in accordance with the authorization for a total acquisition price of EUR 14,787 thousand (excluding transaction costs) with an average purchase price of EUR 15.57 per share. The treasury shares resulting from the share buy-back accounted for EUR 2,432 thousand of share capital as at December 31, 2015. Retained earnings thus decreased by EUR 12,355 thousand.

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

Furthermore, a total of 140 thousand shares were reallocated in January, May and June 2015 and transferred free of charge to the custody accounts of eligible participants of the Share Matching Plan. As of December 31, 2015, sales of treasury shares resulting from the transfers in the reporting period accounted for EUR 358 thousand of share capital. Retained earnings thus increased by EUR 877 thousand.

In November 2015, Deutsche Telekom sold 1,882 thousand treasury shares from its portfolio. The selling price was EUR 31,274 thousand (excluding transaction costs). The portion of the proceeds that exceeded the notional value of the shares, amounting to EUR 26,457 thousand, was allocated to the capital reserves. The sale proceeds received were recognized under Deutsche Telekom AG's cash and cash equivalents.

As of December 31, 2015, the disposal of treasury shares resulting from the sale in the reporting period accounted for EUR 4,817 thousand of share capital.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights fully expired in the 2013 financial year. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the deposit. The 18,517 thousand deposited shares are accounted for in the same way as treasury shares in accordance with § 272 (1a) HGB. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred to a custody account of Deutsche Telekom AG.

**Authorized capital and contingent capital.** The shareholders' meeting on May 16, 2013 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 2,176,000,000 by issuing up to 850,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending May 15, 2018. The authorization may be exercised in full or on one or more occasions in partial amounts. The Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude residual amounts from shareholders' subscription rights. Furthermore, the Board of Management is authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights in the event of capital increases against non-cash contributions when issuing new shares for business combinations or acquisitions of companies, parts thereof or interests in companies, including increasing existing investment holdings, or other assets eligible for contribution for such acquisitions, including receivables from the Company. Further, the Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the further content of share rights and the conditions under which shares are issued (**2013 authorized capital**). Following the increases in share capital against contribution of dividend entitlements in the 2014 and 2015 financial years, the 2013 authorized capital amounts to EUR 1,777,979,476.48. The remaining 2013 authorized capital was entered in the commercial register on June 17, 2015.

As of December 31, 2015, the share capital was contingently increased by up to EUR 1,100,000,000 composed of up to 429,687,500 no par value shares (**2014 contingent capital**). The contingent capital increase will be implemented only to the extent that

1. the holders or creditors of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) with options or conversion rights, which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, make use of their option and/or conversion rights or

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2. those obligated as a result of bonds with warrants, convertible bonds, profit participation rights, and/or participating bonds (or combinations of these instruments) which are issued or guaranteed by Deutsche Telekom AG or its direct or indirect majority holdings by May 14, 2019, on the basis of the authorization resolution granted by the shareholders' meeting on May 15, 2014, fulfill their option or conversion obligations

and other forms of fulfillment are not used. The new shares shall participate in profits starting at the beginning of the financial year in which they are issued as the result of the exercise of any option or conversion rights or the fulfillment of any option or conversion obligations. The Supervisory Board is authorized to amend § 5 (3) of the Articles of Incorporation in accordance with the particular usage of the contingent capital and after the expiry of all the option or conversion periods.

#### MAIN AGREEMENTS INCLUDING A CHANGE OF CONTROL CLAUSE

The main agreements entered into by Deutsche Telekom AG, which include a clause in the event of a change of control, principally relate to bilateral credit lines and several loan agreements. In the event of a change of control, the individual lenders have the right to terminate the credit line and, if necessary, serve notice or demand repayment of the loans. A change of control is assumed when a third party, which can also be a group acting jointly, acquires control over Deutsche Telekom AG.


In addition, the other members of the Toll Collect consortium (Daimler Financial Services AG and Cofiroute S. A.) have a call option in the event that the ownership structure of Deutsche Telekom AG changes such that over 50 percent of its share capital or voting rights are held by a new shareholder and this change was not approved by the other members of the consortium.

The Hellenic Republic shall have the right to purchase all of Deutsche Telekom AG's shares in the Hellenic Telecommunications Organization S. A., Athens, Greece (OTE), from Deutsche Telekom AG or to demand that they be transferred to a third party named by it if Deutsche Telekom AG were to be taken over by another company that is not a telecommunications company based in the European Union or the United States of a similar size and stature to Deutsche Telekom AG. For this purpose, a change of control over Deutsche Telekom shall be deemed to have taken place if one or several entities, with the exception of the Federal Republic of Germany, directly or indirectly acquire 35 percent of the voting rights in Deutsche Telekom AG.

When establishing the EE joint venture in the United Kingdom, Deutsche Telekom AG and France Télécom S.A. agreed in the joint venture agreement that if Deutsche Telekom comes under the controlling influence of a third party, France Télécom will be exempted from all the restrictions imposed on the shareholders with regard to a transfer of their shares for a period of one year. Transferring shares to competitors would remain prohibited even in this situation, however. Upon consummation of the sale of the stake in the EE joint venture to the BT Group plc. on January 29, 2016, these contractual restrictions ceased to apply.

In the master agreement establishing the procurement joint venture BuyIn in Belgium, Deutsche Telekom AG and France Télécom S. A./Atlas Services Belgium S. A. (a subsidiary of France Télécom S. A.) agreed that if Deutsche Telekom or France Télécom comes under the controlling influence of a third party or if a third party that is not wholly owned by the France Télécom group of companies acquires shares in Atlas Services Belgium S. A., the respective other party (France Télécom and Atlas Services Belgium only jointly) can terminate the master agreement with immediate effect.

#### CHANGES IN THE CONSOLIDATED GROUP

64 German and 190 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2014: 56 and 197). 14 associates (December 31, 2014: 13) and 8 joint ventures (December 31, 2014: 6) are also included using the equity method. 

#### BUSINESS COMBINATIONS

Deutsche Telekom did not effect any material business combinations in the 2015 financial year.

#### COMPENSATION REPORT

The "Compensation report" details the compensation system underlying Board of Management compensation as well as the specific remuneration received by the individual members of the Board of Management. It takes into consideration the requirements of the German Commercial Code taking account of the provisions of German Accounting Standard No. 17 (GAS 17), the recommendations of the German Corporate Governance Code (GCGC), and the International Financial Reporting Standards (IFRS).

**Changes in the composition of the Board of Management and contract extensions.** Following a resolution of the Supervisory Board dated February 25, 2015, Dr. Christian P. Illek took over the office of Chief Human Resources Officer and Labor Director with effect from April 1, 2015. In its meeting on December 16, 2015, the Supervisory Board extended Claudia Nemat's term of office as a member of the Board of Management for another five years starting from October 1, 2016.

#### COMPENSATION OF THE BOARD OF MANAGEMENT

**Basis of Board of Management compensation.** On February 24, 2010, the Supervisory Board resolved on a new system for the compensation of the Board of Management members, taking into account the provisions specified in the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) that has been in effect since August 5, 2009. The shareholders' meeting of Deutsche Telekom AG on May 3, 2010 approved this new system. The compensation of Board of Management members comprises various components. Under the terms of their service contracts, members of the Board of Management are entitled to an annual fixed remuneration and annual variable performance-based remuneration (Variable I), a long-term variable remuneration component (Variable II), as well as fringe benefits and deferred benefits based on a company pension entitlement. The Supervisory Board defines the structure of the compensation system for the Board of Management and reviews this structure and the appropriateness of compensation at regular intervals.



The principal subsidiaries of Deutsche Telekom AG are listed in the notes to the consolidated financial statements in the section "Summary of accounting policies" under "Principal subsidiaries," PAGES 178 and 179.

The fixed annual remuneration is determined for all Board of Management members based on market conditions in accordance with the requirements of stock corporation law. It is ensured that Board of Management compensation is oriented toward the sustained development of the Company and that there is a multi-year measurement base for the variable components.

At its discretion and after due consideration, the Supervisory Board may also reward extraordinary performance by individual or all Board of Management members in the form of a special bonus.

In accordance with market-oriented and corporate standards, the Company grants all members of the Board of Management additional benefits under the terms of their service contracts, some of which are viewed as non-cash benefits and taxed accordingly. This mainly includes being furnished with a company car and accident and liability insurance, and reimbursements in connection with maintaining a second household.

Sideline employment generally requires prior approval. Generally, no additional compensation is paid for being a member of the management or supervisory board of other Group entities.

In the event of temporary incapacity for work caused by illness, accident, or any other reason for which the respective Board of Management member is not responsible, the fixed basic remuneration continues to be paid; in the event of an uninterrupted period of absence due to illness of more than one month, claims to variable remuneration are reduced pro rata in line with the uninterrupted period of absence. The continued payment of remuneration ends at the latest after an uninterrupted period of absence of six months, or for a maximum of three months following the end of the month in which the Board of Management member's permanent incapacity for work is established.

#### Variable performance-based remuneration

The variable remuneration of the members of the Board of Management is divided into Variables I and II. Variable I contains both short-term and long-term components consisting of the realization of budget figures for specific performance indicators, the implementation of the strategy and adherence to the Group's Guiding Principles. Variable II is oriented solely toward the long term. This ensures that the variable remuneration is oriented toward the sustained development of the Company and that there is a predominantly long-term incentive effect. The variable compensation elements include clear upper limits, while the amount of compensation was capped overall.

**Variable I.** The annual variable remuneration of Board of Management members is based on the achievement of targets set by the Supervisory Board of Deutsche Telekom AG for each member of the Board of Management at the beginning of the financial year. The set of targets is composed of corporate targets (50 percent) related to revenue, unadjusted EBITDA and free cash flow, as well as personal targets for the individual members of the Board of Management. The personal targets consist of targets oriented toward the sustained success of the Company concerning the implementation of the strategy (30 percent) and value adherence (adherence to Guiding Principles), which accounts for 20 percent. The agreement on targets and the level of target achievement for the respective financial year are determined by the plenary session of the Supervisory Board. Levels of target achievement exceeding 100

percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. Any higher levels of target achievement will not be taken into consideration. To further ensure the long-term incentive effect and orientation toward the sustained development of the Company, a third of the variable remuneration set by the plenary session of the Supervisory Board must be invested in shares of Deutsche Telekom AG; these shares must be held by the respective Board member for a period of at least four years.

**Variable II.** The exclusively long-term-oriented Variable II is measured based on the fulfillment of four equally weighted performance parameters (return on capital employed (ROCE), adjusted earnings per share, customer satisfaction, and employee satisfaction). Each parameter determines a quarter of the award amount. Levels of target achievement exceeding 100 percent are rewarded on a straight-line basis, capped at 150 percent of the award amount. The assessment period is four years, with the assessment being based on average target achievement across the four years planned at the time the tranche was determined. The award amount is decoupled from other remuneration components and is set for each member of the Board of Management individually.

In the 2015 financial year, the following absolute nominal amounts were pledged to the Board of Management members in the event of 100-percent target achievement.

T 049

	2015 tranche	2014 tranche
Reinhard Clemens	650,000	650,000
Niek Jan van Damme	644,000	640,083
Thomas Dannenfeldt	550,000	550,000
Timotheus Höttges	1,342,000	1,092,000
Dr. Christian P. Illek (since April 1, 2015)	515,625	-
Dr. Thomas Kremer	550,000	550,000
Claudia Nemat	675,000	675,000

**Information on the Share Matching Plan.** In the 2015 financial year, the Board of Management members, as described, are contractually obliged to invest a third of Variable I in shares of Deutsche Telekom AG. Deutsche Telekom AG will grant one additional share for every share acquired as part of this Board of Management member's aforementioned personal investment (Share Matching Plan) on expiration of the four-year lock-up period, provided they are still a member of the Board of Management.

GAS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2015 financial year and the fair value of the matched shares at their grant date, but also of the number of entitlements to matching shares and their development in the current financial year.

The fair value of the matching shares at grant date shown in TABLE 050 does not represent a component of remuneration for the Board of Management members in 2015. It is an imputed value of the entitlements to matching shares determined on the basis of relevant accounting policies. Here, the fair value equates to the share price at grant date less an expected dividend markdown.



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TABLE 050 is based on expected target achievement for the 2015 financial year and thus on the estimated amount of the personal investment to be made by the respective Board of Management member to establish his or her entitlements to matching shares. The final number of entitlements to matching shares identified for the 2015 financial year may be higher or lower than the amounts estimated here.

The total share-based payment expense for entitlements to matching shares from 2010 to 2015 to be recognized for the financial years 2014 and 2015, pursuant to IFRS 2, is included in the two last columns of TABLE 050.

T 050

	Number of entitlements granted to matching shares since 2010 at the beginning of the financial year	Number of new entitlements to matching shares granted in 2015	Number of shares transferred in 2015 as part of the Share Matching Plan	Fair value of the entitlements to matching shares at grant date €	Cumulative total share-based payment expense in 2015 for matching shares for the years 2011 through 2015 €	Cumulative total share-based payment expense in 2014 for matching shares for the years 2010 through 2014 €
Reinhard Clemens	127,282	13,710	22,133	190,015	161,823	186,836
Niek Jan van Damme	117,804	13,586	17,908	188,309	155,728	169,408
Thomas Dannenfeldt	12,649	11,603	0	160,823	69,482	54,916
Timotheus Höttges	164,420	28,312	24,914	392,408	235,655	222,952
Dr. Christian P. Illek (since April 1, 2015)	-	8,152	-	121,621	24,409	-
Dr. Thomas Kremer	42,708	11,603	0	160,823	86,360	57,619
Claudia Nemat	71,269	14,241	0	197,373	136,066	97,441

By December 31, 2015, Deutsche Telekom had acquired 565,596 shares for the purpose of awarding matching shares to Board of Management members as part of the Share Matching Plan. In 2015, matching shares were again transferred to individual members of the Board of Management. A total of 64,955 shares were transferred to Board of Management members in 2015 (2014: 89,518).

**Arrangements in the event of termination of a position on the Board of Management.** Service contracts for members of the Board of Management concluded since the 2009 financial year include a severance cap in case of premature termination without good cause allowing a compensation payment that, in line with the recommendations of the German Corporate Governance Code, is limited to a maximum of two years' remuneration (severance cap) and may not exceed the remuneration due for the remaining term of the service contract.

The service contracts for members of the Board of Management at Deutsche Telekom AG do not include any benefits in the event of the termination of a position on the Board of Management as a result of a change of control.

Board of Management member service contracts generally stipulate a post-contractual prohibition of competition. Pursuant to these provisions, members of the Board of Management are prohibited from rendering services to or on behalf of a competitor for the duration of one year following their departure. As compensation for this restricted period, they receive either a payment of 50 percent of the last fixed annual remuneration and 50 percent of the most recent Variable I on the basis of 100-percent target achievement, or 100 percent of the last fixed annual remuneration.

### Company pension plan

**Company pension plan (existing entitlement).** The members of the Board of Management are entitled to a company pension. Benefits from the company pension plan are in direct relation to the beneficiary's annual salary. The Board of Management members receive company pension benefits based on a fixed percentage of their last fixed annual salary for each year of service rendered prior to their date of retirement. The pension payments may be in the form of a life-long retirement pension upon reaching the age of 62 or in the form of an early retirement pension upon reaching the age of 60. Opting for the early retirement pension scheme is connected with actuarial deductions, however. The company pension is calculated by multiplying a basic percentage rate of 5 percent by the number of years of service as a member of the Board of Management. After ten years of service, the maximum pension level of 50 percent of the last fixed annual remuneration will be attained.

The pension payments to be made increase dynamically, at a rate of 1 percent. In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In specifically provided exceptional cases, entitlement to a widow's pension is excluded. The standard criteria for eligibility in the pension arrangements are in line with market conditions. In the event of a permanent incapacity for work (invalidity), the respective period of service through the scheduled end of the current period of appointment serves as the basis for the period of service eligible for calculating the pension.

**Company pension plan (new entitlement).** A plan with a contribution-based promise in the form of a one-time capital payment upon retirement is set up for all Board of Management members with a new entitlement to a company pension. A contribution is paid into the Board member's pension account for each year of service at an interest rate corresponding to market levels. Annual additions to the pension account have no effect on cash or cash equivalents. The cash outflow is only effective upon the Board member's retirement. As a rule, the date of retirement is the beneficiary's 62nd birthday. For pension agreements signed before December 31, 2011, Board of Management members can also opt to draw early retirement benefits from their 60th birthday, subject to corresponding actuarial deductions. The amount to be provided annually is individualized and decoupled from other remuneration components. The exact definition of the contribution is based on a comparison with peer companies that are suitable for benchmarking and also offer plans with contribution-based promises.

In addition, the pension agreements include arrangements for pensions for surviving dependents in the form of entitlements for widows and orphans. In the event of a permanent incapacity for work (invalidity), the beneficiary is also entitled to the pension fund.

Service cost and defined benefit obligations for each member of the Board of Management are shown in TABLE 051:

T 051

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	Service cost 2015	Defined benefit obligation (DBO) Dec. 31, 2015	Service cost 2014	Defined benefit obligation (DBO) Dec. 31, 2014
Reinhard Clemens	779,940	5,829,077	599,763	5,427,515
Niek Jan van Damme	312,100	2,445,816	288,661	2,129,080
Thomas Dannenfeldt	288,525	573,411	246,151	293,973
Timotheus Höttges	1,096,569	9,138,086	818,212	8,695,342
Dr. Christian P. Illek (since April 1, 2015)	204,741	204,741	-	-
Dr. Thomas Kremer	254,966	965,594	243,743	703,470
Claudia Nemat	296,866	1,344,197	247,026	1,069,351

An annual contribution of EUR 290,000 was allocated to Niek Jan van Damme in accordance with the provisions of the new company pension plan. The contributions for Thomas Dannenfeldt, Dr. Christian P. Illek, Dr. Thomas Kremer and Claudia Nemat amount to EUR 250,000 each for each year of service rendered.

The pension expense resulting from the company pension plan is shown as service cost.

**Board of Management compensation for the 2015 financial year.** In reliance on legal requirements and other guidelines, a total of EUR 17.6 million (2014: EUR 13.9 million) is reported in TABLE 052 as total compensation for the 2015 financial year for the members of the Board of Management.

The Board of Management compensation comprises the fixed annual remuneration as well as other benefits, non-cash benefits and remuneration in kind, short-term variable remuneration (Variable I), as well as a special bonus for extraordinary performance if applicable, and a one-time sign-on bonus, fully earned tranches of long-term variable remuneration (Variable II), and the fair value of the matching shares. This was calculated on the basis of the estimated amount of Variable I at the grant date and the resulting number of entitlements to matching shares.

The fixed annual remuneration, other benefits, and a one-time sign-on bonus are totally unrelated to performance.

**Total compensation.** The compensation of the Board of Management is shown in detail in TABLE 052:

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		Non-performance-based compensation		Performance-based compensation			Total compensation
		Fixed annual remuneration	Other remuneration	Short-term variable remuneration	Long-term variable performance-based remuneration (Variable II)	Long-term variable performance-based remuneration (fair value of matching shares)	
Reinhard Clemens	2015	840,000	17,914	780,650	578,500	190,015	2,407,079
	2014	840,000	17,350	714,350	429,000	186,512	2,187,212
Niek Jan van Damme	2015	850,000	30,333	791,476	489,500	188,309	2,349,618
	2014	850,000	26,758	708,760	363,000	180,295	2,128,813
Thomas Dannenfeldt	2015	700,000	25,040	693,550	-	160,823	1,579,413
	2014	700,000	22,433	641,300	-	157,817	1,521,550
Timotheus Höttges	2015	1,450,000	67,166	1,753,994	578,500	392,408	4,242,068
	2014	1,450,000	22,359	1,307,124	429,000	313,339	3,521,822
Dr. Christian P. Illek (since April 1, 2015)	2015 <sup>a</sup>	525,000	1,226,828	495,413	-	121,621	2,368,862
	2014	-	-	-	-	-	-
Dr. Thomas Kremer	2015	700,000	62,854	665,500	438,510	160,823	2,027,687
	2014	700,000	60,983	856,650	234,438	157,817	2,009,888
Claudia Nemat	2015	900,000	69,704	810,675	600,750	197,373	2,578,502
	2014	900,000	65,900	764,775	361,969	193,685	2,286,329
	2015	5,965,000	1,499,839	5,991,258	2,685,760	1,411,372	17,553,229
	2014 <sup>b</sup>	5,440,000	215,783	4,992,959	1,817,407	1,189,465	13,655,614

<sup>a</sup>The other remuneration relating to Dr. Christian P. Illek includes a one-time payment of EUR 1.2 million as a sign-on bonus.

<sup>b</sup>Remuneration relating to Board of Management members who left the Company in the course of 2014 is no longer included in the table.

The amounts shown in the "Long-term variable performance-based remuneration (Variable II)" column had been pledged to the eligible Board of Management members in the 2012 financial year. As he joined the Company after the commencement of the current plan tranche of Variable II, a pro-rata pledge was granted to Dr. Thomas Kremer also in 2012.

Dr. Christian P. Illek received a one-time special payment of EUR 1.2 million upon joining the Board of Management in April 2015. The special payment was intended to recompense him for the proven loss of entitlements to shares of his former employer. At the same time, Dr. Christian P. Illek was obligated to invest the net payout amount of this special payment in shares in Deutsche Telekom AG, which are subject to a staggered lock-up period. Dr. Christian P. Illek met his obligation to acquire shares in Deutsche Telekom AG in May 2015.

No member of the Board of Management received benefits or corresponding commitments from a third party for his or her activity as a Board of Management member during the past financial year.

**Former members of the Board of Management.** A total of EUR 7.1 million (2014: EUR 9.2 million) was granted for payments to and entitlements for former members of the Board of Management as well as any surviving dependents.

Provisions (measured in accordance with IAS 19) totaling EUR 188.1 million (December 31, 2014: EUR 196.9 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

**Other.** The Company has not granted any advances or loans to current or former Board of Management members, nor were any other financial obligations to the benefit of this group of people entered into.

#### Table view in accordance with the requirements of the German Corporate Governance Code

The following tables are based on model tables 1 and 2 recommended by the German Corporate Governance Code, which present the total compensation granted for the reporting year and the remuneration components allocated.

## Benefits granted for the reporting year

T 053

## Compensation of the Board of Management

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	Timotheus Höttges			
	Function: Chairman of the Board of Management (CEO) since January 1, 2014			
	2014	2015	2015 (min.)	2015 (max.)
Fixed remuneration	1,450,000	1,450,000	1,450,000	1,450,000
Fringe benefits	22,359	67,166	67,166	67,166
<b>Total fixed annual remuneration</b>	<b>1,472,359</b>	<b>1,517,166</b>	<b>1,517,166</b>	<b>1,517,166</b>
One-year variable remuneration	1,092,000	1,342,000	0	2,013,000
<b>Multi-year variable remuneration</b>	<b>1,405,339</b>	<b>1,734,408</b>	<b>0</b>	<b>4,026,000</b>
Of which: 2014 Variable II (4-year term)	1,092,000			
Of which: 2015 Variable II (4-year term)		1,342,000	0	2,013,000
Of which: 2014 Share Matching Plan (4-year term)	313,339			
Of which: 2015 Share Matching Plan (4-year term)		392,408	0	2,013,000
<b>Total</b>	<b>3,969,698</b>	<b>4,593,574</b>	<b>1,517,166</b>	<b>7,556,166</b>
Service cost	818,212	1,096,569	1,096,569	1,096,569
<b>TOTAL COMPENSATION</b>	<b>4,787,910</b>	<b>5,690,143</b>	<b>2,613,735</b>	<b>8,652,735</b>

	Dr. Christian P. Illek			
	Function: Human Resources since April 1, 2015			
	2014	2015	2015 (min.)	2015 (max.)
Fixed remuneration	-	525,000	525,000	525,000
Fringe benefits	-	1,226,828	1,226,828	1,266,828
<b>Total fixed annual remuneration</b>	<b>-</b>	<b>1,751,828</b>	<b>1,751,828</b>	<b>1,791,828</b>
One-year variable remuneration	-	412,500	0	618,750
<b>Multi-year variable remuneration</b>	<b>-</b>	<b>637,246</b>	<b>0</b>	<b>1,392,188</b>
Of which: 2014 Variable II (4-year term)				
Of which: 2015 Variable II (4-year term)		515,625	0	773,438
Of which: 2014 Share Matching Plan (4-year term)				
Of which: 2015 Share Matching Plan (4-year term)		121,621	0	618,750
<b>Total</b>	<b>-</b>	<b>2,801,574</b>	<b>1,751,828</b>	<b>3,802,766</b>
Service cost	-	204,741	204,741	204,741
<b>TOTAL COMPENSATION</b>	<b>-</b>	<b>3,006,315</b>	<b>1,956,569</b>	<b>4,007,507</b>

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Reinhard Clemens				Niek Jan van Damme				Thomas Dannenfeldt			
Function: T-Systems since December 1, 2007				Function: Germany since March 1, 2009				Function: Finance (CFO) since January 1, 2014			
2014	2015	2015 (min.)	2015 (max.)	2014	2015	2015 (min.)	2015 (max.)	2014	2015	2015 (min.)	2015 (max.)
840,000	840,000	840,000	840,000	850,000	850,000	850,000	850,000	700,000	700,000	700,000	700,000
17,350	17,914	17,914	17,914	26,758	30,333	30,333	30,333	22,433	25,040	25,040	25,040
<b>857,350</b>	<b>857,914</b>	<b>857,914</b>	<b>857,914</b>	<b>876,758</b>	<b>880,333</b>	<b>880,333</b>	<b>880,333</b>	<b>722,433</b>	<b>725,040</b>	<b>725,040</b>	<b>725,040</b>
650,000	650,000	0	975,000	628,333	644,000	0	966,000	550,000	550,000	0	825,000
<b>836,512</b>	<b>840,015</b>	<b>0</b>	<b>1,950,000</b>	<b>820,378</b>	<b>832,309</b>	<b>0</b>	<b>1,932,000</b>	<b>707,817</b>	<b>710,823</b>	<b>0</b>	<b>1,650,000</b>
650,000				640,083				550,000			
	650,000	0	975,000		644,000	0	966,000		550,000	0	825,000
186,512				180,295				157,817			
	190,015	0	975,000		188,309	0	966,000		160,823	0	825,000
<b>2,343,862</b>	<b>2,347,929</b>	<b>857,914</b>	<b>3,782,914</b>	<b>2,325,469</b>	<b>2,356,642</b>	<b>880,333</b>	<b>3,778,333</b>	<b>1,980,250</b>	<b>1,985,863</b>	<b>725,040</b>	<b>3,200,040</b>
599,763	779,940	779,940	779,940	288,661	312,100	312,100	312,100	246,151	288,525	288,525	288,525
<b>2,943,625</b>	<b>3,127,869</b>	<b>1,637,854</b>	<b>4,562,854</b>	<b>2,614,130</b>	<b>2,668,742</b>	<b>1,192,433</b>	<b>4,090,433</b>	<b>2,226,401</b>	<b>2,274,388</b>	<b>1,013,565</b>	<b>3,488,565</b>

Dr. Thomas Kremer				Claudia Nemat			
Function: Data Privacy, Legal Affairs and Compliance since June 1, 2012				Function: Europe and Technology since October 1, 2011			
2014	2015	2015 (min.)	2015 (max.)	2014	2015	2015 (min.)	2015 (max.)
700,000	700,000	700,000	700,000	900,000	900,000	900,000	900,000
60,983	62,854	62,854	62,854	65,900	69,704	69,704	69,704
<b>760,983</b>	<b>762,854</b>	<b>762,854</b>	<b>762,854</b>	<b>965,900</b>	<b>969,704</b>	<b>969,704</b>	<b>969,704</b>
550,000	550,000	0	825,000	675,000	675,000	0	1,012,500
<b>707,817</b>	<b>710,823</b>	<b>0</b>	<b>1,650,000</b>	<b>868,685</b>	<b>872,373</b>	<b>0</b>	<b>2,025,000</b>
550,000				675,000			
	550,000	0	825,000		675,000	0	1,012,500
157,817				193,685			
	160,823	0	825,000		197,373	0	1,012,500
<b>2,018,800</b>	<b>2,023,677</b>	<b>762,854</b>	<b>3,237,854</b>	<b>2,509,585</b>	<b>2,517,077</b>	<b>969,704</b>	<b>4,007,204</b>
243,743	254,966	254,966	254,966	247,026	296,866	296,866	296,866
<b>2,262,543</b>	<b>2,278,643</b>	<b>1,017,820</b>	<b>3,492,820</b>	<b>2,756,611</b>	<b>2,813,943</b>	<b>1,266,570</b>	<b>4,304,070</b>

### Benefits allocated for the reporting year

Unlike TABLE 053 of benefits granted, PAGES 148 and 149, this table contains not the target values for short- and long-term variable remuneration components, but rather the actual benefits allocated for 2015. There is another difference between the following table and the table of benefits granted with regard to the presentation of the Share Matching Plan. The figures for the Share Matching Plan shown in this table present the value of the benefits allocated relevant under German tax law at the time of the transfer of matching shares, whereas TABLE 053 of benefits granted shows the fair values of remuneration at the grant date.

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### Compensation of the Board of Management

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	Timotheus Höttges		Reinhard Clemens		Niek Jan van Damme	
	Function: Chairman of the Board of Management (CEO) since January 1, 2014		Function: T-Systems since December 1, 2007		Function: Germany since March 1, 2009	
	2014	2015	2014	2015	2014	2015
Fixed remuneration	1,450,000	1,450,000	840,000	840,000	850,000	850,000
Fringe benefits	22,359	67,166	17,350	17,914	26,758	30,333
<b>Total fixed annual remuneration</b>	<b>1,472,359</b>	<b>1,517,166</b>	<b>857,350</b>	<b>857,914</b>	<b>876,758</b>	<b>880,333</b>
One-year variable remuneration	1,307,124	1,753,994	714,350	780,650	708,760	791,476
<b>Multi-year variable remuneration</b>	<b>758,558</b>	<b>965,664</b>	<b>720,364</b>	<b>917,069</b>	<b>614,594</b>	<b>763,439</b>
Of which: Variable II (4-year term) <sup>a</sup>	429,000	578,500	429,000	578,500	363,000	489,500
Of which: Share Matching Plan (4-year term) <sup>b</sup>	329,558	387,164	291,364	338,569	251,594	273,939
Other	0	0	0	0	0	0
<b>Total</b>	<b>3,538,041</b>	<b>4,236,824</b>	<b>2,292,064</b>	<b>2,555,633</b>	<b>2,200,112</b>	<b>2,435,248</b>
Service cost	818,212	1,096,569	599,763	779,940	288,661	312,100
<b>TOTAL COMPENSATION</b>	<b>4,356,253</b>	<b>5,333,393</b>	<b>2,891,827</b>	<b>3,335,573</b>	<b>2,488,773</b>	<b>2,747,348</b>

	Thomas Dannenfeldt		Dr. Christian P. Illek		Dr. Thomas Kremer		Claudia Nemat	
	Function: Finance (CFO) since January 1, 2014		Function: Human Resources since April 1, 2015		Function: Data Privacy, Legal Affairs and Compliance since June 1, 2012		Function: Europe and Technology since October 1, 2011	
	2014	2015	2014	2015	2014	2015	2014	2015
Fixed remuneration	700,000	700,000	-	525,000	700,000	700,000	900,000	900,000
Fringe benefits	22,433	25,040	-	1,226,828 <sup>c</sup>	60,983	62,854	65,900	69,704
<b>Total fixed annual remuneration</b>	<b>722,433</b>	<b>725,040</b>	<b>-</b>	<b>1,751,828</b>	<b>760,983</b>	<b>762,854</b>	965,900	969,704
One-year variable remuneration	641,300	693,550	-	495,413	606,650	665,500	764,775	810,675
<b>Multi-year variable remuneration</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>234,438</b>	<b>438,510</b>	361,969	600,750
Of which: Variable II (4-year term) <sup>a</sup>	0	0	-	0	234,438	438,510	361,969	600,750
Of which: Share Matching Plan (4-year term) <sup>b</sup>	0	0	-	0	0	0	0	0
Other	0	0	-	0	250,000	0	0	0
<b>Total</b>	<b>1,363,733</b>	<b>1,418,590</b>	<b>-</b>	<b>2,247,241</b>	<b>1,852,071</b>	<b>1,866,864</b>	2,092,644	2,381,129
Service cost	246,151	288,525	-	204,741	243,743	254,966	247,026	296,866
<b>TOTAL COMPENSATION</b>	<b>1,609,884</b>	<b>1,707,115</b>	<b>-</b>	<b>2,451,982</b>	<b>2,095,814</b>	<b>2,121,830</b>	2,339,670	2,677,995

<sup>a</sup> Variable II as shown in the column for 2015 relates to the payment of the 2012 tranche.

<sup>b</sup> The Share Matching Plan relates to the non-cash benefit arising from the inflow of the matching shares with the corresponding personal investment having been made in 2011.

<sup>c</sup> The fringe benefits relating to Dr. Christian P. Illek include a one-time payment of EUR 1.2 million as a sign-on bonus.

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## COMPENSATION OF THE SUPERVISORY BOARD

The compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Under the compensation system that came into effect on January 1, 2013, members of the Supervisory Board receive fixed annual compensation of EUR 70,000.00.

The Chairman of the Supervisory Board receives a further EUR 70,000.00 and the Deputy Chairman EUR 35,000.00. Members of the Supervisory Board also receive compensation as follows for activities on Supervisory Board committees:

- The Chairman of the Audit Committee receives EUR 80,000.00, ordinary members of the Audit Committee EUR 40,000.00.
- The Chairman of the General Committee receives EUR 35,000.00, ordinary members of the General Committee EUR 25,000.00.
- The Chairman of any other committee receives EUR 30,000.00, ordinary members of any other committee EUR 20,000.00.

Chairmanship and membership of the Nomination Committee and the Mediation Committee are not remunerated.

Members of the Supervisory Board receive an attendance fee amounting to EUR 1,000.00 for each meeting of the Supervisory Board or its committees that they have attended. The Company reimburses value-added tax payable on remuneration and expenses.

The total compensation of the members of the Supervisory Board in 2015 amounted to EUR 2,683,500.00 (plus VAT).

The Company has not granted any advances or loans to current or former Supervisory Board members, nor were any other financial obligations to the benefit of this group of people entered into.

The compensation of the individual members of the Supervisory Board for 2015 is as follows:

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Member of the Supervisory Board	Fixed remuneration	Meeting attendance fee	Total
Baldauf, Sari	90,000.00	8,000.00	98,000.00
Bednarski, Josef <sup>a</sup>	110,000.00	13,000.00	123,000.00
Dr. Bernotat, Wulf H.	110,000.00	13,000.00	123,000.00
Brandl, Monika	90,000.00	12,000.00	102,000.00
Geismann, Johannes	135,000.00	26,000.00	161,000.00
Dr. von Grünberg, Hubertus	100,000.00	7,000.00	107,000.00
Hanas, Klaus-Dieter	70,000.00	7,000.00	77,000.00
Hauke, Sylvia <sup>b</sup>	110,000.00	13,000.00	123,000.00
Hinrichs, Lars	90,000.00	7,000.00	97,000.00
Kallmeier, Hans-Jürgen <sup>c</sup>	130,000.00	15,000.00	145,000.00
Prof. Dr. Kaschke, Michael (since April 22, 2015)	59,166.67	3,000.00	62,166.67
Kollmann, Dagmar P.	166,666.67	20,000.00	186,666.67
Kolmsee, Ines (January 31, 2015 to April 8, 2015)	33,333.33	2,000.00	35,333.33
Kreusel, Petra Steffi <sup>d</sup>	110,000.00	11,000.00	121,000.00
Prof. Dr. Lehner, Ulrich (Chairman)	255,833.33	29,000.00	284,833.33
Litzenberger, Waltraud (until December 31, 2015)	160,000.00	25,000.00	185,000.00
Schröder, Lothar (Deputy Chairman) <sup>e</sup>	205,000.00	23,000.00	228,000.00
Dr. Schröder, Ulrich	125,000.00	11,000.00	136,000.00
Sommer, Michael	90,000.00	8,000.00	98,000.00
Spoo, Sibylle	70,000.00	7,000.00	77,000.00
Streibich, Karl-Heinz	90,000.00	11,000.00	101,000.00
Dr. h. c. Walter, Bernhard (until January 11, 2015) †	12,500.00	-	12,500.00
	<b>2,412,500.00</b>	<b>271,000.00</b>	<b>2,683,500.00</b>

<sup>a</sup>In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Josef Bednarski also received other remuneration amounting to EUR 5,250.00 (including meeting attendance fees) in the 2015 financial year (for his mandate as member of the supervisory board of Deutsche Telekom Kundenservice GmbH).

<sup>b</sup>In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Sylvia Hauke also received other remuneration amounting to EUR 16,000.00 (including meeting attendance fees) in the 2015 financial year (for her mandate as member of the supervisory board of Telekom Deutschland GmbH).

<sup>c</sup>In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Hans-Jürgen Kallmeier also received other remuneration amounting to EUR 16,500.00 (including meeting attendance fees) in the 2015 financial year (for his mandate as member of the supervisory board of T-Systems International GmbH).

<sup>d</sup>In addition to remuneration for her activities as a member of the Supervisory Board of Deutsche Telekom AG, Petra Steffi Kreusel also received other remuneration amounting to EUR 14,500.00 (including meeting attendance fees) in the 2015 financial year (for her mandate as member of the supervisory board of T-Systems International GmbH).

<sup>e</sup>In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Schröder also received other remuneration amounting to EUR 30,000.00 (including meeting attendance fees) in the 2015 financial year (EUR 21,000.00 for his mandate as member of the supervisory board of Telekom Deutschland GmbH and EUR 9,000.00 as Chairman of the Data Privacy Advisory Council).





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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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millions of €

	Note	Dec. 31, 2015	Dec. 31, 2014
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
		<b>32,184</b>	<b>29,798</b>
Cash and cash equivalents	1	6,897	7,523
Trade and other receivables	2	9,238	10,454
Current recoverable income taxes	25	129	84
Other financial assets	8	5,805	2,976
Inventories	3	1,847	1,503
Other assets	9	1,346	1,380
Non-current assets and disposal groups held for sale	4	6,922	5,878
		<b>111,736</b>	<b>99,562</b>
<b>NON-CURRENT ASSETS</b>			
Intangible assets	5	57,025	51,565
Property, plant and equipment	6	44,637	39,616
Investments accounted for using the equity method	7	822	617
Other financial assets	8	3,530	2,284
Deferred tax assets	25	5,248	5,169
Other assets	9	474	311
<b>TOTAL ASSETS</b>		<b>143,920</b>	<b>129,360</b>

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millions of €

	Note	Dec. 31, 2015	Dec. 31, 2014
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
		<b>33,548</b>	<b>28,198</b>
Financial liabilities	10	14,439	10,558
Trade and other payables	11	11,090	9,681
Income tax liabilities	25	197	276
Other provisions	13	3,367	3,517
Other liabilities	14	4,451	4,160
Liabilities directly associated with non-current assets and disposal groups held for sale		4	6
<b>NON-CURRENT LIABILITIES</b>			
		<b>72,222</b>	<b>67,096</b>
Financial liabilities	10	47,941	44,669
Provisions for pensions and other employee benefits	12	8,028	8,465
Other provisions	13	2,978	2,373
Deferred tax liabilities	25	9,205	7,712
Other liabilities	14	4,070	3,877
<b>LIABILITIES</b>			
		<b>105,770</b>	<b>95,294</b>
<b>SHAREHOLDERS' EQUITY</b>			
	15	<b>38,150</b>	<b>34,066</b>
Issued capital		11,793	11,611
Treasury shares		(51)	(53)
<b>Capital reserves</b>			
		<b>52,412</b>	<b>51,778</b>
Retained earnings including carryforwards		(38,969)	(39,783)
Total other comprehensive income		(178)	(1,838)
Total other comprehensive income directly associated with non-current assets and disposal groups held for sale		1,139	798
Net profit (loss)		3,254	2,924
<b>ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT</b>			
		<b>29,400</b>	<b>25,437</b>
Non-controlling interests		8,750	8,629
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
		<b>143,920</b>	<b>129,360</b>

# CONSOLIDATED INCOME STATEMENT

T 057

millions of €

	Note	2015	2014	2013
<b>NET REVENUE</b>	<b>16</b>	<b>69,228</b>	<b>62,658</b>	<b>60,132</b>
Cost of sales	17	(41,975)	(38,539)	(36,255)
<b>GROSS PROFIT</b>		<b>27,253</b>	<b>24,119</b>	<b>23,877</b>
Selling expenses	18	(16,048)	(13,898)	(13,797)
General and administrative expenses	19	(5,384)	(4,721)	(4,518)
Other operating income	20	2,008	3,231	1,326
Other operating expenses	21	(801)	(1,484)	(1,958)
<b>PROFIT FROM OPERATIONS</b>		<b>7,028</b>	<b>7,247</b>	<b>4,930</b>
Finance costs	22	(2,363)	(2,340)	(2,162)
Interest income		246	325	228
Interest expense		(2,609)	(2,665)	(2,390)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	23	24	(198)	(71)
Other financial income (expense)	24	89	(359)	(569)
<b>PROFIT (LOSS) FROM FINANCIAL ACTIVITIES</b>		<b>(2,250)</b>	<b>(2,897)</b>	<b>(2,802)</b>
<b>PROFIT BEFORE INCOME TAXES</b>		<b>4,778</b>	<b>4,350</b>	<b>2,128</b>
Income taxes	25	(1,276)	(1,106)	(924)
<b>PROFIT (LOSS)</b>		<b>3,502</b>	<b>3,244</b>	<b>1,204</b>
<b>PROFIT (LOSS) ATTRIBUTABLE TO</b>				
Owners of the parent (net profit (loss))		3,254	2,924	930
Non-controlling interests	26	248	320	274
<b>EARNINGS PER SHARE</b>	27			
Basic		€ 0.71	0.65	0.21
Diluted		€ 0.71	0.65	0.21

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

T 058

millions of €

	2015	2014	2013
<b>PROFIT (LOSS)</b>	<b>3,502</b>	<b>3,244</b>	<b>1,204</b>
<b>Items not reclassified to the income statement retrospectively</b>			
Gain (loss) from the remeasurement of defined benefit plans	230	(1,581)	48
Share of profit (loss) of investments accounted for using the equity method	0	(29)	(17)
Income taxes relating to components of other comprehensive income	(60)	477	(16)
	<b>170</b>	<b>(1,133)</b>	<b>15</b>
<b>Items reclassified to the income statement retrospectively, if certain reasons are given</b>			
<b>Exchange differences on translating foreign operations</b>			
Recognition of other comprehensive income in income statement	4	(4)	0
Change in other comprehensive income (not recognized in income statement)	2,000	1,849	(901)
<b>Available-for-sale financial assets</b>			
Recognition of other comprehensive income in income statement	0	(1)	0
Change in other comprehensive income (not recognized in income statement)	31	41	(4)
<b>Gains (losses) from hedging instruments</b>			
Recognition of other comprehensive income in income statement	(255)	(267)	178
Change in other comprehensive income (not recognized in income statement)	653	265	(162)
<b>Share of profit (loss) of investments accounted for using the equity method</b>			
Recognition of other comprehensive income in income statement	0	0	0
Change in other comprehensive income (not recognized in income statement)	25	0	(37)
Income taxes relating to components of other comprehensive income	(127)	3	(5)
	<b>2,331</b>	<b>1,886</b>	<b>(931)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>2,501</b>	<b>753</b>	<b>(916)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>6,003</b>	<b>3,997</b>	<b>288</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>			
Owners of the parent	5,221	3,184	197
Non-controlling interests	782	813	91

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

T 059

millions of €

	Issued capital and reserves attributable to owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
		thousands	Issued capital	Treasury shares	Capital reserves	Retained earnings including carryforwards
<b>BALANCE AT JANUARY 1, 2013</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(6)</b>	<b>51,506</b>	<b>(29,106)</b>	<b>(5,353)</b>
Changes in the composition of the Group					12	
Transactions with owners				(1,050)	(4)	
Unappropriated profit (loss) carried forward					(5,353)	5,353
Dividends					(3,010)	
Capital increase at Deutsche Telekom AG	129,856	332		811		
Capital increase from share-based payment				113		
Share buy-back/shares held in a trust deposit			(48)	48	(2)	
Profit (loss)						930
Other comprehensive income					23	
<b>TOTAL COMPREHENSIVE INCOME</b>						
Transfer to retained earnings					3	
<b>BALANCE AT DECEMBER 31, 2013</b>	<b>4,451,175</b>	<b>11,395</b>	<b>(54)</b>	<b>51,428</b>	<b>(37,437)</b>	<b>930</b>
<b>BALANCE AT JANUARY 1, 2014</b>	<b>4,451,175</b>	<b>11,395</b>	<b>(54)</b>	<b>51,428</b>	<b>(37,437)</b>	<b>930</b>
Changes in the composition of the Group						
Transactions with owners				(527)		
Unappropriated profit (loss) carried forward					930	(930)
Dividends					(2,215)	
Capital increase at Deutsche Telekom AG	84,396	216		807		
Capital increase from share-based payment				70		
Share buy-back/shares held in a trust deposit			1		1	
Profit (loss)						2,924
Other comprehensive income					(1,085)	
<b>TOTAL COMPREHENSIVE INCOME</b>						
Transfer to retained earnings					23	
<b>BALANCE AT DECEMBER 31, 2014</b>	<b>4,535,571</b>	<b>11,611</b>	<b>(53)</b>	<b>51,778</b>	<b>(39,783)</b>	<b>2,924</b>
<b>BALANCE AT JANUARY 1, 2015</b>	<b>4,535,571</b>	<b>11,611</b>	<b>(53)</b>	<b>51,778</b>	<b>(39,783)</b>	<b>2,924</b>
Changes in the composition of the Group						
Transactions with owners				(425)		
Unappropriated profit (loss) carried forward					2,924	(2,924)
Dividends					(2,257)	
Capital increase at Deutsche Telekom AG	71,081	182		906		
Capital increase from share-based payment				127		
Share buy-back/sale of shares/shares held in a trust deposit			2	26	(11)	
Profit (loss)						3,254
Other comprehensive income					160	
<b>TOTAL COMPREHENSIVE INCOME</b>						
Transfer to retained earnings					(2)	
<b>BALANCE AT DECEMBER 31, 2015</b>	<b>4,606,652</b>	<b>11,793</b>	<b>(51)</b>	<b>52,412</b>	<b>(38,969)</b>	<b>3,254</b>

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Issued capital and reserves attributable to owners of the parent						Total	Non-controlling interests	Total shareholders' equity
Total other comprehensive income								
Translation of foreign operations	Revaluation surplus	Available-for-sale financial assets	Hedging instruments	Investments accounted for using the equity method	Taxes			
(2,448)	(36)	43	327	42	(104)	25,928	4,603	30,531
						12	287	299
553		(1)				(502)	3,527	3,025
						0		0
						(3,010)	(369)	(3,379)
						1,143		1,143
						113	45	158
						(2)		(2)
						930	274	1,204
(708)		(4)	16	(54)	(6)	(733)	(183)	(916)
						197	91	288
						0		0
(2,603)	(39)	38	343	(12)	(110)	23,879	8,184	32,063
(2,603)	(39)	38	343	(12)	(110)	23,879	8,184	32,063
						0	1	1
21						(506)	(324)	(830)
						0		0
						(2,215)	(81)	(2,296)
						1,023	2	1,025
						70	34	104
						2		2
						2,924	320	3,244
1,335		41	(3)	(30)	2	260	493	753
						3,184	813	3,997
						0		0
(1,247)	(62)	79	340	(42)	(108)	25,437	8,629	34,066
(1,247)	(62)	79	340	(42)	(108)	25,437	8,629	34,066
						0		0
194	(2)					(233)	(619)	(852)
						0		0
						(2,257)	(106)	(2,363)
						1,088		1,088
						127	64	191
						17		17
						3,254	248	3,502
1,480		31	398	25	(127)	1,967	534	2,501
						5,221	782	6,003
						0	0	0
427	(62)	110	738	(17)	(235)	29,400	8,750	38,150

# CONSOLIDATED STATEMENT OF CASH FLOWS

T 060

millions of €

	Note	2015	2014	2013
	31			
<b>PROFIT BEFORE INCOME TAXES</b>		<b>4,778</b>	<b>4,350</b>	<b>2,128</b>
Depreciation, amortization and impairment losses		11,360	10,574	10,904
(Profit) loss from financial activities		2,250	2,897	2,802
(Profit) loss on the disposal of fully consolidated subsidiaries		(583)	(1,674)	(131)
Other non-cash transactions		243	166	101
(Gain) loss from the disposal of intangible assets and property, plant and equipment		(87)	(436)	138
Change in assets carried as working capital		(1,438)	(2,275)	(1,266)
Change in provisions		112	382	(195)
Change in other liabilities carried as working capital		878	2,207	696
Income taxes received (paid)		(695)	(679)	(648)
Dividends received		578	344	273
Net payments from entering into, canceling or changing the terms and conditions of interest rate derivatives		100	55	290
<b>CASH GENERATED FROM OPERATIONS</b>		<b>17,496</b>	<b>15,911</b>	<b>15,092</b>
Interest paid		(3,464)	(3,390)	(2,961)
Interest received		965	872	886
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>14,997</b>	<b>13,393</b>	<b>13,017</b>
Cash outflows for investments in				
Intangible assets		(6,446)	(4,658)	(4,498)
Property, plant and equipment		(8,167)	(7,186)	(6,570)
Non-current financial assets		(493)	(806)	(667)
Payments to acquire control of subsidiaries and associates		(28)	(606)	(48)
Proceeds from disposal of				
Intangible assets		4	16	8
Property, plant and equipment		363	265	245
Non-current financial assets		446	74	54
Proceeds from the loss of control of subsidiaries and associates		(58)	1,540	650
Net change in cash and cash equivalents due to the first-time full consolidation of MetroPCS		-	-	1,641
Net change in short-term investments and marketable securities and receivables		(638)	591	(701)
Other		2	9	(10)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(10,015)</b>	<b>(10,761)</b>	<b>(9,896)</b>
Proceeds from issue of current financial liabilities		33,490	12,785	10,874
Repayment of current financial liabilities		(36,944)	(17,089)	(18,033)
Proceeds from issue of non-current financial liabilities		5,247	4,275	9,334
Repayment of non-current financial liabilities		(207)	(1,042)	(129)
Dividends (including to non-controlling interests)		(1,256)	(1,290)	(2,243)
Repayment of lease liabilities		(224)	(164)	(172)
Deutsche Telekom AG share buy-back		(15)	-	(2)
Sale of Deutsche Telekom AG treasury shares		31	-	-
Cash inflows from transactions with non-controlling entities		43	43	1,415
Cash outflows from transactions with non-controlling entities		(1,041)	(950)	-
Other		-	(2)	(22)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>		<b>(876)</b>	<b>(3,434)</b>	<b>1,022</b>
Effect of exchange rate changes on cash and cash equivalents		267	323	(167)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale		1	32	(32)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(626)</b>	<b>(447)</b>	<b>3,944</b>
<b>CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR</b>		<b>7,523</b>	<b>7,970</b>	<b>4,026</b>
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>		<b>6,897</b>	<b>7,523</b>	<b>7,970</b>



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## SUMMARY OF ACCOUNTING POLICIES

### GENERAL INFORMATION

The Deutsche Telekom Group (hereinafter referred to as "Deutsche Telekom" or the "Group") is one of the world's leading service providers in the telecommunications and information technology sector. Deutsche Telekom offers its customers all kinds of products and services for *connected life and work*. The Group reports on the four operating segments Germany, United States, Europe, and Systems Solutions, as well as on the Group Headquarters & Group Services segment.

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

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

The declaration of conformity with the German Corporate Governance Code required pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was released and made available to shareholders. The Declaration of Conformity can be found on the Deutsche Telekom website ([www.telekom.com](http://www.telekom.com)) via the following path: Investor Relations/Corporate Governance/Report, Statement & Conformity/Declaration of Conformity.

The shares of Deutsche Telekom AG are traded on the Frankfurt/Main Stock Exchange as well as on other stock exchanges.

The annual financial statements of Deutsche Telekom AG as well as the consolidated financial statements of Deutsche Telekom AG, which have an unqualified audit opinion from PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, are published in the Federal Gazette (Bundesanzeiger). The Annual Report is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website ([www.telekom.com](http://www.telekom.com)) via the following path: Investor Relations/Annual Report 2015.

The consolidated financial statements of Deutsche Telekom for the 2015 financial year were released for publication by the Board of Management on February 9, 2016.

### BASIS OF PREPARATION

The consolidated financial statements of Deutsche Telekom have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as with the regulations under commercial law as set forth in § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB). The term IFRS is consistently used in the following.

The financial year corresponds to the calendar year. The consolidated statement of financial position includes comparative amounts for one reporting date. The consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows include two comparative years.

Presentation in the statement of financial position differentiates between current and non-current assets and liabilities, which – where required – are broken down further by their respective maturities in the notes to the consolidated financial statements. The consolidated income statement is presented using the cost-of-sales method. Under this format, net revenue is compared against the expenses incurred to generate these revenues, classified into cost of sales, selling, and general and administrative functions. The consolidated financial statements are prepared in euros.

The financial statements of Deutsche Telekom AG and its subsidiaries included in the consolidated financial statements were prepared using uniform group accounting policies.

### INITIAL APPLICATION OF STANDARDS, INTERPRETATIONS, AND AMENDMENTS TO STANDARDS AND INTERPRETATIONS IN THE FINANCIAL YEAR

In the 2015 financial year, Deutsche Telekom applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

T 061

Pronouncement	Title
IFRIC 21	Levies
Annual Improvements Project	Annual Improvements to IFRSs 2011–2013 Cycle

In May 2013, the IASB issued **IFRIC Interpretation 21 "Levies."** The core issue in the Interpretation is the question of when to recognize a liability to pay a levy imposed by public authorities. The IFRIC clarifies that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the obligation to pay the levy in accordance with the relevant legislation. However, an "economic compulsion" to continue to operate in a future period under the going concern assumption expressly does not constitute an obligating event. The new requirements were endorsed by the European Union in June 2014. The amendments do not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows.

In December 2013, the IASB issued "**Annual Improvements to IFRSs 2011–2013 Cycle,"** which amended four standards. The improvements primarily aim to provide clarifications. The amendments were endorsed by the European Union in December 2014. The amendments do not have a material impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows.

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

T 062

Pronouncement	Title	To be applied by Deutsche Telekom	Expected amendments	Expected impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows
<b>STANDARDS ENDORSED BY THE EU</b>				
Amendments to IAS 1	Disclosure Initiative	January 1, 2016	The amendments will allow disclosures in the financial statements to be simplified, with a focus on materiality.	No material impact.
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016	Pursuant to these amendments, a revenue-based depreciation method for property, plant and equipment is not permissible, whereas for intangible assets there is only a rebuttable assumption that such a method is not appropriate.	No material impact.
Amendments to IAS 16 and IAS 41	Bearer Plants	January 1, 2016		No relevance for Deutsche Telekom.
Amendments to IAS 19	Defined Benefit Plans – Employee Contributions	January 1, 2016	The objective of the amendments is to simplify the accounting for contributions from employees or third parties to a defined benefit plan. The simplified accounting permits such contributions to be recognized as a reduction in the current service cost in the period in which the related service is rendered if the amounts of the contributions are independent of the number of years of service.	No material impact.
Amendments to IAS 27	Equity Method in Separate Financial Statements	January 1, 2016		No relevance for Deutsche Telekom.
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016	The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in IFRS 11.	Since the amendments concern only future transactions, it is not possible to forecast their impact on the presentation of Deutsche Telekom's results of operations or financial position.
Annual Improvements Project	Annual Improvements to IFRSs 2010–2012 Cycle	January 1, 2016	Clarification of many published standards.	No material impact.
Annual Improvements Project	Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016	Clarification of many published standards.	No material impact.
<b>STANDARDS NOT YET ENDORSED BY THE EU<sup>a</sup></b>				
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely	The amendments affect transactions between an investor and its associate or joint venture and provide for full gain or loss recognition on the loss of control of a business and partial recognition of the gain or loss resulting from the sale or contribution of assets that do not constitute a business, regardless of whether that business is housed in a subsidiary or not.	As the effective date has been postponed indefinitely, the amendments to IFRS 10 and IAS 28 are not relevant at present.
Amendments to IFRS 10, IFRS 12, and IAS 28	Investment Entities: Applying the Consolidation Exception	January 1, 2016	Investment entities are not covered by IFRS 10 and are therefore exempt from the provisions on consolidation in this standard. The consolidation exception is substantiated in four points.	No material impact expected.
IFRS 14	Regulatory Deferral Accounts	January 1, 2016	This standard is applicable to first-time adopters of IFRSs only.	No relevance for Deutsche Telekom.
Amendments to IAS 7	Disclosure Initiative	January 1, 2017	This pronouncement requires that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	Deutsche Telekom is currently analyzing the effects of the pronouncement, but does not expect it to have a material impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows.
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017	Clarification of the accounting for deferred tax assets for unrealized losses on debt instruments that are classified as available-for-sale financial assets.	No material impact.
IFRS 9	Financial Instruments	January 1, 2018	The final version of IFRS 9 as a full standard combines all previously published provisions with the new provisions on accounting for impairment losses as well as limited amendments to the classification and measurement requirements for financial assets.	Although Deutsche Telekom has not yet finalized the detailed analysis of IFRS 9, the first-time adoption of this standard is not expected to have a material impact on the financial statements. In some cases, the new provisions on the classification of financial assets depending on the business model existing for these assets will give rise to changes in measurement and presentation. The new provisions on accounting for impairment losses will lead to expected losses having to be expensed earlier in certain cases. In hedge accounting, it will be possible to include more components in the hedged risk in some cases, which will slightly increase the effectiveness of the hedge.

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Pronouncement	Title	To be applied by Deutsche Telekom	Expected amendments	Expected impact on the presentation of Deutsche Telekom's results of operations, financial position, or cash flows
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	This standard provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaces in particular the existing standards IAS 18 "Revenue" and IAS 11 "Construction Contracts." When applying IFRS 15 for the first time, an entity shall apply the standard in full for the current period. In respect of prior periods, the transition guidance grants entities an option to either apply IFRS 15 in full to prior periods (with certain limited practical expedients being available) or to retain prior-period figures as reported under the previous standards, recognizing the cumulative effect of applying IFRS 15 to all contracts that had not yet been completed at the beginning of the reporting period as an adjustment to the opening balance of equity at the date of first-time adoption (beginning of current reporting period).	The standard has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. The details of the effects are explained below.
IFRS 16	Leases	January 1, 2019	IFRS 16 principally requires lessees to recognize assets and liabilities for all leases and to present the rights and obligations associated with these leases in the statement of financial position. Going forward, lessees will therefore no longer be required to make the distinction between finance and operating leases that was required in the past in accordance with IAS 17. For all leases, the lessee will recognize a lease liability in its statement of financial position for the obligation to make future lease payments. At the same time, the lessee will capitalize a right of use to the underlying asset which is generally equivalent to the present value of the future lease payments plus directly attributable expenditure. Similar to the guidance on finance leases in IAS 17, the lease liability will be adjusted over the lease term for any remeasurement, while the right-of-use asset will be depreciated, which normally leads to higher expenses at the inception date of a lease. For the lessor, on the other hand, the provisions of the new standard are similar to the existing guidance in IAS 17. The criteria for lease classification have been taken over from IAS 17. IFRS 16 also includes new provisions on the definition of a lease and its presentation, on disclosures in the notes, and on sale and leaseback transactions.	The standard has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. The details of the effects are explained below.

<sup>a</sup>For standards not yet endorsed by the EU, the date of first-time adoption scheduled by the IASB is assumed for the time being as the likely date of first-time adoption.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers." The standard has a material effect on the presentation of Deutsche Telekom's results of operations and financial position. Depending on the business model applied, the new provisions address the following issues in particular:

- In the case of multiple-element arrangements (e. g., mobile contract plus handset) with subsidized products delivered in advance, a larger portion of the total remuneration is attributable to the component delivered in advance (mobile handset), requiring earlier recognition of revenue. This leads to the recognition of what is known as a contract asset – a receivable arising from the customer contract that has not yet legally come into existence – in the statement of financial position.
- At the same time, this leads to higher revenue from the sale of goods and merchandise and to lower revenue from the provision of services.
- Future capitalization and allocation of the expenses for sales commissions (customer acquisition costs) over the estimated customer retention period.
- Increase in total assets on first-time adoption due to the capitalization of contract assets and customer acquisition costs.

- Deferral, i. e., later recognition of revenue in cases where "material rights" are granted, such as offering additional discounts for future purchases of further products.

- For the purposes of determining whether Deutsche Telekom sells products for its own account (principal = gross revenue) or for the account of others (agent = net revenue), it is possible that going forward more business models will lead to a net revenue presentation.

The effects will be analyzed as part of a Group-wide project for implementing the new standard, though a reliable estimate of the quantitative effects is not possible until the project has been completed.

In January 2016, the IASB issued IFRS 16 "Leases," which also 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 address the following issues in particular:

- Whereas previously there was a requirement to disclose payment obligations for operating leases in the notes to the financial statements, from now on, the resulting rights and obligations must be recognized as rights of use and lease liabilities in the statement of financial position.

- Deutsche Telekom anticipates a significant increase in total assets on first-time adoption on account of the increase in lease liabilities as well as a similarly high increase in non-current assets due to the right-of-use assets to be capitalized. The increase in lease liabilities leads to a corresponding increase in net debt.
- Going forward, depreciation charges and interest expense will be reported in the income statement instead of lease expense. This will give rise to a significant improvement in EBITDA and to a similar increase in the net cash from operating activities reported in the statement of cash flows.
- For Deutsche Telekom as a lessor, the new definition of a lease may affect the number of items to be accounted for as leases.

The overall effects will be analyzed as part of a Group-wide project for implementing IFRS 16, though a reliable estimate of the quantitative effects is not possible until the project has been completed.

#### 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.

Deutsche Telekom changed the reporting structure in its consolidated statement of cash flows in the reporting year, reducing the level of detail in the presentation of the individual cash flows and providing additional explanations in the notes to the consolidated financial statements in Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ. This will make the presentation even clearer and more transparent for users without any loss of information.

To present the compensation of the Board of Management and the Supervisory Board in a more structured way, making it easier for readers to understand, Deutsche Telekom aggregated its disclosures on the compensation of the Board of Management and the Supervisory Board in a "Compensation report" in the combined management report, PAGE 143 ET SEQ., to which some information that is still required to be shown in the notes to the consolidated financial statements was added (Note 41 "Compensation of the Board of Management and the Supervisory Board," PAGE 240). In the previous year, the disclosures in the "Compensation report" had been components of the combined management report and the notes to the consolidated financial statements.

#### ACCOUNTING POLICIES

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

T 063

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

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

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

#### INTANGIBLE ASSETS (EXCLUDING GOODWILL)

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

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

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

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

T 064

Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	6 to 19
UMTS licenses	5 to 16
GSM licenses	1 to 18

**Development expenditures** are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. **Research expenditures** are expensed as incurred. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services prior to the commencement of commercial production or use. Examples of activities typically included in development are the design, construction, and testing of pre-production or pre-use prototypes and models involving new technology. The development phase is deemed complete when the IT department has formally documented that the capitalized asset is ready for its intended use. Expenditure on research and development recognized as an expense by Deutsche Telekom amounted to EUR 108.1 million (2014: EUR 95.6 million).

#### GOODWILL

Goodwill is not amortized, but is tested for impairment based on the recoverable amount of the cash-generating unit to which the goodwill is allocated (impairment-only approach). The impairment test is carried out on a regular basis at the end of each financial year, as well as whenever there are indications that the carrying amount of the cash-generating unit is impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination. If the carrying amount of the cash-generating unit to which goodwill is allocated exceeds its recoverable amount, goodwill allocated to this cash-generating unit must be reduced in the amount of the difference. Impairment losses for goodwill must not be reversed. If the impairment loss recognized for the cash-generating unit exceeds the carrying amount of the allocated goodwill, the additional amount of the impairment loss is to be distributed on a pro-rata basis to the assets allocated to the cash-generating unit. The fair values or values in use (if measurable) of the individual assets shall be considered to be the minimum values.

#### PROPERTY, PLANT AND EQUIPMENT

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

consists of several components with different estimated useful lives, those components that are significant are depreciated over their individual useful lives. Maintenance and repair costs are expensed as incurred. Public investment grants reduce the cost of the assets for which the grants were made.

On disposal of an item of property, plant and equipment or when no future economic benefits are expected from its use or disposal, the carrying amount of the item is derecognized. The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognized as other operating income or other operating expenses when the item is derecognized. The useful lives of material asset categories are presented in TABLE 065:

T 065

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

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

#### **BORROWING COSTS**

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

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

Impairments are identified by comparing the carrying amount with the recoverable amount. If individual assets do not generate future cash flows independently of other assets, recoverability is assessed on the basis of the cash-generating unit to which the assets can be allocated. At each reporting date, Deutsche Telekom assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset or cash-generating unit must be determined. In addition, annual impairment tests are carried out for intangible assets with indefinite useful lives (goodwill and FCC licenses) at regular intervals. If the reasons for previously recognized impairments no longer exist, the impairment losses on the assets concerned (with the exception of goodwill) must be reversed.

The recoverable amount of a cash-generating unit is measured at the higher of fair value less costs of disposal and the value in use. The recoverable amount is generally determined by means of a discounted cash flow (DCF) calculation, unless it can be determined on the basis of a market price. These DCF calculations use projections that are based on financial budgets approved by management covering a ten-year period and are also used for internal purposes. The planning horizon reflects the assumptions for short- to mid-term market developments. Cash flows beyond the ten-year period are extrapolated using appropriate growth rates. Key assumptions on which management has based its calculation of the recoverable amount include the development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, growth rates, and discount rates. Cash flow calculations are supported by external sources of information. The discount rate used reflects the risks associated with the asset or cash-generating unit, including specific country or currency risks.

#### **INVENTORIES**

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

#### **NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE**

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

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## EMPLOYEE BENEFITS

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

Up until December 31, 2012, Deutsche Telekom maintained a joint pension fund, **Bundes-Pensions-Service für Post und Telekommunikation e.V., Bonn (Federal Pension Service for Post and Telecommunications – BPS-PT)**, together with Deutsche Post AG and Deutsche Postbank AG for civil-servant pension plans. BPS-PT made pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The German Act on the Reorganization of the civil-servant Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil-servant pensions (organized within the Civil Service Pension Fund) to the German Federal Posts and Telecommunications Agency effective January 1, 2013. The level of Deutsche Telekom AG's payment obligations to the Civil Service Pension Fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). As a rule, Deutsche Telekom AG has been legally obliged since 2000 to make an annual contribution to the special pension fund amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence.

In the past, Deutsche Telekom AG and its domestic subsidiaries agreed on **partial retirement arrangements** with varying terms and conditions, predominantly based on what is known as the block model. Two types of obligations, both measured at their present value in accordance with actuarial principles, arise and are accounted for separately. The first type of obligation relates to the cumulative outstanding settlement amount, which is recorded on a pro-rata basis during the active or working phase. The cumulative outstanding settlement amount is based on the difference between the employee's remuneration before entering partial retirement (including the employer's social security contributions) and the remuneration for the part-time service (including the employer's social security contributions, but excluding top-up payments). The second type of obligation relates to the employer's obligation to make top-up payments plus an additional contribution to the statutory pension scheme. Top-up payments are often hybrid in nature, i. e., although the agreement is often considered a form of compensation for terminating the employment relationship at an earlier date, payments to be made at a later date are subject to the performance of work in the future. Despite having the characteristics of severance payments, the top-up payments must be recognized ratably over the vesting period due to their dependency on the performance of work in the future. If the block model is used, the vesting period for top-up payments starts when the employee is granted the entitlement to participate in the partial retirement program and ends upon entry into the passive phase (leave from work).

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

## OTHER PROVISIONS

**Other provisions** are recognized for current legal or constructive obligations to third parties that are uncertain with regard to their maturities or their amount. Provisions are recognized for these obligations provided they relate to past transactions or events, will probably require an outflow of resources to settle, and this outflow can be reliably measured. Provisions are carried at their expected settlement amount, taking into account all identifiable risks. The settlement amount

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

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

## FINANCIAL INSTRUMENTS

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

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

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

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

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

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



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

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

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

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

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

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

If the agreed credit period for liabilities to suppliers is longer than the normal credit period in the relevant procurement market at this point in time, this liability is reported under other interest-bearing liabilities in financial liabilities instead of under trade payables. A financing agreement of this nature is shown as a non-cash transaction in the statement of cash flows and the relevant repayment of the financial liability reported under net cash from/used in financing activities. This applies regardless of whether the supplier sells its receivable or not. For the effects on the consolidated statement of cash flows, please refer to Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ.

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

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

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

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

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

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

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

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

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

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

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

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

#### **CONTINGENCIES (CONTINGENT LIABILITIES AND ASSETS)**

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

#### **LEASES**

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

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

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

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

#### SHARE-BASED PAYMENT PROGRAMS

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

#### NET REVENUE

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

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

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

**Revenue recognition** at Deutsche Telekom is as follows:

Revenue generated by the **mobile communications business** of the operating segments Germany, United States, and Europe includes revenues from the provision of mobile services, customer activation fees, and sales or lease of mobile handsets and accessories. Mobile service revenue includes monthly service charges, charges for special features, call charges, and roaming charges billed to Deutsche Telekom customers, as well as other mobile operators. Mobile service revenue is recognized based upon minutes of use or other agreed rate plans (e. g., monthly flat rates) less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile handsets and accessories are recognized when the products are delivered and accepted by the customer. Revenue from the non-sales-type lease of mobile handsets is recognized on a straight-line basis over the lease term.

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

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

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

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

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

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

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

## INCOME TAXES

Income taxes include current income taxes as well as deferred taxes. Current and deferred tax shall be recognized as income or expense except to the extent that the tax arises from a transaction which is recognized outside profit and loss, either in other comprehensive income or directly in equity. Tax liabilities/tax receivables mainly comprise liabilities/receivables relating to domestic and foreign income taxes. They include liabilities/receivables for the current period as well as for prior periods. The liabilities/receivables are measured based on the applicable tax law in the countries in which the Group is subject to taxation through its operations.

Deferred taxes are recognized for temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base, as well as for tax loss carryforwards and tax credits. By way of derogation from this principle, a deferred tax liability is not recognized for temporary differences if the deferred tax liability arises from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit/tax loss. A deferred tax liability is not recognized either for temporary differences arising from the initial recognition of goodwill. A deferred tax asset is recognized only when it is probable that a taxable profit will be available against which the deductible temporary differences, loss carryforwards, and tax credits can be utilized. A deferred tax liability is generally recognized for temporary differences associated with investments in subsidiaries and associates unless Deutsche Telekom is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and other tax laws that have been enacted or substantively enacted by the end of the reporting period. As a rule, deferred tax assets and deferred tax liabilities are offset in the statement of financial position if Deutsche Telekom has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

## JUDGMENTS AND ESTIMATES

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

Measurement of **property, plant and equipment, and intangible assets** involves the use of estimates for determining the fair value at the acquisition date, provided they were acquired in a business combination. Furthermore, the expected useful lives of these assets must be estimated. The determination of the fair values of assets and liabilities, as well as of the useful lives of the assets is based on management's judgment.

The determination of **impairments of property, plant and equipment, and intangible assets** involves the use of estimates that include, but are not limited to, the cause, timing, and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the telecommunications industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of services, current replacement costs, prices paid in comparable transactions, and other changes in circumstances that indicate an impairment exists. The identification of impairment indicators, as well as the estimation of future cash flows and the determination of fair values for assets (or groups of assets) require management to make significant judgments concerning the identification and validation

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of impairment indicators, expected cash flows, applicable discount rates, useful lives, and residual values. Specifically, the estimation of cash flows underlying the fair values from the mobile business considers the continued investment in network infrastructure required to generate future revenue growth through the offering of new data products and services, for which only limited historical information on customer demand is available. If the demand for these products and services does not materialize as expected, this would result in less revenue, less cash flow and potential impairment. When determining the fair values, additional planning uncertainties are factored in that reflect the risks of macroeconomic development, which could adversely affect future results of operations.

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

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

**Income taxes** must be estimated for each of the jurisdictions in which the Group operates, involving a specific calculation of the expected actual income tax exposure for each tax object and an assessment of temporary differences resulting from the different treatment of certain items for IFRS consolidated financial and tax reporting purposes. Any temporary differences will generally result in the recognition of deferred tax assets and liabilities in the consolidated financial statements. Management judgment is required for the calculation of current and deferred taxes. Current and deferred tax assets and liabilities are carried when it is probable that the asset will be realized or the liability settled. For deferred tax assets to

be carried, amounts of income taxes must also be recoverable in future periods. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction, taking into account any legal restrictions on the length of the loss carryforward period. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past results of operations, operational plans, loss carryforward periods, and tax planning strategies. The period used for the assessment of the recoverability depends on the circumstances at the respective Group company and typically is in a range of 5 to 10 years. If actual results differ from these estimates or if these estimates must be adjusted in future periods, results of operations, the financial position, and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets changes, the recognized deferred tax assets must be reduced in profit or loss or directly in equity, or the impairment loss of impaired deferred tax assets must be reversed and recognized in profit or loss, or directly in equity, depending on how the deferred tax assets were originally recognized.

**Pension obligations for benefits to non-civil servants** are generally satisfied by defined benefit plans. Pension benefit costs for non-civil servants are determined in accordance with actuarial valuations, which rely on assumptions regarding the discount rate, the expected salary increase rate, the expected pension trend, and life expectancy. In the event that changes in the assumptions regarding these parameters are required, the future amounts of the pension benefit costs may be affected materially.

Deutsche Telekom is obligated, under the German Federal Posts and Telecommunications Agency Reorganization Act (Gesetz zur Reorganisation der Bundesanstalt für Post und Telekommunikation Deutsche Bundespost), to pay for its share of any operating cost shortfalls between the income of the **Civil Service Health Insurance Fund** (Postbeamtenkrankenkasse) and benefits paid. The Civil Service Health Insurance Fund provides services mainly in cases of illness, birth, or death for its members, who are civil servants employed by or retired from Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG, and their relatives. When Postreform II came into effect, participation in the Civil Service Health Insurance Fund was closed to new members. The insurance premiums collected by the Civil Service Health Insurance Fund may not exceed the insurance premiums imposed by alternative private health insurance enterprises for comparable insurance benefits, and, therefore, do not reflect the changing age distribution of the participants in the fund. Deutsche Telekom recognizes provisions in the amount of the actuarially determined present value of Deutsche Telekom's share in the fund's future deficit, using a discount rate and making assumptions about life expectancies and projections for contributions and future increases in general health care costs in Germany. Since the calculation of these provisions involves long-term projections over periods of more than 50 years, the present value of the liability may be highly sensitive even to small variations in the underlying assumptions.

Deutsche Telekom exercises considerable judgment in measuring and recognizing **provisions and contingent liabilities** related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration, or government regulation. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Provisions are recognized for losses from executory contracts, provided a loss is considered probable and can be reasonably estimated. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. In addition, significant estimates are involved in the determination of provisions related to taxes and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as actuaries or legal counsel. Revisions to the estimates of these losses from executory contracts may significantly affect future results of operations.

#### REVENUE RECOGNITION

**Customer activation fees that are not part of a multiple-element arrangement** are deferred and recognized as revenue over the estimated average period of customer retention. The estimation of the expected average duration of the relationship is based on historical customer turnover. If management's estimates are revised, material differences may result in the amount and timing of revenue for any period.

The fair values of individual products or services that are part of **multi-element arrangements** are complex to determine, because some of the elements are price-sensitive and, thus, volatile in a competitive marketplace. Revisions to the estimates of these relative fair values may significantly affect the allocation of total arrangement consideration among the different units of accounting, affecting future results of operations.

### CONSOLIDATION METHODS

#### SUBSIDIARIES

Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom. Control only exists if an investor has the power over the investee, is exposed to variable returns, and is able to use power to affect its amount of variable returns. The existence and effect of substantive potential voting rights that are currently exercisable or convertible, including potential voting rights held by other Group companies, are considered when assessing whether an entity is controlled.

All subsidiaries are included in the consolidated financial statements, unless an operating segment or the Group considers them to be insignificant based on the following criterion: The sum of all unconsolidated subsidiaries must not account for more than 1 percent of the Group's total assets, revenue, profit/loss for the year, contingent assets/liabilities, and other financial obligations. If the 1-percent limit is exceeded, Deutsche Telekom determines which companies are to be included in the consolidated financial statements, taking the long-term development of the investment and consolidation effects into account. Aside from the quantitative criteria, qualitative criteria will also be used to assess the materiality of an entity for the consolidated group. Excluding a subsidiary must not significantly change the segment result or the Group's profit/loss for the year, nor may other significant trends be ignored.

Income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. Income and expenses of a subsidiary remain included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. If necessary, the subsidiaries' accounting principles are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. Intercompany income and expenses, receivables and liabilities, and profits or losses are eliminated.

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

#### JOINT OPERATIONS, JOINT VENTURES, AND ASSOCIATES

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

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

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

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

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

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

### BUSINESS COMBINATIONS

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

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

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

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

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

In the 2015 financial year, Deutsche Telekom conducted the following transactions, which had an impact on the composition of the Group. Other changes to the composition of the Group not shown here were of no material significance for Deutsche Telekom's consolidated financial statements.

#### Scout24 AG initial public offering (IPO)

In connection with the IPO of Scout24 AG on October 1, 2015, Deutsche Telekom sold a total of 13.3 million shares in the company at EUR 30.00 per share, for which it received around EUR 0.4 billion in cash. Income from the sale of this share, which had been included in the consolidated financial statements using the equity method, amounted to around EUR 0.3 billion and is disclosed in other operating income. Deutsche Telekom continues to hold around 13.4 percent of the shares in Scout24 AG and has two seats on the company's supervisory board. In addition, Deutsche Telekom provides one of the four members on both the general committee and the audit committee of Scout24 AG's supervisory board. Due to its membership in the supervisory board and its two central committees, Deutsche Telekom has a significant influence on the financial and operating policies of Scout24 AG. Consequently, Deutsche Telekom continues to include the investment in its consolidated financial statements as an associate using the equity method. Scout24 AG continues to be part of the Group Headquarters & Group Services segment.

#### Sale of t-online.de and InteractiveMedia

Effective November 2, 2015, Deutsche Telekom sold its 100-percent investment in Digital Media Products GmbH, which comprises the T-Online.de & Audience Products business area, including its subsidiary, the digital marketing company InteractiveMedia CCSP GmbH, to Ströer SE. The sale took the form of a capital increase in return for a non-cash contribution. In return, Deutsche Telekom received newly issued shares in Ströer SE worth some EUR 0.3 billion, corresponding to a stake of around 11.6 percent of the increased share capital after all closing conditions had entered into force. Deutsche Telekom has one seat on Ströer SE's supervisory board. At the reporting date, there was a total of three seats on Ströer SE's supervisory board. Since it holds more than 20 percent of the voting rights on Ströer SE's supervisory board, Deutsche Telekom has a significant influence on the company's financial and operating policies. Consequently, Deutsche Telekom includes the investment in its consolidated financial statements as an associate using the equity method. Total income from the divestitures amounted to EUR 0.3 billion; this was reported in other operating income. Ströer SE is part of the Group Headquarters & Group Services segment.

### Presentation of the quantitative effects on the composition of the Group

Deutsche Telekom acquired and disposed of entities in the current and prior financial years. This imposes certain limits on the comparability of the consolidated financial statements and the disclosures under segment reporting.

The presented effects in the Europe operating segment resulted in part from the consummation on May 30, 2014 of Deutsche Telekom's acquisition of 100 percent of the shares in Consortium 1 S.à.r.l., Luxembourg, and hence in the GTS Central Europe group. In addition, on January 2, 2014, Deutsche Telekom sold Euronet Communications B.V., The Hague, Netherlands, which up to that date had been part of the Europe operating segment.

The presented effects in the Group Headquarters & Group Services segment result from the sale of shares in the Scout24 group in the first quarter of 2014 and from the sale of t-online.de and InteractiveMedia in the fourth quarter of 2015. The sale of t-online.de and InteractiveMedia resulted in the disposal of assets and liabilities, each in the amount of EUR 0.1 billion.

The following TABLE 066 shows the effects of the aforementioned changes in the composition of the Group on the consolidated income statement and segment reporting.

T 066

millions of €

	Total 2015	2014							Organic change 2015	
		Total	Germany	United States	Europe	Systems Solutions	Group Headquarters & Group Services	Reconciliation		Pro forma <sup>a</sup>
Net revenue	69,228	62,658			127		(46)		62,739	6,489
Cost of sales	(41,975)	(38,539)			(63)		6		(38,596)	(3,379)
<b>GROSS PROFIT (LOSS)</b>	<b>27,253</b>	<b>24,119</b>	<b>0</b>	<b>0</b>	<b>64</b>	<b>0</b>	<b>(40)</b>	<b>0</b>	<b>24,143</b>	<b>3,110</b>
Selling expenses	(16,048)	(13,898)			(2)		19		(13,881)	(2,167)
General and administrative expenses	(5,384)	(4,721)			(23)		8		(4,736)	(648)
Other operating income	2,008	3,231			1		(1,708)		1,524	484
Other operating expenses	(801)	(1,484)			(40)		1		(1,523)	722
<b>PROFIT (LOSS) FROM OPERATIONS</b>	<b>7,028</b>	<b>7,247</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,720)</b>	<b>0</b>	<b>5,527</b>	<b>1,501</b>
Finance costs	(2,363)	(2,340)			(9)		(1)		(2,350)	(13)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	24	(198)			0		0		(198)	222
Other financial income (expense)	89	(359)			0		0		(359)	448
<b>PROFIT (LOSS) FROM FINANCIAL ACTIVITIES</b>	<b>(2,250)</b>	<b>(2,897)</b>	<b>0</b>	<b>0</b>	<b>(9)</b>	<b>0</b>	<b>(1)</b>	<b>0</b>	<b>(2,907)</b>	<b>657</b>
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>	<b>4,778</b>	<b>4,350</b>	<b>0</b>	<b>0</b>	<b>(9)</b>	<b>0</b>	<b>(1,721)</b>	<b>0</b>	<b>2,620</b>	<b>2,158</b>
Income taxes	(1,276)	(1,106)			(1)		(40)		(1,147)	(129)
<b>PROFIT (LOSS)</b>	<b>3,502</b>	<b>3,244</b>	<b>0</b>	<b>0</b>	<b>(10)</b>	<b>0</b>	<b>(1,761)</b>	<b>0</b>	<b>1,473</b>	<b>2,029</b>

<sup>a</sup>Based on the composition of the Group in the current reporting period.



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### Changes in the composition of the Group

The composition of the Deutsche Telekom Group changed as follows in the 2015 financial year:

T 067

	Domestic	International	Total
<b>CONSOLIDATED SUBSIDIARIES</b>			
January 1, 2015	56	197	253
Additions	11	3	14
Disposals (including mergers)	3	10	13
<b>DECEMBER 31, 2015</b>	<b>64</b>	<b>190</b>	<b>254</b>
<b>ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD</b>			
January 1, 2015	5	8	13
Additions	1	-	1
Disposals	-	-	-
<b>DECEMBER 31, 2015</b>	<b>6</b>	<b>8</b>	<b>14</b>
<b>JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD</b>			
January 1, 2015	3	3	6
Additions	-	2	2
Disposals	-	-	-
<b>DECEMBER 31, 2015</b>	<b>3</b>	<b>5</b>	<b>8</b>
<b>TOTAL</b>			
January 1, 2015	64	208	272
Additions	12	5	17
Disposals (including mergers)	3	10	13
<b>DECEMBER 31, 2015</b>	<b>73</b>	<b>203</b>	<b>276</b>

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

#### Acquisition of the remaining shares in Slovak Telekom

On June 18, 2015, Deutsche Telekom acquired the 49-percent stake in Slovak Telekom that it did not previously hold for a purchase price of EUR 0.9 billion. The acquisition of these remaining shares makes it possible to simplify the financial and governance structure at Slovak Telekom. In addition, the transaction results in reduced dividend payments to non-controlling interests. For the effects on shareholders' equity, please refer to Note 15 "Shareholders' equity," PAGE 208.

#### Framework agreement on the sale and use of cell sites in the United States

On November 10, 2015, T-Mobile US signed a framework agreement with Phoenix Tower International (PTI), Boca Raton, Florida, United States, on the sale and use of cell sites. Under this agreement, 611 cell sites were transferred into operating companies and the companies sold. In return, T-Mobile US received a payment of approximately EUR 0.1 billion (USD 0.14 billion). T-Mobile US rents the required capacity from PTI under operating leases. PTI may lease out any capacity not required by T-Mobile US to third parties. The transaction was closed in the fourth quarter of 2015. It does not have a material impact on Deutsche Telekom's statement of financial position, income statement, and statement of cash flows in the consolidated financial statements as of December 31, 2015.

## PRINCIPAL SUBSIDIARIES

The Group's principal subsidiaries are presented in TABLE 068:

T 068

Name and registered office		Deutsche Telekom share %	Net revenue <sup>c</sup> millions of €	Profit (loss) from operations <sup>c</sup> millions of €	Shareholders' equity <sup>c</sup> millions of €	Average number of employees	Segment allocation
Telekom Deutschland GmbH, Bonn, Germany	<b>Dec. 31, 2015/2015</b>	100.00	21,891	4,633	4,345	12,568	Germany
	Dec. 31, 2014/2014	100.00	21,760	4,597	4,223	12,423	
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	65.41	28,925	2,454	16,447	41,669	United States
	Dec. 31, 2014/2014	66.29	22,408	1,405	14,060	37,858	
T-Systems International GmbH, Frankfurt/Main, Germany	<b>Dec. 31, 2015/2015</b>	100.00	6,367	(663)	1,133	20,091	Systems Solutions
	Dec. 31, 2014/2014	100.00	6,472	(517)	997	21,590	
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece <sup>a</sup>	<b>Dec. 31, 2015/2015</b>	40.00	3,903	226	3,497	21,216	Europe
	Dec. 31, 2014/2014	40.00	3,918	365	3,591	21,903	
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	59.23	2,110	195	2,234	10,611	Europe
	Dec. 31, 2014/2014	59.23	2,013	262	2,137	11,061	
T-Mobile Netherlands Holding B.V., The Hague, Netherlands <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	100.00	1,394	278	2,705	1,430	Europe
	Dec. 31, 2014/2014	100.00	1,551	360	2,508	1,439	
T-Mobile Polska S. A., Warsaw, Poland <sup>b</sup>	<b>Dec. 31, 2015/2015</b>	100.00	1,544	350	2,681	4,527	Europe
	Dec. 31, 2014/2014	100.00	1,492	328	2,395	4,641	
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	100.00	958	207	1,746	3,442	Europe
	Dec. 31, 2014/2014	100.00	874	228	1,588	3,419	
Hrvatski Telekom d. d., Zagreb, Croatia <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	51.00	909	148	2,037	4,793	Europe
	Dec. 31, 2014/2014	51.00	905	148	1,964	5,359	
T-Mobile Austria Holding GmbH, Vienna, Austria <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	100.00	829	96	1,062	1,064	Europe
	Dec. 31, 2014/2014	100.00	815	59	973	1,113	
Slovak Telekom a. s., Bratislava, Slovakia <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	100.00	783	71	1,427	3,551	Europe
	Dec. 31, 2014/2014	51.00	768	98	1,956	3,752	

<sup>a</sup> Consolidated subgroup.

<sup>b</sup> Indirect shareholding of Deutsche Telekom AG.

<sup>c</sup> IFRS figures of the respective subgroup.

In accordance with § 313 HGB, the full statement of investment holdings, which forms part of the notes to the consolidated financial statements, is published in the Federal Gazette (Bundesanzeiger) together with the consolidated financial statements. It is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's website ([www.telekom.com/investor-relations](http://www.telekom.com/investor-relations)). Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB and § 264b HGB.

TABLE 069 shows the principal subsidiaries with non-controlling interests:

T 069

Name and registered office		Percentage of shareholding for non-controlling interests %	Percentage of voting rights for non-controlling interests %	Cumulative non-controlling interests <sup>c</sup> millions of €	Dividends paid out to non-controlling interests millions of €
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	34.59	34.59	5,435	-
	Dec. 31, 2014/2014	33.71	33.71	4,516	-
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece <sup>a</sup>	<b>Dec. 31, 2015/2015</b>	60.00	50.00	1,893	24
	Dec. 31, 2014/2014	60.00	50.00	1,966	-
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	40.77	40.77	636	22
	Dec. 31, 2014/2014	40.77	40.77	618	22
Hrvatski Telekom d. d., Zagreb, Croatia <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	49.00	49.00	784	37
	Dec. 31, 2014/2014	49.00	49.00	745	48
Slovak Telekom a. s., Bratislava, Slovakia <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	0.00	0.00	-	17
	Dec. 31, 2014/2014	49.00	49.00	782	9

<sup>a</sup> Consolidated subgroup.

<sup>b</sup> Indirect shareholding of Deutsche Telekom AG.

<sup>c</sup> IFRS figures at the level of the consolidated financial statements of Deutsche Telekom.

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Deutsche Telekom held 40 percent plus one vote of the shares in the OTE group as of the reporting date. In accordance with shareholder agreements between Deutsche Telekom and the Hellenic Republic, Deutsche Telekom has taken control of 50 percent plus two voting shares and therefore the OTE group's financial and operating policy. Consequently, the OTE group companies are fully consolidated subsidiaries.

Summarized financial information for subsidiaries with significant non-controlling interests:

T 070

millions of €

Name and registered office		Current assets <sup>c</sup>	Non-current assets <sup>c</sup>	Current liabilities <sup>c</sup>	Non-current liabilities <sup>c</sup>	Profit (loss) <sup>c</sup>	Total comprehensive income <sup>c</sup>
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	15,018	47,516	9,225	36,863	354	1,149
	Dec. 31, 2014/2014	12,387	37,398	7,499	28,226	344	1,994
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece <sup>a</sup>	<b>Dec. 31, 2015/2015</b>	2,414	6,118	2,484	2,552	(79)	(74)
	Dec. 31, 2014/2014	2,493	6,104	2,436	3,063	85	85
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	716	3,612	1,118	1,005	51	48
	Dec. 31, 2014/2014	662	3,460	1,046	1,089	100	39
Hrvatski Telekom d. d., Zagreb, Croatia <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	748	1,625	252	84	139	144
	Dec. 31, 2014/2014	723	1,140	251	107	133	126
Slovak Telekom a. s., Bratislava, Slovakia <sup>a, b</sup>	<b>Dec. 31, 2015/2015</b>	-	-	-	-	-	-
	Dec. 31, 2014/2014	789	1,254	249	154	73	64

<sup>a</sup>Consolidated subgroup.<sup>b</sup>Indirect shareholding of Deutsche Telekom AG.<sup>c</sup>IFRS figures of the respective subgroup.

T 071

millions of €

Name and registered office		Net cash from operating activities <sup>c</sup>	Net cash (used in) from investing activities <sup>c</sup>	Net cash (used in) from financing activities <sup>c</sup>
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a, b</sup>	<b>2015</b>	5,583	(6,318)	2,935
	2014	3,246	(3,582)	1,952
Hellenic Telecommunications Organization S. A. (OTE), Athens, Greece <sup>a</sup>	<b>2015</b>	1,056	(419)	(674)
	2014	1,135	(442)	(438)
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a, b</sup>	<b>2015</b>	497	(303)	(235)
	2014	482	(219)	(50)
Hrvatski Telekom d. d., Zagreb, Croatia <sup>a, b</sup>	<b>2015</b>	330	(82)	(112)
	2014	320	(163)	(122)
Slovak Telekom a. s., Bratislava, Slovakia <sup>a, b</sup>	<b>2015</b>	273	365	(582)
	2014	275	(319)	(25)

<sup>a</sup>Consolidated subgroup.<sup>b</sup>Indirect shareholding of Deutsche Telekom AG.<sup>c</sup>IFRS figures of the respective subgroup.

## STRUCTURED ENTITIES

Deutsche Telekom processes factoring transactions by means of structured entities (see Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ.).

Since 2014, Deutsche Telekom has consolidated four structured leasing SPES for real estate as well as operating and office equipment at two sites for the operation of data centers in Germany. The two data centers were built under the

management of an external leasing company and are operated by T-Systems International GmbH. Apart from the contractual obligations to make lease payments to the leasing SPES, Deutsche Telekom has no obligation to give them further financial support.

T-Mobile USA Tower LLC and T-Mobile West Tower LLC, which are included in the consolidated statement of financial position as investments accounted for using the equity method, are also structured entities (see Note 7 "Investments accounted for using the equity method," PAGE 189 ET SEQ.).

## JOINT OPERATIONS

On the basis of a contractual arrangement concluded by T-Mobile Polska s. A., Poland, Deutsche Telekom combined the activities for the planning, building, and operation of the Polish mobile communications network with a partner in 2011 to generate savings. Deutsche Telekom recognizes its share (50 percent) of the corresponding assets in line with the economic substance in the consolidated statement of financial position.

## CURRENCY TRANSLATION

Foreign-currency transactions are translated into the functional currency at the exchange rate at the date of transaction. At the reporting date, monetary items are translated at the closing rate, and non-monetary items are translated at the exchange rate at the date of transaction. Exchange rate differences are recognized in profit or loss.

The assets and liabilities of Group entities whose functional currency is not the euro are translated into euros from the local currency using the middle rates at the reporting date. The middle rates are the monthly average of the bid and ask rates. The income statements and corresponding profit or loss of foreign-currency denominated Group entities are translated at monthly average exchange rates for the period. The differences that arise from the use of both rates are recognized directly in equity.

The exchange rates of certain significant currencies changed as follows:

T 072

€

	Annual average rate			Rate at the reporting date	
	2015	2014	2013	Dec. 31, 2015	Dec. 31, 2014
100 Czech korunas (CZK)	3.66596	3.63124	3.85018	3.70066	3.60844
1 Pound sterling (GBP)	1.37760	1.24035	1.17714	1.36181	1.28428
100 Croatian kuna (HRK)	13.13380	13.09950	13.19720	13.08730	13.06000
1,000 Hungarian forints (HUF)	3.22570	3.23940	3.36771	3.17145	3.17153
100 Macedonian denars (MKD)	1.62569	1.62380	1.61831	1.62408	1.62669
100 Polish zlotys (PLN)	23.89210	23.89430	23.82270	23.44620	23.35810
1 U.S. dollar (USD)	0.90117	0.75241	0.75289	0.91819	0.82300

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents have an original maturity of less than three months and mainly comprise fixed-term bank deposits. They also include small amounts of cash-in-hand and checks. Deutsche Telekom obtained cash collateral of EUR 1,740 million (December 31, 2014: EUR 486 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents decreased by EUR 0.6 billion to EUR 6.9 billion. For further details, please refer to the consolidated statement of cash flows in Note 31, PAGE 216 ET SEQ.

As of December 31, 2015, Deutsche Telekom reported cash and cash equivalents of EUR 36 million held by subsidiaries in the F.Y.R.O. Macedonia (December 31, 2014: EUR 32 million). These subsidiaries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

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## 2 TRADE AND OTHER RECEIVABLES

T 073

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Trade receivables	8,756	10,262
Other receivables	482	192
	<b>9,238</b>	<b>10,454</b>

Of the total of trade and other receivables, EUR 8,085 million (December 31, 2014: EUR 8,897 million) is due within one year.

The decrease in receivables is largely attributable to factoring agreements concluded in the reporting period concerning monthly revolving sales of trade receivables due (please refer to Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ.). The JUMP! On Demand business model introduced at T-Mobile US in June 2015 also had a reducing effect. Under this model, trade receivables no longer include the receivable from the sale of the device when a contract is concluded with a customer, but rather only the monthly lease installment for the device.

TABLE 074 shows the maturity structure of the trade receivables that are not impaired at the reporting date:

T 074

millions of €

Trade receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
As of Dec. 31, 2015	3,163	628	86	60	71	43	27
As of Dec. 31, 2014	3,226	421	116	64	73	63	46

With respect to the trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The allowances on trade receivables developed as follows:

T 075

millions of €

	2015	2014
<b>ALLOWANCES AS OF JANUARY 1</b>	<b>1,368</b>	<b>1,344</b>
Currency translation adjustments	1	15
Additions (allowances recognized as expense)	805	641
Use	(553)	(410)
Reversal	(119)	(222)
<b>ALLOWANCES AS OF DECEMBER 31</b>	<b>1,502</b>	<b>1,368</b>

TABLE 076 presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

T 076

millions of €

	2015	2014	2013
Expenses for full write-off of receivables	375	352	129
Income from recoveries on receivables written off	329	254	46

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling expenses.

### 3 INVENTORIES

T 077

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Raw materials and supplies	62	65
Work in process	23	24
Finished goods and merchandise	1,762	1,414
	<b>1,847</b>	<b>1,503</b>

The carrying amount of inventories increased by EUR 0.3 billion compared to December 31, 2014 to EUR 1.8 billion. This was due in particular to increased stock levels of terminal equipment (in particular expensive smartphones) at T-Mobile US and exchange rate effects from the translation of U.S. dollars into euros.

Write-downs of EUR 121 million (2014: EUR 57 million, 2013: EUR 46 million) on the net realizable value were recognized in 2015 and are shown in profit or loss.

The carrying amount of the inventories recognized as expense in the reporting period amounted to EUR 12,367 million (2014: EUR 8,237 million, 2013: EUR 6,470 million).

The finished goods and merchandise primarily comprise retail products (e. g., terminal equipment and accessories) not manufactured by ourselves, and services rendered but not yet invoiced, primarily to business customers.

T 078

millions of €

	Dec. 31, 2015					Dec. 31, 2014			
	EE	T-Mobile US	Deutsche Telekom AG real estate	Other	Total	EE	Deutsche Telekom AG real estate	Other	Total
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE</b>									
Other current assets	-	-	-	4	4	-	-	5	5
Intangible assets	-	629	-	4	633	-	-	39	39
Property, plant and equipment	-	-	180	32	212	-	95	12	107
Investments accounted for using the equity method	6,073	-	-	-	6,073	5,727	-	-	5,727
<b>TOTAL</b>	<b>6,073</b>	<b>629</b>	<b>180</b>	<b>40</b>	<b>6,922</b>	<b>5,727</b>	<b>95</b>	<b>56</b>	<b>5,878</b>

### 4 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

As of December 31, 2015, current assets recognized in the consolidated statement of financial position included EUR 6.9 billion in non-current assets and disposal groups held for sale. The increase of EUR 1.0 billion compared with December 31, 2014 results primarily from the following effects:

In the third quarter of 2015, T-Mobile US agreed a transaction for the exchange of mobile licenses with AT&T to improve T-Mobile US's mobile network coverage. As a result of the reclassification of the licenses to non-current assets held for sale, the carrying amount increased by EUR 0.6 billion. In addition, currency effects of EUR 0.3 billion from the translation of pounds sterling into euros related to the reclassification in December 2014 of the stake in the EE joint venture also had an increasing effect on the carrying amount. As of December 31, 2015, the EE joint venture was included in non-current assets and disposal groups held for sale at a total of EUR 6.1 billion. The transaction was approved by the United Kingdom's Competition and Markets Authority (CMA) in January 2016, unconditionally and without remedies. The transaction was then closed on January 29, 2016. The EE joint venture continued to be reported under non-current assets and disposal groups held for sale until the transaction was completed and was a component of the Group Headquarters & Group Services segment. In the prior-year period, non-current assets and disposal groups held for sale had included in particular the reclassified stake in the EE joint venture.

Reversals of impairments of the carrying amounts of the non-current assets and disposal groups held for sale were not material.

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In accordance with IFRS 5, the following assets and disposal groups were no longer recognized at their carrying amounts, but at their fair value less costs of disposal as of December 31, 2015.

T 079

millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE</b>								
Deutsche Telekom AG real estate	-	-	105	105	-	-	75	75

Deutsche Telekom AG's real estate held for sale relates to sites no longer considered to be necessary for operations. The fair values are determined by means of external expert opinions. The fair value is measured on a regular basis using the earnings value method, taking into account local market estimates and specific characteristics of the property, including input parameters that cannot be observed in the market. The expected costs of disposal (currently usually around 10 percent of the fair value) are subtracted. Real estate held for sale is recognized in the statement of financial position at the lower of carrying amount and fair value less costs of disposal. The real estate was written down by EUR 0.1 billion to the fair value less costs of disposal. The expense was recognized under other operating expenses.

## 5 INTANGIBLE ASSETS

T 080

millions of €

	Internally generated intangible assets	Acquired intangible assets		
		Total	Acquired concessions, industrial and similar rights and assets	LTE licenses
<b>COST</b>				
<b>AT DECEMBER 31, 2013</b>	<b>4,118</b>	<b>50,471</b>	<b>1,006</b>	<b>2,450</b>
Currency translation	272	3,714	22	(19)
Changes in the composition of the Group	3	248	12	0
Additions	93	4,577	117	320
Disposals	551	1,249	43	1
Change from non-current assets and disposal groups held for sale	(1)	(856)	0	0
Reclassifications	851	1,919	24	918
<b>AT DECEMBER 31, 2014</b>	<b>4,785</b>	<b>58,824</b>	<b>1,138</b>	<b>3,668</b>
Currency translation	290	3,716	31	2
Changes in the composition of the Group	0	6	3	0
Additions	101	4,997	27	1,266
Disposals	504	1,710	42	0
Change from non-current assets and disposal groups held for sale	(12)	(1,012)	0	0
Reclassifications	756	1,318	20	165
<b>AT DECEMBER 31, 2015</b>	<b>5,416</b>	<b>66,139</b>	<b>1,177</b>	<b>5,101</b>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES</b>				
<b>AT DECEMBER 31, 2013</b>	<b>2,820</b>	<b>22,433</b>	<b>567</b>	<b>314</b>
Currency translation	206	965	1	(1)
Changes in the composition of the Group	0	(14)	0	0
Additions (amortization)	842	2,956	87	216
Additions (impairment)	3	11	0	0
Disposals	551	1,215	42	1
Change from non-current assets and disposal groups held for sale	(1)	(47)	0	0
Reclassifications	(226)	231	6	14
Reversal of impairment losses	0	(4)	0	0
<b>AT DECEMBER 31, 2014</b>	<b>3,093</b>	<b>25,316</b>	<b>619</b>	<b>542</b>
Currency translation	221	1,057	7	0
Changes in the composition of the Group	0	(7)	0	0
Additions (amortization)	938	3,110	113	251
Additions (impairment)	1	17	7	0
Disposals	494	1,698	39	0
Change from non-current assets and disposal groups held for sale	(4)	(211)	0	0
Reclassifications	(28)	29	10	(1)
Reversal of impairment losses	0	0	0	0
<b>AT DECEMBER 31, 2015</b>	<b>3,727</b>	<b>27,613</b>	<b>717</b>	<b>792</b>
<b>NET CARRYING AMOUNTS</b>				
At December 31, 2014	1,692	33,508	519	3,126
<b>AT DECEMBER 31, 2015</b>	<b>1,689</b>	<b>38,526</b>	<b>460</b>	<b>4,309</b>



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	Acquired intangible assets				Goodwill	Advance payments and intangible assets under development	Total
	UMTS licenses	GSM licenses	FCC licenses (T-Mobile US)	Other acquired intangible assets			
	<b>9,988</b>	<b>1,450</b>	<b>21,284</b>	<b>14,293</b>	<b>27,614</b>	<b>2,069</b>	<b>84,272</b>
	(10)	(14)	3,272	463	1,196	22	5,204
	0	0	0	236	0	3	254
	0	0	3,551	589	176	2,319	7,165
	0	52	0	1,153	0	20	1,820
	0	0	(854)	(2)	0	0	(857)
	(49)	(93)	0	1,119	0	(2,705)	65
	<b>9,929</b>	<b>1,291</b>	<b>27,253</b>	<b>15,545</b>	<b>28,986</b>	<b>1,688</b>	<b>94,283</b>
	4	4	3,115	560	1,340	40	5,386
	0	0	0	3	1	0	7
	0	556	2,642	506	0	2,406	7,504
	0	301	0	1,367	35	33	2,282
	0	0	(997)	(15)	(2)	(7)	(1,033)
	0	(2)	0	1,135	0	(2,057)	17
	<b>9,933</b>	<b>1,548</b>	<b>32,013</b>	<b>16,367</b>	<b>30,290</b>	<b>2,037</b>	<b>103,882</b>
	<b>5,758</b>	<b>909</b>	<b>5,210</b>	<b>9,675</b>	<b>13,052</b>	<b>0</b>	<b>38,305</b>
	(5)	(5)	696	279	1,206	0	2,377
	0	0	0	(14)	0	0	(14)
	597	76	0	1,980	0	0	3,798
	0	0	10	1	51	0	65
	0	52	0	1,120	0	0	1,766
	0	0	(44)	(3)	0	0	(48)
	(8)	(4)	0	223	0	0	5
	0	0	(4)	0	0	0	(4)
	<b>6,342</b>	<b>924</b>	<b>5,868</b>	<b>11,021</b>	<b>14,309</b>	<b>0</b>	<b>42,718</b>
	2	3	674	371	1,196	0	2,474
	0	0	0	(7)	0	0	(7)
	581	66	0	2,099	0	0	4,048
	0	0	0	10	43	0	61
	0	301	0	1,358	31	0	2,223
	0	0	(199)	(12)	0	0	(215)
	0	0	0	20	0	0	1
	0	0	0	0	0	0	0
	<b>6,925</b>	<b>692</b>	<b>6,343</b>	<b>12,144</b>	<b>15,517</b>	<b>0</b>	<b>46,857</b>
	3,587	367	21,385	4,524	14,677	1,688	51,565
	<b>3,008</b>	<b>856</b>	<b>25,670</b>	<b>4,223</b>	<b>14,773</b>	<b>2,037</b>	<b>57,025</b>

The increase in the net carrying amount of the LTE licenses by EUR 1.2 billion to EUR 4.3 billion is mainly attributable to licenses acquired in the frequency auction in Germany that ended in June 2015. T-Mobile US acquired and exchanged mobile licenses in the 2015 financial year. These transactions primarily comprise licenses acquired in the FCC auction that ended in January 2015.

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 1.1 billion (December 31, 2014: EUR 1.0 billion) as of the reporting date. The increase is mainly attributable to an obligation for T-Mobile US to buy mobile licenses.

In the 2015 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

**United States.** The increase of EUR 0.1 billion in goodwill compared with December 31, 2014 was the result of exchange rate effects.

**Europe.** The changes in goodwill mainly result from exchange rate effects.

**Disclosures on annual impairment tests.** Deutsche Telekom performed its annual impairment tests for the goodwill assigned to the cash-generating units as of December 31, 2015. A need for impairment of EUR 43 million on a pro rata basis was identified at the Hungary cash-generating unit as of December 31, 2015 on the basis of information available at the reporting date and expectations with respect to the future development of the market and competitive environment. The impairment of goodwill at the Hungary cash-generating unit was attributable in particular to intensified competition and a difficult overall market situation. The impairment test as of December 31, 2014 indicated a need for impairment at the cash-generating unit Digital Business Unit in the Group Headquarters & Group Services segment (EUR 29 million) and at the cash-generating unit Romania – Mobile communications (EUR 22 million on a pro rata basis) in the Europe operating segment.

The recoverable amounts to be identified for the impairment test were largely determined on the basis of the fair values less costs of disposal. With the exception of the United States cash-generating unit, these figures were calculated using the net present value method. The main parameters are shown in TABLE 081.

The recoverable amount (prior to the deduction of net debt) for Hungary was EUR 3,004 million. The value was calculated according to IFRS 13 using Level 3 input parameters (i. e., unobservable input parameters). The recoverable amounts (prior to the deduction of net debt) for Romania – Mobile communications and the Digital Business Unit as of December 31, 2014 were EUR 782 million and EUR 164 million respectively. Both values were calculated according to IFRS 13 using Level 3 input parameters (i. e., unobservable input parameters).

The recoverable amount at the Netherlands, Croatia, Montenegro, and F.Y.R.O. Macedonia cash-generating units was determined on the basis of the value in use, since, in these cases, it is higher than the fair value. In the case of the Netherlands, Montenegro, and F.Y.R.O. Macedonia units the value in use was used for the first time because this was higher for the first time or for reasons of simplicity, so as to not adjust the fair value by assumptions that are unobservable to the public. The market price of an active and liquid market (share price) of T-Mobile US was used to determine the fair value less costs of disposal in the case of the United States cash-generating unit. The measurements of all other cash-generating units are founded on projections for a ten-year projection period that are based on financial plans that have been approved by management and are also used for internal purposes. The planning horizon selected reflects the assumptions for short- to medium-term market developments and is selected to achieve a steady state in the business outlook that is necessary for calculating the perpetual annuity. This steady state can only be established based on this planning horizon, in particular due to the sometimes long investment cycles in the telecommunications industry and the investments planned and expected in the long run to acquire and extend the rights of spectrum use. Cash flows beyond the internal mid-term planning are extrapolated using appropriate growth rates defined separately for each cash-generating unit. These growth rates are based on real growth and inflation expected in the long term for the countries in which the respective unit operates. The key assumptions on which management has based its determination of the recoverable amount include the following assumptions that were primarily derived from internal sources and are based on past experience and extended to include internal expectations, and that are underscored by external market data and estimates: development of revenue, customer acquisition and retention costs, churn rates, capital expenditure, market share, and growth rates. Discount rates are determined on the basis of external figures derived from the market, taking account of the market and country risks associated with the cash-generating unit. Any significant future changes in the aforementioned assumptions would have an impact on the fair values of the cash-generating units. Any changes in the assumptions may have a negative impact, as a result of future macroeconomic trends, continued intense competition, further possible legislation changes (e. g., as part of national austerity programs), and regulatory intervention.

The following TABLES 081 and 082 provide an overview of the main factors affecting the measurement, the classification of the input parameters (levels) used to determine the recoverable amounts in accordance with IFRS 13, as well as the sensitivity calculations for the need for impairment resulting from a change in the main parameters discount rate, net cash flow, and growth rate. They show the most significant cash-generating units to which goodwill has been allocated.

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		Goodwill carrying amount millions of €	Impairment <sup>a</sup> millions of €	Detailed planning period years	Discount rates <sup>b</sup> %	Sustainable growth rate p. a. Ø in %	Level allocation of input parameters <sup>c</sup>
<b>GERMANY</b>	2015	3,978		10	5.34	0.0	Level 3
	2014	3,978		10	6.14	0.0	Level 3
<b>UNITED STATES</b>	2015	1,147		n.a.	n.a.	n.a.	Level 1
	2014	1,028		n.a.	n.a.	n.a.	Level 1
<b>EUROPE</b>							
Poland	2015	1,584		10	6.96	2.0	Level 3
	2014	1,578		10	7.54	2.0	Level 3
Netherlands	2015	1,312		10	5.51	0.25	Value in use
	2014	1,312		10	6.47	2.0	Level 3
Hungary	2015	949	43	10	7.88	2.0	Level 3
	2014	994		10	6.81	2.0	Level 3
Czech Republic	2015	739		10	5.58	2.0	Level 3
	2014	707		10	7.52	2.0	Level 3
Croatia	2015	494		10	7.13	2.0	Value in use
	2014	493		10	6.97	2.0	Value in use
Slovakia	2015	428		10	5.34	2.0	Level 3
	2014	428		10	6.88	2.0	Level 3
Greece – Mobile communications	2015	422		10	7.81	2.0	Level 3
	2014	422		10	9.50	2.0	Level 3
Austria	2015	324		10	5.66	2.0	Level 3
	2014	324		10	6.50	2.0	Level 3
Romania – Mobile communications	2015	121		10	8.47	2.0	Level 3
	2014	122	22	10	9.52	2.0	Level 3
International Carrier Sales & Solutions	2015	101		10	5.15	2.0	Level 3
	2014	102		10	5.68	2.0	Level 3
Other	2015	99		10	8.44–10.47	2.0	Levels 3 and value in use
	2014	98		10	8.85–9.71	2.0	Level 3
<b>SYSTEMS SOLUTIONS</b>	2015	3,075		10	6.49	1.5	Level 3
	2014	3,091		10	7.80	1.5	Level 3
	2015	<b>14,773</b>	<b>43</b>				
	2014	<b>14,677</b>	<b>51</b>				

<sup>a</sup> The total impairments in 2014 of EUR 51 million also included the need of impairment identified at the cash-generating unit Digital Business Unit.

<sup>b</sup> Discount rate consistently after taxes. The discount rate before taxes for the calculation of the value in use amounts to 7.35 percent for the Netherlands, 8.91 percent for Croatia, and 9.30 to 9.38 percent for Others.

<sup>c</sup> Level of input parameters in the case of fair value less costs of disposal.

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### Sensitivity analysis of the impairment losses

millions of €<sup>a</sup>

	Increase (decrease) in impairment losses in 2015					
	Decrease of discount rate by 50 basis points	Decrease of net cash flows by 5.0%	Decrease of sustainable growth rate by 50 basis points	Increase of discount rate by 50 basis points	Increase of net cash flows by 5.0%	Increase of sustainable growth rate by 50 basis points
<b>EUROPE</b>						
Netherlands		136 (11/100%/ 99.61%)	61 (11/0.25%/ 0.18%)	197 (11/5.51%/ 5.54%)		
Hungary	-43 (-73/7.88%/ 7.73%)	89 (-73/100%/ 102.44%)	69 (-73/2.00%/ 2.30%)	122 (-73/7.88%/ 7.73%)	-43 (-73/100%/ 102.44%)	-43 (-73/2.00%/ 2.30%)
Greece – Mobile communications				8 (169/7.81%/ 8.25%)		
Other <sup>b</sup>				1 (9/8.46%/ 8.84%)		
	<b>(43)</b>	<b>225</b>	<b>130</b>	<b>328</b>	<b>(43)</b>	<b>(43)</b>

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

<sup>b</sup> The impairment indicated in the sensitivity analysis relates to the Montenegro cash-generating unit.

The sensitivity analysis of impairment charges lists all those cash-generating units where the sensitivity analysis resulted in an impairment loss or a change in the impairment loss. The sensitivity analysis was performed separately for each parameter, i. e., a change in the impairment charge on a cash-generating unit was only determined by reducing or increasing the parameter under consideration.

## 6 PROPERTY, PLANT AND EQUIPMENT

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millions of €

	Land and equivalent rights, and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and construction in progress	Total
<b>COST</b>					
<b>AT DECEMBER 31, 2013</b>	<b>18,430</b>	<b>104,193</b>	<b>7,859</b>	<b>2,423</b>	<b>132,905</b>
Currency translation	176	1,997	167	123	2,463
Changes in the composition of the Group	84	324	95	19	522
Additions	153	2,895	475	4,393	7,916
Disposals	148	3,544	590	72	4,354
Change from non-current assets and disposal groups held for sale	(326)	(32)	(4)	(2)	(364)
Reclassifications	275	3,210	330	(3,880)	(65)
<b>AT DECEMBER 31, 2014</b>	<b>18,644</b>	<b>109,043</b>	<b>8,332</b>	<b>3,004</b>	<b>139,023</b>
Currency translation	220	2,247	176	151	2,794
Changes in the composition of the Group	(1)	(29)	(5)	(1)	(36)
Additions	164	5,945	503	5,251	11,863
Disposals	296	5,099	854	89	6,338
Change from non-current assets and disposal groups held for sale	(571)	(113)	(3)	(8)	(695)
Reclassifications	356	4,019	448	(4,840)	(17)
<b>AT DECEMBER 31, 2015</b>	<b>18,516</b>	<b>116,013</b>	<b>8,597</b>	<b>3,468</b>	<b>146,594</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>					
<b>AT DECEMBER 31, 2013</b>	<b>10,180</b>	<b>79,561</b>	<b>5,710</b>	<b>27</b>	<b>95,478</b>
Currency translation	135	1,220	124	1	1,480
Changes in the composition of the Group	0	102	(1)	0	101
Additions (depreciation)	683	5,265	685	0	6,633
Additions (impairment)	59	13	1	2	75
Disposals	90	3,435	518	1	4,044
Change from non-current assets and disposal groups held for sale	(254)	(33)	(3)	(2)	(292)
Reclassifications	(1)	(17)	13	0	(5)
Reversal of impairment losses	(18)	(1)	0	0	(19)
<b>AT DECEMBER 31, 2014</b>	<b>10,694</b>	<b>82,675</b>	<b>6,011</b>	<b>27</b>	<b>99,407</b>
Currency translation	152	1,341	126	0	1,619
Changes in the composition of the Group	(1)	(30)	(4)	0	(35)
Additions (depreciation)	723	5,713	714	0	7,150
Additions (impairment)	70	23	2	3	98
Disposals	201	4,825	797	1	5,824
Change from non-current assets and disposal groups held for sale	(385)	(60)	(2)	(3)	(450)
Reclassifications	37	(52)	13	1	(1)
Reversal of impairment losses	(7)	0	0	0	(7)
<b>AT DECEMBER 31, 2015</b>	<b>11,082</b>	<b>84,785</b>	<b>6,063</b>	<b>27</b>	<b>101,957</b>
<b>NET CARRYING AMOUNTS</b>					
At December 31, 2014	7,950	26,368	2,321	2,977	39,616
<b>AT DECEMBER 31, 2015</b>	<b>7,434</b>	<b>31,228</b>	<b>2,534</b>	<b>3,441</b>	<b>44,637</b>

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For further details on depreciation, amortization and impairment losses, please refer to Note 30 "Depreciation, amortization and impairment losses," PAGE 216.

The additions include EUR 2.3 billion in capitalized higher-priced mobile devices. These relate to the business model JUMP! On Demand introduced at T-Mobile US in June 2015 under which customers no longer purchase the device but lease it.

Restoration obligations of EUR 0.3 billion were recognized as of December 31, 2015 (December 31, 2014: EUR 0.2 billion). Of this figure, EUR 0.2 billion is attributable to the remeasurement of existing restoration obligations of T-Mobile US. New knowledge relating to the decommissioning of MetroPCS's CDMA mobile network prompted T-Mobile US to review the assumptions for the existing restoration obligations.

Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 1.9 billion (December 31, 2014: EUR 2.1 billion) as of the reporting date.

## 7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Significant investments in entities accounted for using the equity method are as follows:

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Name and registered office	Deutsche Telekom share		Percentage of voting rights		Assigned to segment	Fair value of the investment, if a listed market price is available	
	Dec. 31, 2015 %	Dec. 31, 2014 %	Dec. 31, 2015 %	Dec. 31, 2014 %		Dec. 31, 2015 millions of €	Dec. 31, 2014 millions of €
Hrvatske telekomunikacije d.d. Mostar, Mostar, Bosnia-Herzegovina <sup>a</sup>	39.10	39.10	39.10	39.10	Europe	44	38
Scout24 AG, Munich, Germany	13.37	28.24	13.37	28.24	Group Headquarters & Group Services	474	-
Ströer SE, Cologne, Germany	11.60	-	11.60	-	Group Headquarters & Group Services	361	-
T-Mobile USA Tower LLC, Wilmington, United States <sup>b</sup>	100.00	100.00	100.00	100.00	United States	-	-
T-Mobile West Tower LLC, Wilmington, United States <sup>b</sup>	100.00	100.00	100.00	100.00	United States	-	-
Toll Collect GmbH, Berlin, Germany	45.00	45.00	45.00	45.00	Systems Solutions	-	-

<sup>a</sup> Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00 percent).

<sup>b</sup> Indirect shareholding via T-Mobile US, Inc., United States (Deutsche Telekom AG's share: 65.41 percent).

All entities are accounted for in the consolidated financial statements using the equity method.

### Description of the nature of the activities of the joint arrangement or associate

Hrvatske telekomunikacije d. d. provides mobile and fixed-network communications services in Bosnia-Herzegovina.

Scout24 AG operates leading digital advertising platforms in Germany and other selected European countries. The core business under the Scout24 umbrella brand consists of the digital marketplaces ImmobilienScout24 and AutoScout24.

Ströer SE is a leading digital multi-channel media house that offers advertisers customized, fully integrated premium communications solutions.

T-Mobile USA Tower LLC and T-Mobile West Tower LLC are structured entities founded by T-Mobile US in each of which it holds a 100-percent stake for the purpose of contributing cell sites in accordance with a framework agreement signed in 2012 between T-Mobile US and Crown Castle International Corp., Houston, United States, concerning the leasing and use of the cell sites. The sole right to continue to use and lease out these sites was transferred to Crown Castle. T-Mobile US will continue to operate its mobile equipment on these cell towers and, to this end, lease back the required capacity from Crown Castle. Previously unused infrastructure is thus available for Crown Castle to lease to third parties. In return, the owners of the land on which the cell towers are built will no longer receive lease payments from T-Mobile US for those cell towers which were contributed to the two associates and those that were disposed of. Both entities were deconsolidated as of the date of the closing of the transaction in 2012, because Crown Castle independently operates the cell sites, generates revenues from the lease out of the sites for an average of 28 years and determines the finance and business activities of both entities that are relevant for consolidation purposes. It is expected that the leasing tower space allows Crown Castle to generate sufficient ongoing profits and cash flows to be able to meet its contractual obligations. Thus Deutsche Telekom

has only a significant influence and includes these companies in the consolidated financial statements as associates. Under certain conditions, T-Mobile US will continue to be held liable for any default in the lease payment by Crown Castle to the owners of the underlying land of the cell sites. The agreement includes a considerably low maximum guarantee amount for Deutsche Telekom, since in the unlikely event that this case occurs, T-Mobile US could take over the further use of the relevant cell sites or alternatively terminate the contracts with the owners of the cell site land at short notice. At closing T-Mobile US established an immaterial cash reserve in the entities sufficient to fund the payment of ongoing administrative expenses not payable by Crown Castle. Aside from the guarantee and the payment of administrative expenses there is no other funding obligation by T-Mobile US.

Toll Collect GmbH operates the highway toll system in Germany.

The following TABLES 085 and 086 provide summarized financial information on the main companies included in the consolidated financial statements and accounted for using the equity method. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

#### Summarized financial information on significant joint ventures accounted for using the equity method

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millions of €

	HT Mostar d.d.		Toll Collect GmbH	
	Dec. 31, 2015/2015	Dec. 31, 2014/2014	Dec. 31, 2015/2015	Dec. 31, 2014/2014
Current assets	40	41	528	557
Of which: cash and cash equivalents	3	1	63	76
Non-current assets	172	171	180	136
Current liabilities	34	34	745	805
Of which: financial liabilities	0	2	0	20
Non-current liabilities	5	6	91	2
Of which: financial liabilities	1	1	90	0
Net revenue	45	119	472	433
Interest income	0	0	5	5
Interest expense	0	0	(3)	(5)
Income taxes	0	0	(37)	(33)
Profit (loss)	1	5	(15)	(139)
Other comprehensive income	0	0	0	0
Total comprehensive income	1	5	(15)	(139)
Depreciation and amortization	(12)	(250)	(2)	(2)
Dividends paid to Deutsche Telekom	0	2	0	0

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

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millions of €

	Scout24 AG <sup>a, b</sup>		Ströer SE <sup>c</sup>		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	Dec. 31, 2015/2015	Dec. 31, 2014/2014	Dec. 31, 2015/2015	Dec. 31, 2014/2014	Dec. 31, 2015/2015	Dec. 31, 2014/2014	Dec. 31, 2015/2015	Dec. 31, 2014/2014
Current assets	123	63	178	-	0	0	0	0
Non-current assets	2,061	2,127	799	-	66	60	101	91
Current liabilities	108	94	276	-	0	0	0	0
Non-current liabilities	1,380	1,037	415	-	0	0	0	0
Net revenue	288	306	509	-	0	0	0	0
Profit (loss)	49	(39)	25	-	0	0	0	0
Other comprehensive income	1	2	(19)	-	0	0	0	0
Total comprehensive income	50	(37)	7	-	0	0	0	0
Dividends paid to Deutsche Telekom	124	0	-	-	0	38	0	79

<sup>a</sup> As financial data of Scout24 AG as of December 31, 2015 was not publicly available at the date of publication of Deutsche Telekom's Annual Report, the interim financial statements of Scout24 AG as of September 30, 2015 was used as a basis for the summarized financial information and for the reconciliation statement to the carrying amount reported in Deutsche Telekom's consolidated statement of financial position.

<sup>b</sup> In the 2015 financial year, the majority shareholders of Asa NewCo resolved to place the company on the capital market by means of an independent IPO. To this end, Asa NewCo was converted into a stock corporation (under German law). Since the entry in the commercial register on October 10, 2015, the company is now called Scout24 AG.

<sup>c</sup> As financial data of Ströer SE as of December 31, 2015 was not publicly available at the date of publication of Deutsche Telekom's Annual Report, the quarterly financial report of Ströer SE as of September 30, 2015 was used as a basis for the summarized financial information.

## Reconciliation to the carrying amount included in the consolidated statement of financial position

T 087

millions of €

	HT Mostar d.d.		Toll Collect GmbH	
	2015	2014	2015	2014
<b>NET ASSETS AS OF JANUARY 1</b>	<b>172</b>	<b>172</b>	<b>(114)</b>	<b>25</b>
Profit (loss)	1	5	(14)	(139)
Other comprehensive income	0	0	0	0
Dividends paid	0	(5)	0	0
Exchange rate effects	0	0	0	0
<b>NET ASSETS AS OF DECEMBER 31</b>	<b>173</b>	<b>172</b>	<b>(128)</b>	<b>(114)</b>
<b>SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31</b>	<b>68</b>	<b>66</b>	<b>(64)</b>	<b>(57)</b>
Adjustment of carrying amount	0	0	64	57
Other reconciliation effects	(15)	(15)	0	0
<b>CARRYING AMOUNT AS OF DECEMBER 31</b>	<b>53</b>	<b>51</b>	<b>0</b>	<b>0</b>

T 088

millions of €

	Scout24 AG		Ströer SE		T-Mobile USA Tower LLC		T-Mobile West Tower LLC	
	2015 <sup>a</sup>	2014	2015 <sup>b</sup>	2014	2015	2014	2015	2014
<b>NET ASSETS AS OF JANUARY 1</b>	<b>1,059</b>	<b>1,096</b>	<b>300</b>	-	<b>60</b>	<b>75</b>	<b>91</b>	<b>86</b>
Profit (loss)	49	(39)	25	-	0	0	0	0
Other comprehensive income	1	2	(19)	-	0	0	0	0
Dividends paid	(421)	0	(20)	-	0	(38)	0	(79)
Capital increase	8	0	-	-	0	13	0	73
Exchange rate effects	0	0	-	-	6	10	10	11
<b>NET ASSETS AS OF DECEMBER 31<sup>c</sup></b>	<b>696</b>	<b>1,059</b>	<b>286</b>	-	<b>66</b>	<b>60</b>	<b>101</b>	<b>91</b>
<b>SHARE OF NET ASSETS ATTRIBUTABLE TO DEUTSCHE TELEKOM AS OF DECEMBER 31<sup>c</sup></b>	<b>93</b>	<b>309</b>	<b>33</b>	-	<b>66</b>	<b>60</b>	<b>101</b>	<b>91</b>
Adjustment of carrying amount	0	0	0	-	0	0	0	0
Other reconciliation effects	31	0	298	-	0	0	0	0
<b>CARRYING AMOUNT AS OF DECEMBER 31</b>	<b>124</b>	<b>309</b>	<b>331</b>	-	<b>66</b>	<b>60</b>	<b>101</b>	<b>91</b>

<sup>a</sup> As financial data of Scout24 AG as of December 31, 2015 was not publicly available at the date of publication of Deutsche Telekom's Annual Report, the interim financial statements of Scout24 AG as of September 30, 2015 was used as a basis for the summarized financial information and for the reconciliation statement to the carrying amount reported in Deutsche Telekom's consolidated statement of financial position. The resulting effects for the extrapolation of the carrying amount as of December 31, 2015 were estimated and are included under other reconciliation effects.

<sup>b</sup> As financial data of Ströer SE as of December 31, 2015 was not publicly available at the date of publication of Deutsche Telekom's Annual Report, the quarterly financial report of Ströer SE as of September 30, 2015 was used as a basis for the summarized financial information and for the reconciliation statement to the carrying amount reported in Deutsche Telekom's consolidated statement of financial position. The resulting effects for the extrapolation of the carrying amount as of December 31, 2015 were estimated on the basis of the data available at the acquisition date on November 2, 2015 and are included under other reconciliation effects. Since the results of the purchase price allocation are not yet available, the goodwill included in the other reconciliation effects is provisional.

<sup>c</sup> The figures for net assets and the share of the net assets of Scout24 AG and Ströer SE relate to September 30, 2015.

Deutsche Telekom did not recognize losses in connection with investments accounted for using the equity method of EUR 64 million (2014: EUR 57 million) because it has no obligation to offset these losses.

Dividends paid by T-Mobile USA Tower LLC of EUR 38 million and by T-Mobile West Tower LLC of EUR 79 million to T-Mobile US in 2014 were based on contractual agreements from 2012. These dividend payments were directly related to the contribution of further T-Mobile US cell towers to both companies. The contribution was recorded as a capital increase.

#### Summarized aggregate financial information on non-significant investments accounted for using the equity method

The figures relate to the interests attributable to Deutsche Telekom.

T 089

millions of €

	Joint ventures		Associates	
	Dec. 31, 2015/ 2015	Dec. 31, 2014/ 2014	Dec. 31, 2015/ 2015	Dec. 31, 2014/ 2014
Total carrying amounts	5	14	142	92
Total interests				
Profit (loss)	(1)	(1)	(3)	(30)
Other comprehensive income	0	0	0	0
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(1)</b>	<b>(1)</b>	<b>(3)</b>	<b>(30)</b>

#### 8 OTHER FINANCIAL ASSETS

T 090

millions of €

	Dec. 31, 2015		Dec. 31, 2014	
	Total	Of which: current	Total	Of which: current
Originated loans and receivables	3,283	2,694	3,224	2,632
Available-for-sale financial assets	3,354	2,801	683	224
Derivative financial assets	2,686	306	1,343	117
Held-to-maturity investments	12	4	10	3
	<b>9,335</b>	<b>5,805</b>	<b>5,260</b>	<b>2,976</b>

With respect to the originated loans and receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Receivables of EUR 98 million (December 31, 2014: EUR 527 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.



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T 091

millions of €

Originated loans and receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					More than 360 days
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	
<b>As of Dec. 31, 2015</b>							
Due within one year	2,005	38	12	0	4	0	1
Due after more than one year	325	-	-	-	-	-	-
<b>As of Dec. 31, 2014</b>							
Due within one year	1,836	53	29	33	37	1	1
Due after more than one year	590	-	-	-	-	-	1

The available-for-sale financial assets include, among other assets, unquoted equity instruments whose fair values could not be reliably measured, and which were therefore recognized at cost in the amount of EUR 156 million as of December 31, 2015 (December 31, 2014: EUR 122 million). No plans existed as of the reporting date to sell these instruments.

## 9 OTHER ASSETS

Other assets mainly include deferred expenses of EUR 1.0 billion (December 31, 2014: EUR 1.1 billion).

## 10 FINANCIAL LIABILITIES

T 092

millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Total	Due within 1 year	Due >1 year ≤ 5 years	Due > 5 years	Total	Due within 1 year	Due >1 year ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities	47,766	7,583	14,410	25,773	44,219	5,425	13,890	24,904
Liabilities to banks	4,190	1,864	945	1,381	3,676	1,369	1,934	373
Of which: promissory notes	383	193	-	190	520	140	193	187
Of which: loans from the European Investment Bank	2,688	829	809	1,050	2,110	493	1,617	-
Of which: other loans	1,119	842	136	141	1,046	736	124	186
	51,956	9,447	15,355	27,154	47,895	6,794	15,824	25,277
Finance lease liabilities	1,927	311	878	738	1,461	180	570	711
Liabilities to non-banks from promissory notes	934	413	239	282	946	40	647	259
Liabilities with the right of creditors to priority repayment in the event of default	1,822	18	73	1,731	-	-	-	-
Other interest-bearing liabilities	3,009	2,399	465	145	1,775	1,196	392	187
Other non-interest-bearing liabilities	1,798	1,667	129	2	2,055	1,942	110	3
Derivative financial liabilities	934	184	413	337	1,095	406	442	247
	10,424	4,992	2,197	3,235	7,332	3,764	2,161	1,407
<b>FINANCIAL LIABILITIES</b>	<b>62,380</b>	<b>14,439</b>	<b>17,552</b>	<b>30,389</b>	<b>55,227</b>	<b>10,558</b>	<b>17,985</b>	<b>26,684</b>

Financial liabilities increased year-on-year by EUR 7.2 billion to a total of EUR 62.4 billion.

Deutsche Telekom has established ongoing liquidity management. To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, Deutsche Telekom maintains a liquidity reserve in the form of credit lines and cash. This liquidity reserve is to cover the capital market maturities of the next 24 months at any time.

In addition to the reported liabilities to banks, Deutsche Telekom had standardized bilateral credit agreements with 23 banks for a total of EUR 13.5 billion at December 31, 2015. As of December 31, 2015, EUR 0.2 billion of these credit lines had been utilized. Pursuant to the credit agreements, the terms and conditions depend on Deutsche Telekom's rating. The bilateral credit agreements have an original maturity of 36 months and can, after each period of twelve months, be extended by a further twelve months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. In November 2015, T-Mobile US issued bonds with a total volume of USD 2.0 billion. In addition, T-Mobile US took out a USD 2.0 billion syndicated loan (Term Loan B). These two transactions serve the purpose of prefinancing the spectrum auction

expected to begin in spring 2016. In December 2015, OTE issued a bond with a total volume of EUR 0.4 billion, and partial repayment of two bonds was made in the amount of EUR 0.3 billion prematurely.

The liabilities with the right of creditors to priority repayment in the event of default relate to liabilities issued by T-Mobile US with a nominal volume of USD 2.0 billion, a term running to 2022, and bearing variable-rate interest based on USD Libor. In the event of default by or insolvency of T-Mobile US, the creditors of these liabilities have first priority lien on certain assets of T-Mobile US. As of December 31, 2015, the entire carrying amount of these assets amounted to USD 67.0 billion (translated into euros: EUR 61.5 billion), including financial assets amounting to USD 12.9 billion (translated into euros: EUR 11.8 billion). As long as T-Mobile US neither defaults nor becomes insolvent, it shall not be subject to any restraints on disposal with regard to the assets underlying the lien. Due to the priority collateralization, these liabilities constitute a separate class of financial instruments.

TABLES 093 and 094 show Deutsche Telekom's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with positive and negative fair values:

T 093

millions of €

	Carrying amounts Dec. 31, 2015	Cash flows in 2016			Cash flows in 2017		
		Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>							
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(52,890)	(2,509)	(13)	(9,238)	(2,244)	(9)	(3,541)
Finance lease liabilities	(1,927)	(113)		(308)	(100)		(305)
Liabilities with the right of creditors to priority repayment in the event of default	(1,822)		(64)	(18)		(63)	(18)
Other interest-bearing liabilities	(3,009)	(17)		(2,399)	(17)		(321)
Other non-interest-bearing liabilities	(1,798)			(1,667)			(101)
<b>DERIVATIVE FINANCIAL LIABILITIES AND ASSETS</b>							
Derivative financial liabilities:							
Currency derivatives without a hedging relationship	(147)			(158)			
Currency derivatives in connection with cash flow hedges	(33)			(34)			
Currency derivatives in connection with net investment hedges	0						
Other derivatives without a hedging relationship <sup>a</sup>	(58)			(9)			(7)
Interest rate derivatives without a hedging relationship	(314)	(105)	(3)		(105)	(4)	(35)
Interest rate derivatives in connection with fair value hedges	(10)	5			5		(17)
Interest rate derivatives in connection with cash flow hedges	(74)	(37)			(37)		
Derivative financial assets:							
Currency derivatives without a hedging relationship	29			28			
Currency derivatives in connection with cash flow hedges	7			8			
Other derivatives without a hedging relationship	1						
Interest rate derivatives without a hedging relationship	1,106	21	54	185	18	41	177
Interest rate derivatives in connection with fair value hedges	290	237	(132)		221	(118)	
Interest rate derivatives in connection with cash flow hedges	863	79		78	80		
<b>FINANCIAL GUARANTEES AND LOAN COMMITMENTS<sup>b</sup></b>	(2)			(459)			(136)

<sup>a</sup> There will be no payment for a carrying amount of EUR 39 million, since this relates to a purchase option granted to a third party for shares in a subsidiary of Deutsche Telekom. Please also refer to Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ.

<sup>b</sup> For more detailed information, please refer to Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ. In each case, the maximum payment at the earliest possible date of utilization is shown.

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Cash flows in 2018–2020			Cash flows in 2021–2025			Cash flows in 2026 and thereafter		
Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
(5,594)	(13)	(11,432)	(5,240)	(3)	(17,281)	(3,342)		(9,397)
(220)		(575)	(220)		(418)	(94)		(319)
	(186)	(55)		(113)	(1,745)			
(51)		(146)	(54)		(76)	(18)		(69)
		(28)			(2)			
		(6)						
(26)	(17)	3	30	(32)	(48)	58	(40)	69
9	77	297	12	81	48		127	426
463	(203)		546	(191)		1,023	(443)	
235		66	336		183	223		460

T 094

millions of €

	Carrying amounts Dec. 31, 2014	Cash flows in				
		2015	2016	2017-2019	2020-2024	2025 and thereafter
<b>NON-DERIVATIVE FINANCIAL LIABILITIES</b>						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(48,841)	(8,418)	(6,971)	(15,114)	(22,495)	(12,492)
Finance lease liabilities	(1,461)	(285)	(272)	(602)	(638)	(389)
Other interest-bearing liabilities	(1,775)	(1,283)	(267)	(190)	(179)	(102)
Other non-interest-bearing liabilities	(2,055)	(1,942)	(107)	(3)	(2)	(1)
<b>DERIVATIVE FINANCIAL LIABILITIES AND ASSETS</b>						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(229)	(233)				
Currency derivatives in connection with cash flow hedges	(9)	(10)				
Currency derivatives in connection with net investment hedges	-					
Other derivatives without a hedging relationship	(15)	(6)	(4)	(6)		
Interest rate derivatives without a hedging relationship	(420)	(207)	(50)	(82)	0	(1)
Interest rate derivatives in connection with fair value hedges	(8)	4	4	(11)		
Interest rate derivatives in connection with cash flow hedges	(414)	(33)	(52)	(23)	148	247
Derivative financial assets:						
Currency derivatives without a hedging relationship	67	63				
Currency derivatives in connection with cash flow hedges	4	4				
Interest rate derivatives without a hedging relationship	584	70	83	262	25	272
Interest rate derivatives in connection with fair value hedges	222	102	100	248	349	654
Interest rate derivatives in connection with cash flow hedges	282	22	64	119	209	119
<b>FINANCIAL GUARANTEES AND LOAN COMMITMENTS<sup>a</sup></b>	(1)	(339)				

<sup>a</sup>For more detailed information, please refer to Note 37 "Financial instruments and risk management," PAGE 226 ET SEQ. In each case, the maximum payment at the earliest possible date of utilization is shown.

All instruments held at December 31, 2015 and for which payments were already contractually agreed were included. Planning data for future, new liabilities were not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before December 31, 2015. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period. In accordance with § 2 (4) of the German Act on the Transformation of the Deutsche Bundespost Enterprises into the Legal Structure of Stock Corporation (Stock Corporation Transformation Act – Postumwandlungsgesetz), the Federal Republic is guarantor of all Deutsche Telekom AG's liabilities that were already outstanding as at January 1, 1995. At December 31, 2015, this figure was a nominal EUR 2.1 billion (December 31, 2014: EUR 2.0 billion). The Mandatory Convertible Preferred Stock issued by T-Mobile us in December 2014 (nominal volume of USD 1.0 billion, interest rate of 5.5 percent, term until 2017) is not included in the table above since T-Mobile us has the contractually agreed right to pay all interest in the form of shares. The repayment in the form of shares is mandatory.

## 11 TRADE AND OTHER PAYABLES

T 095

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Trade payables	11,037	9,631
Other liabilities	53	50
	<b>11,090</b>	<b>9,681</b>

Of the total of trade and other payables, EUR 11,089 million (December 31, 2014: EUR 9,679 million) is due within one year. The increase in trade payables is due in particular to exchange rate effects and the higher procurement volume in connection with the new business model JUMP! On Demand introduced in the United States operating segment.

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## 12 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

### DEFINED BENEFIT PLANS

The Group's pension obligations are based on direct and indirect pension commitments mainly in Germany, Greece, and Switzerland. In addition, there are further obligations under Article 131 of the Basic Law (Grundgesetz – GG) in Germany.

Deutsche Telekom's pension obligations are as follows:

T 096

millions of €

	Dec. 31, 2015	Dec. 31, 2014
<b>DEFINED BENEFIT LIABILITY</b>	<b>8,028</b>	<b>8,465</b>
Defined benefit asset	(14)	(18)
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>8,014</b>	<b>8,447</b>
Of which: provisions for direct commitments	7,568	8,023
Of which: provisions for indirect commitments	445	423
Of which: provisions for obligations in accordance with Article 131 GG	1	1

Defined benefit liabilities are disclosed under non-current liabilities in the consolidated statement of financial position. The defined benefit asset is recognized under other non-current assets in the consolidated statement of financial position.

### Calculation of net defined benefit liabilities/assets:

T 097

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Present value of the obligations fully or partially funded by plan assets	7,749	7,854
Plan assets at fair value	(2,744)	(2,498)
<b>DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS</b>	<b>5,005</b>	<b>5,356</b>
Present value of the unfunded obligations	3,004	3,086
<b>DEFINED BENEFIT LIABILITY (ASSET) ACCORDING TO IAS 19.63</b>	<b>8,009</b>	<b>8,442</b>
Effect of asset ceiling (according to IAS 19.64)	5	5
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>8,014</b>	<b>8,447</b>

T 098

millions of €

	2015	2014
<b>NET DEFINED BENEFIT LIABILITY (ASSET) AS OF JANUARY 1</b>	<b>8,447</b>	<b>6,992</b>
Service cost	285	220
Net interest expense (income) on the net defined benefit liability (asset)	157	225
Remeasurement effects	(230)	1,581
Pension benefits paid directly by the employer	(355)	(298)
Employer contributions to plan assets	(276)	(266)
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	(19)	(8)
Administration costs actually incurred (paid from plan assets)	0	0
Exchange rate fluctuations for plans in foreign currency	5	1
<b>NET DEFINED BENEFIT LIABILITY (ASSET) AS OF DECEMBER 31</b>	<b>8,014</b>	<b>8,447</b>

Key assumptions for the measurement of the defined benefit obligations are the discount rate, the salary increase rate, the pension increase rate, and longevity.

TABLE 099 shows the assumptions on which the measurement of defined benefit obligations as of December 31 of the respective year are based. The assumptions made as of December 31 of the respective prior year are used to measure the expected pension expense (defined benefit cost) of a given financial year.

From 2014, the following figures for the plans in Switzerland relate to T-Systems Schweiz AG and T-Systems Data Migration Consulting AG (previously only T-Systems Schweiz AG).

### Assumptions for the measurement of defined benefit obligations as of December 31:

T 099

%

		2015	2014	2013
Discount rate	Germany	2.11	1.89	3.29
	Switzerland	0.83	1.14	2.34
	Greece (OTE S. A.)	2.13 <sup>a</sup> /1.39 <sup>b</sup>	1.83 <sup>a</sup> /1.09 <sup>b</sup>	3.25 <sup>a</sup> /2.53 <sup>b</sup>
Salary increase rate	Germany	2.50	2.50	2.75
	Switzerland	1.25	1.25	1.50
	Greece (OTE S. A.)	1.00 <sup>c</sup>	1.00 <sup>d</sup>	1.00 <sup>e</sup>
Pension increase rate	Germany (general)	1.50	1.50	1.50
	Germany (according to articles of association)	1.00	1.00	1.00
	Switzerland	0.10	0.30	0.30
	Greece (OTE S. A.)	n. a.	n. a.	n. a.

<sup>a</sup> The discount rate relates to the plans for staff retirement indemnities and for phone credits (see the plan description, PAGES 200 and 201).

<sup>b</sup> The discount rate relates to the plan for youth accounts (see the plan description, PAGES 200 and 201).

<sup>c</sup> The following assumptions were made in 2015 concerning the development of salaries in subsequent years: 2016: 0.00 percent, 2017: 0.00 percent, 2018: 5.50 percent. An increase of 1.00 percent is assumed for the years from 2019 onward.

<sup>d</sup> The following assumptions were made in 2014 concerning the development of salaries in subsequent years: 2015: -1.00 percent, 2016: 0.00 percent, 2017: 0.00 percent, 2018: 11.00 percent. An increase of 1.00 percent was assumed for the years from 2019 onward.

<sup>e</sup> The following assumptions were made in 2013 concerning the development of salaries in subsequent years: 2014: 0.97 percent, 2015: 9.69 percent, 2016: 0.00 percent. An increase of 1.00 percent was assumed for the years from 2017 onward.

T 100

Years

		Dec. 31, 2015	Dec. 31, 2014
Duration	Germany	13.9	14.5
	Switzerland	17.1 <sup>a</sup>	18.6
	Greece (OTE S. A.)	14.1 <sup>b</sup> /6.4 <sup>c</sup>	13.8 <sup>b</sup> /6.3 <sup>c</sup>

<sup>a</sup> Although the discount rate has declined since 2014, the duration of the Swiss obligations has decreased by approximately 1.5 years; this is attributable, among other things, to the assumption on capital drawdowns updated in 2015. The assumption for the measurement of the pension obligations thus follows the observed increase in the drawdown of capital instead of a pension (see the plan description, PAGES 200 and 201).

<sup>b</sup> The duration relates to the plans for staff retirement indemnities and for phone credits (see the plan description, PAGES 200 and 201).

<sup>c</sup> The duration relates to the plan for youth accounts (see the plan description, PAGES 200 and 201).

The following biometric assumptions were essential for the measurement of pension obligations: Germany: Heubeck 2005G, Switzerland: BVG 2010 Generational, Greece (OTE S. A.): EVK2000.

The aforementioned discount rates were used as of December 31, 2015 when calculating the present value of defined benefit obligations, taking into account future salary increases. These discount rates were set in line with the average weighted duration of the respective obligation.

In the eurozone, the discount rate is determined based on the yields of high-quality European corporate bonds with AA rating, mapped in a yield curve showing the corresponding spot rates. To also approximately align the determination of the discount rate in Switzerland to this system, the existing method was adjusted with effect from August 31, 2015. Instead of the swap yields used in the past (for bonds with AAA rating), Swiss government bonds (treasury bonds) now form the basis for deriving a yield curve. Since the yield curve derived from the treasury bonds comprises a credit risk that is too low for accounting purposes, a further adjustment is made in the form of a risk premium (credit spread) based on high-quality Swiss corporate bonds. This risk premium, which in the past had been fixed for all durations, was calculated separately for three time intervals and used as the basis for the final determination of the yield curve.

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### Development of defined benefit obligations in the reporting year:

T 101

millions of €

	2015	2014
<b>DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1</b>	<b>10,940</b>	<b>8,965</b>
Current service cost	287	228
Interest cost	207	290
Remeasurement effects	(312)	1,783
Of which: experience-based adjustments	3	(6)
Of which: adjusted financial assumptions	(310)	1,789
Of which: adjusted demographic assumptions	(5)	-
Total benefits actually paid	(386)	(328)
Contributions by plan participants	5	5
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	(19)	(8)
Past service cost (due to plan amendments)	(3)	(3)
Past service cost (due to curtailments)	(3)	(8)
Settlements	4	3
Taxes to be paid as part of pensions	-	-
Exchange rate fluctuations for plans in foreign currency	33	13
<b>DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31</b>	<b>10,753</b>	<b>10,940</b>
Of which: active plan participant	4,969	5,070
Of which: plan participants with vested pension rights who left the Group	1,939	1,980
Of which: benefit recipients	3,845	3,890

Taking the plan assets into consideration, the pension obligations were accounted for in full.

### Distribution of obligations relating to Deutsche Telekom's most significant plans as of December 31, 2015 and December 31, 2014:

T 102

millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Germany	Switzerland	Greece (OTE S. A.)	Other plans	Germany	Switzerland	Greece (OTE S. A.)	Other plans
Defined benefit obligations	9,901	256	254	342	10,082	227	292	339
Plan assets at fair value	(2,287)	(194)	-	(263)	(2,078)	(171)	-	(249)
Effect of asset ceiling	-	-	-	5	-	-	-	5
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>7,614</b>	<b>62</b>	<b>254</b>	<b>84</b>	<b>8,004</b>	<b>56</b>	<b>292</b>	<b>95</b>

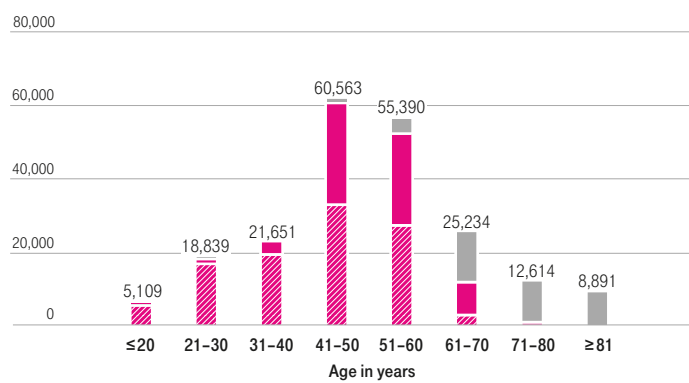
The following analyses in terms of age structure and sensitivity analysis, as well as descriptions of plans and the risks associated with them relate to the relevant pension obligations (Germany, Switzerland, and Greece (OTE S. A.)).

### Age structure:

Deutsche Telekom's most significant plans are subject to the following status-related age structure.

G 47

#### Age structure of plan participants in the most significant pension plans at Deutsche Telekom<sup>a</sup>



- Benefit recipients
- Plan participants with vested pension rights who left the Group
- ▨ Active plan participants

<sup>a</sup> Figures relating to Greece (OTE S. A.) include the staff retirement indemnities plan only.

### Sensitivity analysis for the defined benefit obligations:

The following sensitivity analysis describes the effects of possible adjustments in the material actuarial assumptions for measurement on the defined benefit obligations determined as of December 31, 2015. A change in the measurement assumptions to the extent described below, with otherwise unchanged assumptions, would have impacted the defined benefit obligations as of December 31, 2015 as follows:

T 103

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2015		
	Germany	Switzerland	Greece (OTE S. A.)
Increase of discount rate by 100 basis points	(1,163)	(30)	(27)
Decrease of discount rate by 100 basis points	1,427	36 <sup>a</sup>	32
Increase of salary increase rate by 50 basis points	7	4	16
Decrease of salary increase rate by 50 basis points	(6)	(4)	(14)
Increase of pension increase rate by 25 basis points	6	6	0
Decrease of pension increase rate by 25 basis points	(5)	(2) <sup>b</sup>	0
Life expectancy increase by 1 year	246	7	0
Life expectancy decrease by 1 year	(251)	(7)	(1)

<sup>a</sup> Determined on the basis of a negative discount rate for the pension plans in Switzerland.

<sup>b</sup> Downward limitation of the pension increase rate to zero for the pension plans in Switzerland.

T 104

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2014		
	Germany	Switzerland	Greece (OTE S. A.)
Increase of discount rate by 100 basis points	(1,239)	(29)	(30)
Decrease of discount rate by 100 basis points	1,530	37	36
Increase of salary increase rate by 50 basis points	7	4	18
Decrease of salary increase rate by 50 basis points	(6)	(4)	(15)
Increase of pension increase rate by 25 basis points	7	6	0
Decrease of pension increase rate by 25 basis points	(6)	(6)	0
Life expectancy increase by 1 year	262	6	1
Life expectancy decrease by 1 year	(271)	(7)	(1)

Separate sensitivity analyses were carried out for the discount rate, the salary increase rate, and the pension increase rate. For this purpose, further actuarial evaluations were made for both the increase and the decrease of the assumptions. The variations used in the assumptions were selected in such a way that the probability that the respective assumption will not move beyond the analysis range within one year is 60 to 90 percent. It can be assumed that the life expectancy of the plan members will not change significantly within a year. Nevertheless, the effect of a change in life expectancy on the obligations was additionally determined from a risk perspective. Evaluations were carried out based on the assumption that the life expectancy of the plan member aged 65 would increase or decrease by one year (age shift method). The age shift was applied to the remaining plan members accordingly. Variations in the assumed retirement age or turnover rates would only have an immaterial effect, especially in Germany.

### Global pension policy and description of the plans:

Deutsche Telekom manages its pension commitments based on the Group-wide Global Pension Policy. It ensures on a worldwide basis that Group minimum standards regarding the granting and management of company pension benefits are complied with, plans are harmonized, and other risks to the core business are avoided or reduced. In addition, the policy provides guidelines for the implementation and management of pension commitments and defines requirements for the launch, adjustment, and closure of corresponding plans. The regulations and provisions laid down in this Group policy take into account the national differences in state pension and other commitments under labor, tax, and social law and the common business practices in the area of pension commitments.

Defined benefit plans based on final salaries in the Group have largely been replaced by plans with contribution-based promises to minimize the risks involved. In addition, a corporate CTA (Deutsche Telekom Trust e. V.) was established in Germany in 2011 to allow for additional funding of pension obligations. A CTA is a legally structured trust agreement to cover unfunded pension commitments with plan assets, and to provide greater protection against insolvency for these obligations.



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

In **Germany** there are commitments for pension and disability benefits for a majority of employees as well as pension benefits for their surviving dependents. As part of a reorganization of the company pension plan, a capital account plan was introduced across Germany in 1997 for active employees. Furthermore, in subsequent years, commitments acquired through company acquisitions were also transferred to the capital account plan scheme. The capital account plan is an employer-financed, contribution-based benefit promise. The salary-linked contributions granted annually are charged interest in advance for each year of provision up to age 60, calculated using age-based factors, converting the contribution into a guaranteed insured amount. The advance interest rate currently stands at 3.75 percent p. a. (target interest rate for the capital account plan).

Deutsche Telekom reduced the granted interest on the future contributions in its capital account plan from 5 percent p. a. to the current level of 3.75 percent p. a. by changing the plan in the 2013 financial year. This change was not related to the application of IAS 19 (amended) in the 2013 financial year. The option of changing the target interest rate makes it possible to achieve a yield on the contributions to the capital account that is in line with the capital market. As market interest rates had fallen sharply, the return was no longer in line with the market.

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

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

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

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

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

As part of the company pension scheme in **Switzerland** for T-Systems Schweiz AG, there is a contribution-based benefit plan financed by employer and employee contributions, which is managed by the legally independent T-Systems pension fund. Following a restructuring of the Swiss companies and harmonization of the pension fund commitments as of January 1, 2014, T-Systems Data Migration Consulting AG has also since been included in the pension fund of T-Systems Schweiz AG. As is often the case in Switzerland, both companies grant higher benefits than legally required. The Swiss Federal Law on Occupational Retirement, Surviving Dependents' and Disability Pension (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge – BVG) sets out minimum requirements for the pay to be insured, the age-based contributions, and a minimum annuity factor for the obligatory portion of the accrued retirement assets to be annuitized. In addition, the Swiss Federal Council defines a minimum interest rate for the obligatory retirement assets (2015: 1.75 percent, 2016: 1.25 percent).

The foundation board (Stiftungsrat) presides over the Swiss pension fund. It ensures the day-to-day running of the pension fund and decides on fundamental aspects, such as the amount and the structure of the pension benefits and the investment strategy for the fund. The foundation board is equally comprised of employer and employee representatives. According to information provided by the pension fund, the average annual yield of the fund in the past amounted to approximately 1.75 percent.

Due to the minimum yield for the obligatory retirement assets, a risk exists for the plans in Switzerland that additional resources would have to be allocated to the pension fund if it were to be underfinanced. The pension fund offers the plan members the option to choose a life-long pension instead of a one-time payment. This option gives rise to longevity and investment risks, since at the time of retirement, assumptions must be made regarding life expectancy and return on assets.

In **Greece** (OTE S. A.), mandatory staff retirement indemnities are due in cases of premature termination by the employer and, to a lesser extent, upon retirement by the employee. These are paid out as a lump sum and can amount to several times the employee's last monthly pay (including cap), depending on the employee's length of service. Due to a change in the law in 2012, the lump sum is capped at a maximum of twelve monthly salaries. The company also makes a voluntary top-up payment. Payments in the scope made in the 2013 financial year as part of restructuring programs were not made in 2015.

OTE S. A. is also obliged to make a one-time payment for the employees' children when they reach the age of 25 (youth accounts). The benefit plan, which had previously been based on the level of the employee's final monthly salary, was changed in November 2011 to a plan with a contribution-based promise financed by contributions by the employee and corresponding limited matching contributions by the employer.

The benefits granted by the staff retirement indemnities and youth accounts plans are paid out as a lump sum. For this reason, there is no longevity risk. In addition, employees and retirees are also entitled to phone credits. OTE S. A.'s payment obligation therefore depends on the price of the telephone unit and the level of credit utilization by those entitled to them. The volume of the obligation (credit) is capped. Measured against the total amount of pension benefits paid by OTE S. A., the scope of these obligations is relatively small.

### Development of plan assets at fair value in the respective reporting year:

T 105

millions of €

	2015	2014
<b>PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1</b>	<b>2,498</b>	<b>1,973</b>
Changes attributable to business combinations/ transfers of operation/acquisitions and disposals	0	0
Interest income on plan assets (calculated using the discount rate)	50	65
Amount by which the actual return exceeds (falls short of) the interest income on plan assets (remeasurement)	(82)	207
Contributions by employer	276	266
Contributions by plan participants	5	5
Benefits actually paid from plan assets	(31)	(30)
Settlements	-	-
Administration costs	0	0
Tax payments	-	-
Exchange rate fluctuations for plans in foreign currency	28	12
<b>PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31</b>	<b>2,744</b>	<b>2,498</b>

Contributions by employer as of December 31, 2015 include a payment of EUR 250 million (December 31, 2014: EUR 250 million) to a corporate CTA in Germany. The contributions by employer are usually allocated at year-end. Due to the general capital market situation, the positive development of actual income observed in the prior year did not continue in 2015.

### Breakdown of plan assets at fair value by investment category:

T 106

millions of €

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

T 107

millions of €

	Dec. 31, 2014	Of which: price in an active market	Of which: price without an active market
Equity securities	521	521	0
Debt securities	1,688	1,688	0
Real estate	45	45	0
Derivatives	9	9	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	181	181	0
Other	54	12	42
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>2,498</b>	<b>2,456</b>	<b>42</b>

The investment policy and risk management is set in line with the risk and development characteristics of the pension obligations. On the basis of a systematic, integrated asset/liability management (ALM) analysis, potential results from different investment portfolios, which can cover a large number of asset classes, are compared with the stochastically simulated development of the pension obligations, thereby explicitly considering the relative development of plan assets against the pension obligations. The investment philosophy is mainly characterized by the objective of satisfying future obligations from granted pension commitments on time by systematically setting up and professionally managing a suitable portfolio for the plan assets. The investment strategy is derived from this with direct reference to the characteristics of the underlying pension obligations. This liability-driven investment (LDI) strategy aims to establish a widely diversified investment portfolio that generates a risk profile appropriate to the overall objective, by means of corresponding risk factors and diversification. The management of investments is subject to continuous monitoring to ensure active risk management. Cost-efficient investment management is effected by means of professional portfolio management involving external service providers.

At the reporting date, the plan assets at fair value include shares issued by Deutsche Telekom AG amounting to EUR 1,116 thousand (December 31, 2014: shares totaling EUR 736 thousand). No other own financial instruments were included in the years shown.

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**Development of the effect of the asset ceiling:**

T 108

millions of €

	2015	2014
<b>EFFECT OF ASSET CEILING AS OF JANUARY 1</b>	<b>5</b>	<b>0</b>
Interest expense on asset ceiling (recognized in the income statement)	0	0
Changes in asset ceiling ((gains) losses recognized in equity)	0	5
Currency gain (loss)	0	0
<b>EFFECT OF ASSET CEILING AS OF DECEMBER 31</b>	<b>5</b>	<b>5</b>

**The defined benefit cost for each period is composed of the following items and reported in the indicated accounts of the income statement:**

T 109

millions of €

	Disclosure in income statement	2015	2014	2013
Current service cost	Functional costs <sup>a</sup>	287	228	219
Past service cost (due to plan amendments)	Functional costs <sup>a</sup>	(3)	(3)	(64)
Past service cost (due to curtailments)	Functional costs <sup>a</sup>	(3)	(8)	(8)
Settlements	Functional costs <sup>a</sup>	4	3	13
<b>SERVICE COST</b>		<b>285</b>	<b>220</b>	<b>160</b>
Interest cost	Other financial income (expense)	207	290	282
Interest income on plan assets (calculated using the discount rate)	Other financial income (expense)	(50)	(65)	(54)
Interest expense on the effect of the asset ceiling	Other financial income (expense)	0	0	0
<b>NET INTEREST EXPENSE (INCOME) ON NET DEFINED BENEFIT LIABILITY (ASSET)</b>		<b>157</b>	<b>225</b>	<b>228</b>
<b>DEFINED BENEFIT COST</b>		<b>442</b>	<b>445</b>	<b>388</b>
Administration costs actually incurred (paid from plan assets)	General and administrative expenses	0	0	0
<b>TOTAL AMOUNTS RECOGNIZED IN PROFIT OR LOSS</b>		<b>442</b>	<b>445</b>	<b>388</b>

<sup>a</sup>Including other operating expenses.**The consolidated statement of comprehensive income contains the following amounts:**

T 110

millions of €

	2015	2014	2013
<b>REMEASUREMENT ((GAIN) LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN THE FINANCIAL YEAR)</b>	<b>(230)</b>	<b>1,581</b>	<b>(48)</b>
Of which: remeasurement due to a change in defined benefit obligations	(312)	1,783	(33)
Of which: remeasurement due to a change in plan assets	82	(207)	(13)
Of which: remeasurement due to changes in the effect of asset ceiling (according to IAS 19,64)	0	5	(2)

**Total benefit payments expected:**

T 111

millions of €

	2016	2017	2018	2019	2020
Benefits paid from pension provisions	318	374	354	399	433
Benefits paid from plan assets	31	31	33	35	37
<b>TOTAL BENEFITS EXPECTED</b>	<b>349</b>	<b>405</b>	<b>387</b>	<b>434</b>	<b>470</b>

Benefits paid directly by the employer for which the assets of the CTA can generally be utilized are usually reimbursed to the employer from the CTA assets soon after payment. Such reimbursements are currently not yet made as this would have a detrimental effect on the build-up of assets within the CTA in its first years.

In Germany, an amount of EUR 250 million will be allocated to the CTA in 2016 to increase the plan assets. EUR 265 million is expected to be allocated to plan assets for 2016 at Group level.

**Amounts for the current year and four preceding years of defined benefit obligations, plan assets, defined benefit obligations in excess of plan assets, and experience-based adjustments:**

T 112

millions of €

	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Defined benefit obligations	10,753	10,940	8,965	8,973	6,966
Plan assets at fair value	(2,744)	(2,498)	(1,973)	(1,680)	(860)
<b>DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS</b>	<b>8,009</b>	<b>8,442</b>	<b>6,992</b>	<b>7,293</b>	<b>6,106</b>

T 113

%

Adjustments	2015	2014	2013	2012	2011
Experience-based increase (decrease) of defined benefit obligations	0.0	(0.1)	0.3	(0.2)	(0.3)
Experience-based increase (decrease) of plan assets	(3.0)	8.3	0.7	2.6	(1.2)

#### DEFINED CONTRIBUTION PLANS

The employer's contribution paid to the statutory pension scheme (Deutsche Rentenversicherung) in Germany in the 2015 financial year totaled EUR 0.3 billion (2014: EUR 0.4 billion, 2013: EUR 0.4 billion). Group-wide, EUR 94 million (2014: EUR 88 million, 2013: EUR 103 million) from current contributions for additional defined contribution plans was recognized in the consolidated income statement in 2015.

#### CIVIL-SERVANT RETIREMENT ARRANGEMENTS AT DEUTSCHE TELEKOM

An expense of EUR 538 million was recognized in the 2015 financial year (2014: EUR 552 million, 2013: EUR 567 million) for the annual contribution to the Civil Service Pension Fund generally amounting to 33 percent of the pensionable gross emoluments of active civil servants and the notional pensionable gross emoluments of civil servants on leave of absence. The present value of future payment obligations was EUR 4.2 billion at the reporting date (December 31, 2014: EUR 5.1 billion, December 31, 2013: EUR 5.0 billion) and is shown under other financial obligations (please refer to Note 35 "Other financial obligations," PAGE 224).

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### 13 OTHER PROVISIONS

T 114

millions of €

	Provisions for termination benefits	Other provisions for personnel costs	Provisions for restoration obligations	Provisions for litigation risks	Provisions for sales and procurement support	Miscellaneous other provisions	Total
<b>AT DECEMBER 31, 2013</b>	<b>282</b>	<b>1,981</b>	<b>1,247</b>	<b>289</b>	<b>367</b>	<b>1,025</b>	<b>5,191</b>
Of which: current	279	1,434	46	281	367	713	3,120
Changes in the composition of the Group	0	4	0	0	0	4	8
Currency translation adjustments	0	43	37	3	14	26	123
Addition	60	1,881	140	239	430	695	3,445
Use	(152)	(1,677)	(49)	(91)	(347)	(247)	(2,563)
Reversal	(7)	(106)	(57)	(27)	(42)	(115)	(354)
Interest effect	0	49	60	0	0	11	120
Other changes	0	(63)	0	2	0	(19)	(80)
<b>AT DECEMBER 31, 2014</b>	<b>183</b>	<b>2,112</b>	<b>1,378</b>	<b>415</b>	<b>422</b>	<b>1,380</b>	<b>5,890</b>
Of which: current	181	1,467	175	408	422	864	3,517
Changes in the composition of the Group	0	1	0	0	0	0	1
Currency translation adjustments	0	43	35	2	15	47	142
Addition	70	1,884	365	93	384	902	3,698
Use	(62)	(1,728)	(186)	(122)	(344)	(639)	(3,081)
Reversal	(6)	(89)	(55)	(67)	(17)	(104)	(338)
Interest effect	0	97	8	0	0	0	105
Other changes	1	(57)	1	(7)	0	(10)	(72)
<b>AT DECEMBER 31, 2015</b>	<b>186</b>	<b>2,263</b>	<b>1,546</b>	<b>314</b>	<b>460</b>	<b>1,576</b>	<b>6,345</b>
Of which: current	183	1,452	66	307	460	899	3,367

In the measurement of the other provisions, Deutsche Telekom is exposed to interest rate fluctuations, which is why the effect of a possible change in the interest rate on the principal non-current provisions was simulated. The other, non-staff-related provisions are discounted using maturity-related discount rates specific for the respective currency area. To this end, Deutsche Telekom determines discount rates with maturities of up to 30 years. In 2015, the discount rates ranged from 0.01 to 4.00 percent (2014: from 0.50 to 2.50 percent) in the euro currency area, and from 1.86 to 5.92 percent (2014: from 2.00 to 3.50 percent) in the U.S. dollar currency area. If the discount rate were increased by 50 basis points with no other change in the assumptions, the present value of the principal other non-current provisions would decrease by EUR 96.9 million (December 31, 2014: EUR 90.1 million). If the discount rate were decreased by 50 basis points with no other change in the assumptions, the present value of the principal other non-current provisions would increase by EUR 103.1 million (December 31, 2014: EUR 100.2 million).

Provisions for termination benefits and other personnel provisions include provisions for staff restructuring. These provisions developed as follows in the financial year:

T 115

millions of €

	Jan. 1, 2015	Addition	Use	Reversal	Other changes	Dec. 31, 2015
Severance and voluntary redundancy models	183	70	(62)	(6)	1	186
Partial retirement	176	359	(249)	-	(1)	285
	<b>359</b>	<b>429</b>	<b>(311)</b>	<b>(6)</b>	<b>0</b>	<b>471</b>
Of which: current	272					286

Other provisions for personnel costs include a variety of individual issues such as provisions for deferred compensation and allowances, as well as for anniversary gifts. The expenses are allocated to functional costs or to other operating expenses based on actual cost generation.

Provisions for restoration obligations include the estimated costs for dismantling and removing an asset, and restoring the site on which it is located. The estimated costs are included in the costs of the relevant asset. EUR 0.2 billion of the additions is attributable to the remeasurement of existing restoration obligations of T-Mobile US. New knowledge relating to the decommissioning of MetroPCS's CDMA mobile network prompted T-Mobile US to review the assumptions for the existing restoration obligations.

The provisions for litigation risks primarily relate to possible settlements attributable to pending lawsuits.

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

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

## 14 OTHER LIABILITIES

T 116

millions of €

	Dec. 31, 2015	Of which: current	Dec. 31, 2014	Of which: current
Early retirement	1,451	512	1,669	566
Deferred revenue	2,493	1,868	1,512	1,286
Liabilities from straight-line leases	2,132	–	1,801	–
Liabilities from other taxes	1,055	1,055	1,173	1,167
Other deferred revenue	554	329	969	490
Liabilities from severance payments	193	190	144	135
Miscellaneous other liabilities	643	497	769	516
	<b>8,521</b>	<b>4,451</b>	<b>8,037</b>	<b>4,160</b>

The legal basis for early retirement is the Act for the Improvement of the Staff Structure at the Residual Special Asset of the Federal Railways (Bundeseseisenbahnvermögen) and the Successor Companies of the Former Deutsche Bundespost. For civil servants employed at Deutsche Telekom, the law provides the opportunity under certain conditions to retire early from the age of 55. When the German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse) came into effect, the provisions for early retirement for civil servants were extended until December 31, 2016. The Board of Management resolved to make use of these provisions for the years 2014 and 2015.

## 15 SHAREHOLDERS' EQUITY

### ISSUED CAPITAL

As of December 31, 2015, the share capital of Deutsche Telekom totaled EUR 11,793 million. The share capital is divided into 4,606,651,870 no par value registered shares.

T 117

	2015		2014	
	thousands	%	thousands	%
Federal Republic of Germany – Berlin, Germany	660,480	14.3	646,575	14.3
KfW Bankengruppe – Frankfurt/Main, Germany	803,937	17.5	791,176	17.4
Free float	3,142,235	68.2	3,097,820	68.3
Of which: BlackRock, New York, NY, United States <sup>a</sup>	234,799		226,636	
	<b>4,606,652</b>	<b>100.0</b>	<b>4,535,571</b>	<b>100.0</b>

<sup>a</sup>The investment in Deutsche Telekom totaled 5.097 percent as of December 8, 2015. According to the last notification from BlackRock dated December 11, 2015, the reporting threshold of 5 percent of the voting rights was thus exceeded.

**Treasury shares.** The shareholders' meeting resolved on May 24, 2012 to authorize the Board of Management to purchase shares in the Company by May 23, 2017, with the amount of share capital accounted for by these shares totaling up to EUR 1,106,257,715.20, provided the shares to be purchased on the basis of this authorization in conjunction with the other shares of the Company that the Company has already purchased and still possesses or are to be assigned to it under § 71d and § 71e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is

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reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 24, 2012 under item 7 on the agenda. The shares may also be used for purposes involving an exclusion of subscription rights. They may also be sold on the stock market or by way of an offer to all shareholders, or withdrawn. The shares may also be used to fulfill the rights of Board of Management members to receive shares in Deutsche Telekom AG, which the Supervisory Board has granted to these members as part of the arrangements governing the compensation of the Board of Management, on the basis of a decision by the Supervisory Board to this effect.

Under the resolution of the shareholders' meeting on May 24, 2012, the Board of Management is also authorized to acquire the shares through the use of equity derivatives.

On the basis of the above authorization by the shareholders' meeting on May 24, 2012 and a corresponding authorization by the shareholders' meeting on May 12, 2011, 110 thousand shares were acquired in June 2011, 206 thousand shares in September 2011, and 268 thousand shares in January 2013. The total volumes amounted to EUR 2,762 thousand in the 2011 financial year, and EUR 2,394 thousand in the 2013 financial year (excluding transaction costs). This increased the number of treasury shares by 316 thousand and 268 thousand, respectively.

In the 2015 financial year, Deutsche Telekom made use of the authorization by the shareholders' meeting on May 24, 2012. The Board of Management decided on September 29, 2015 to acquire a total of 950 thousand shares. On September 30, 2015 and October 1, 2015, shares were acquired in accordance with the authorization for a total acquisition price of EUR 14,787 thousand (excluding transaction costs) with an average purchase price of EUR 15.57 per share. The treasury shares resulting from the share buy-back accounted for EUR 2,432 thousand of share capital as at December 31, 2015. Retained earnings thus decreased by EUR 12,355 thousand.

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

Furthermore, a total of 140 thousand shares were reallocated in January, May and June 2015 and transferred free of charge to the custody accounts of eligible participants of the Share Matching Plan. The disposal of treasury shares resulting from the transfers accounted for EUR 358 thousand of share capital as at December 31, 2015. Retained earnings thus increased by EUR 877 thousand.

In November 2015, Deutsche Telekom sold 1,882 thousand treasury shares from its portfolio. The selling price was EUR 31,274 thousand (excluding transaction costs). The portion of the proceeds that exceeded the notional value of the shares, amounting to EUR 26,457 thousand, was allocated to the capital reserves. The resulting gain on disposal was reported under cash and cash equivalents. The disposal of treasury shares resulting from the sale accounted for EUR 4,817 thousand of share capital as at December 31, 2015.

As part of the acquisition of VoiceStream Wireless Corp., Bellevue, and Powertel, Inc., Bellevue, in 2001 Deutsche Telekom issued new shares from authorized capital to a trustee, for the benefit of holders of warrants, options, and conversion rights, among others. These options or conversion rights fully expired in the 2013 financial year. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the deposit. The 18,517 thousand deposited shares are accounted for in the same way as treasury shares in accordance with both § 272 (1a) HGB and IFRS. The trust relationship was terminated at the start of 2016 and the deposited shares were transferred to a custody account of Deutsche Telekom AG.

**Voting rights. Each share entitles the holder to one vote.** These voting rights are restricted, however, in relation to treasury shares and shares allocable to Deutsche Telekom in the same way as treasury shares (at December 31, 2015: around 20 million in total). The "trust" shares, as they are known, (at December 31, 2015: around 19 million) relate to the acquisition of VoiceStream and Powertel (now T-Mobile US) in 2001 and are allocable to Deutsche Telekom at December 31, 2015 in the same way as treasury shares. As regards the shares issued to trusts, the trustee waived voting rights and subscription rights and, in general, dividend rights for the duration of the trusts' existence. The trusts were dissolved at the beginning of 2016 and the trust assets transferred to a custody account of Deutsche Telekom AG.

**Authorized capital and contingent capital.** Authorized capital and contingent capital comprised the following components as of December 31, 2015:

T 118

	Amount millions of €	No par value shares thousands	Purpose
2013 Authorized capital <sup>a</sup>	1,778	694,523	Capital increase against cash contribution/contribution in kind (until May 15, 2018)
2014 Contingent capital	1,100	429,688	Servicing convertible bonds and/or bonds with warrants issued on or before May 14, 2019

<sup>a</sup>The Supervisory Board's approval is required.

**Capital increase in connection with the dividend in kind.** The resolution on the dividend payout of EUR 0.50 per share for the 2014 financial year gave shareholders the choice between payment in cash or having their dividend entitlement converted into Deutsche Telekom AG shares. Dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.1 billion for shares from authorized capital (2013 authorized capital) were contributed in June 2015 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.2 billion against contribution of dividend entitlements for this purpose in June 2015. This increased capital reserves by EUR 0.9 billion. The number of shares increased by 71.1 million. The transaction costs were not material.

## TRANSACTIONS WITH OWNERS

The amounts shown under transactions with owners primarily result from the acquisition of the remaining shares in Slovak Telekom in 2015. TABLE 119 shows the most significant effects included in Deutsche Telekom's consolidated statement of changes in equity (see PAGES 158 and 159) as of December 31, 2015 and December 31, 2014, respectively.

T 119

millions of €

	2015			2014		
	Issued capital and reserves attributable to owners of the parent	Non-controlling interests	Total shareholders' equity	Issued capital and reserves attributable to owners of the parent	Non-controlling interests	Total shareholders' equity
<b>Changes in the composition of the Group</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>
Other effects	0	0	0	0	1	1
<b>Transactions with owners</b>	<b>(233)</b>	<b>(619)</b>	<b>(852)</b>	<b>(506)</b>	<b>(324)</b>	<b>(830)</b>
Acquisition of the remaining shares in Slovak Telekom	(128)	(772)	(900)	-	-	-
Acquisition of the remaining shares in T-Mobile Czech Republic	-	-	-	(455)	(373)	(828)
Other effects	(105)	153	48	(51)	49	(2)

For further information, please refer to the section "Changes in the composition of the Group, transactions with owners, and other transactions," PAGE 175 ET SEQ.

## NON-CONTROLLING INTERESTS: TOTAL OTHER COMPREHENSIVE INCOME

Total other comprehensive income of non-controlling interests primarily comprises remeasurement effects as part of the acquisition of the OTE group (business combination achieved in stages) totaling EUR 0.7 billion (December 31, 2014: EUR 0.8 billion) and currency translation effects of EUR 0.1 billion (December 31, 2014: EUR 0.2 billion).

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

For detailed information on special factors, please refer to the combined management report in the section "Development of business in the Group," PAGE 73 ET SEQ.

### 16 NET REVENUE

Net revenue breaks down into the following revenue categories:

T 120

millions of €

	2015	2014 <sup>a</sup>	2013 <sup>a</sup>
Revenue from the rendering of services	59,033	53,523	53,212
Revenue from the sale of goods and merchandise	9,460	8,726	6,630
Revenue from the use of entity assets by others	735	409	290
	<b>69,228</b>	<b>62,658</b>	<b>60,132</b>

<sup>a</sup> A detailed allocation system that allows the items to be classified more precisely led to a change in the allocation of total revenues to the individual revenue elements as compared with previous years. Prior-year figures have been adjusted accordingly.

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report, PAGE 73 ET SEQ.

### 17 COST OF SALES

Cost of sales incurred in connection with fixed-network and mobile communications relate to all costs arising from the operation and maintenance of the telecommunications network. They include depreciation and amortization of network-related assets, personnel costs for employees assigned to the operation and maintenance of the network, other repair costs, rent and incidental costs for network sites, as well as interconnection and roaming costs. Costs for the purchase of terminal equipment are also shown under this item.

Cost of sales attributable to the Systems Solutions operating segment primarily relate to software development and maintenance, the operation of computing centers and workstations, as well as the construction and operation of customer networks. They include in particular depreciation of technical equipment, personnel costs for information technology, telecommunications development and support services, and costs for upstream services as well as material.



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## T 121

millions of €

	2015	2014	2013
Cost of sales from fixed-network and mobile communications	35,903	32,904	30,287
Cost of sales from the Systems Solutions operating segment	5,283	5,045	5,251
Other cost of sales	789	590	717
	<b>41,975</b>	<b>38,539</b>	<b>36,255</b>

Cost of sales increased by EUR 3.4 billion year-on-year, primarily as a result of exchange rate effects totaling EUR 2.6 billion from the translation of U.S. dollars to euros. Higher expenditure with regard to equipment sales at T-Mobile US and in the Germany operating segment also increased the cost of sales.

## 18 SELLING EXPENSES

Selling expenses comprise all costs of activities that do not directly increase the value of the Group's products and services, but serve to secure sales. In addition to sales-related material and personnel costs, and depreciation and amortization, these include any sales-specific costs such as allowances for write-downs of customer receivables, receivables written off, freight out, and transport insurance.

## T 122

millions of €

	2015	2014	2013
Costs of operational sales	10,268	9,527	9,309
Marketing costs	2,579	2,465	2,386
Costs of order management	884	234	268
Costs of accounts receivable management	945	737	794
Other selling expenses	1,372	935	1,040
	<b>16,048</b>	<b>13,898</b>	<b>13,797</b>

Selling expenses were EUR 2.2 billion higher than in the prior year. This was mainly attributable to costs incurred at T-Mobile US as a result of increased business with new customers. Exchange rate effects totaling EUR 1.2 billion from the translation of U.S. dollars to euros also increased this item.

## 19 GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprise all expenses attributable to the core administrative functions that cannot be allocated directly to the production or selling process. As such, general and administrative expenses include all expenses incurred in conjunction with the activities of administrative functions at units such as Finance, Human Resources, Group Strategy and Organization, Internal Audit as well as Data Privacy, Legal Affairs and Compliance. These generally comprise costs for goods and services purchased, personnel costs, depreciation and amortization, as well as other costs that can be specifically allocated to the functional areas, such as expenses for shareholders' meetings.

## T 123

millions of €

	2015	2014	2013
General and administrative expenses incurred by the operating segments	3,961	3,319	3,103
General and administrative expenses incurred by the Group Headquarters & Group Services segment	1,423	1,402	1,415
	<b>5,384</b>	<b>4,721</b>	<b>4,518</b>

General and administrative expenses were EUR 0.7 billion higher than in the prior year. Higher expenditure in connection with staff increases in the United States operating segment impacted on general and administrative expenses in 2015. Exchange rate effects totaling EUR 0.2 billion from the translation of U.S. dollars to euros also increased this item.

## 20 OTHER OPERATING INCOME

## T 124

millions of €

	2015	2014	2013
Income from reimbursements	272	451	452
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	14	24	20
Income from the disposal of non-current assets	290	567	113
Income from insurance compensation	66	79	79
Income from divestitures and from the sale of stakes accounted for using the equity method	585	1,716	184
Miscellaneous other operating income	781	394	478
	<b>2,008</b>	<b>3,231</b>	<b>1,326</b>

Other operating income decreased by EUR 1.2 billion year-on-year. The EUR 0.3 billion decrease in income from the disposal of non-current assets mainly resulted from a spectrum transaction between T-Mobile US and Verizon Communications consummated in the previous year which had generated income of around EUR 0.4 billion in 2014. Another transaction completed with Verizon Communications on the exchange of mobile spectrum licenses resulted in income of EUR 0.1 billion in 2015. Income from divestitures and from the sale of stakes accounted for using the equity method decreased year-on-year by EUR 1.1 billion. The income from divestitures in the previous year had resulted from the completed sale of 70 percent of the shares in the Scout24 group totaling EUR 1.7 billion. The portion of income attributable to the recognition of the shares remaining at Deutsche Telekom in the previous year at their fair value at the date when control of the Scout24 group was lost amounted to EUR 0.5 billion. In connection with the IPO of Scout24 AG on October 1, 2015, Deutsche Telekom sold a total of 13.3 million shares in the company. Income from the sale of this stake, which was included in the consolidated financial statements using the equity method, amounted to around EUR 0.3 billion. The sale of the online platform t-online.de and the digital content marketing company InteractiveMedia in November 2015 generated income of EUR 0.3 billion from divestitures. Miscellaneous other operating income includes income of EUR 175 million resulting from an agreement to settle an ongoing complaints procedure under anti-trust law. A large number of smaller items are also included in miscellaneous other operating income.

## 21 OTHER OPERATING EXPENSES

T 125

millions of €

	2015	2014	2013
Impairment losses from the year-end impairment test	43	51	600
Other impairment losses	119	92	238
	<b>162</b>	<b>143</b>	<b>838</b>
Losses on the disposal of non-current assets	179	138	251
Losses from divestitures	1	41	53
Miscellaneous other operating expenses	459	1,162	816
	<b>639</b>	<b>1,341</b>	<b>1,120</b>
	<b>801</b>	<b>1,484</b>	<b>1,958</b>

Other operating expenses decreased year-on-year by EUR 0.7 billion. Miscellaneous other operating expenses include a large number of individual items accounting for marginal amounts.

Other operating expenses in 2015 included expense of EUR 0.3 billion (2014: EUR 0.2 billion, 2013: EUR 0.5 billion) from impairment losses recognized on intangible assets (excluding goodwill) and property, plant and equipment, as well as from the disposal of non-current assets. These expenses would predominantly have been allocable to the cost of sales.

## 22 FINANCE COSTS

T 126

millions of €

	2015	2014	2013
Interest income	246	325	228
Interest expense	(2,609)	(2,665)	(2,390)
	<b>(2,363)</b>	<b>(2,340)</b>	<b>(2,162)</b>
Of which: from financial instruments relating to categories in accordance with IAS 39			
Loans and receivables (LaR)	34	16	20
Held-to-maturity investments (HtM)	-	-	-
Available-for-sale financial assets (AFS)	7	6	9
Financial liabilities measured at amortized cost (FLAC) <sup>a</sup>	(2,288)	(2,290)	(2,160)

<sup>a</sup> Interest expense calculated according to the effective interest method and adjusted for accrued interest from derivatives recognized in the reporting period that were used as hedging instruments against interest rate-based changes in the fair values of financial liabilities measured at amortized cost in the reporting period for hedge accounting in accordance with IAS 39 (2015: interest income of EUR 182 million and interest expense of EUR 89 million, 2014: interest income of EUR 263 million and interest expense of EUR 107 million, 2013: interest income of EUR 119 million and interest expense of EUR 31 million).

EUR 217 million (2014: EUR 95 million, 2013: EUR 51 million) was capitalized as part of acquisition costs in the financial year. The amount was calculated on the basis of an interest rate in the average range between 4.7 percent at the start of the year and 3.5 percent at the end of the year (2014: between 4.6 and 4.7 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 3.7 billion (2014: EUR 3.5 billion, 2013: EUR 3.0 billion) were made in the financial year.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

## 23 SHARE OF PROFIT/LOSS OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

T 127

millions of €

	2015	2014	2013
Share of profit (loss) of joint ventures	(1)	(152)	(38)
Share of profit (loss) of associates	25	(46)	(33)
	<b>24</b>	<b>(198)</b>	<b>(71)</b>

The share of profit/loss of associates and joint ventures accounted for using the equity method improved by EUR 0.2 billion compared with the prior year due in particular to the share of loss of the EE joint venture of EUR -137 million recognized in the prior year (2013: EUR -44 million). It was included in the share of profit/loss of joint ventures.

## 24 OTHER FINANCIAL INCOME/EXPENSE

T 128

millions of €

	2015	2014	2013
Income from investments	436	1	1
Gains (losses) from financial instruments	(75)	(14)	(278)
Interest component from measurement of provisions and liabilities	(272)	(346)	(292)
	<b>89</b>	<b>(359)</b>	<b>(569)</b>

All income/expense components including interest income and expense from financial instruments classified as held for trading in accordance with IAS 39 are reported under other financial income/expense.

Income from investments includes the dividend payments of EUR 0.4 billion received from the EE joint venture. The dividend payments recognized in profit or loss related to the reclassification of the stake held in the joint venture to non-current assets and disposal groups held for sale.

Gains/losses from financial instruments comprise currency translation effects including gains/losses from derivatives used as hedges in hedge accounting in foreign currency of EUR -295 million (2014: EUR -387 million, 2013: EUR 174 million) and gains/losses from other derivatives as well as measurements of equity investments of EUR 220 million (2014: EUR 373 million, 2013: EUR -452 million).

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## 25 INCOME TAXES

### INCOME TAXES IN THE CONSOLIDATED INCOME STATEMENT

In the 2015 financial year, a tax expense of EUR 1.3 billion was recorded. The comparatively low tax ratio is primarily a consequence of tax refunds for prior years in Germany, Europe, and the United States. The tax ratio is also reduced by the gain from the sale of shares in two German shareholdings which was not taxable. The proceeds from the sale are subject to low taxation. The tax expense in the prior year had totaled EUR 1.1 billion. This lower tax expense primarily resulted from lower profit/loss before income tax.

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

T 129

millions of €

	2015	2014	2013
<b>CURRENT TAXES</b>	<b>249</b>	<b>599</b>	<b>487</b>
Germany	(16)	234	56
International	265	365	431
<b>DEFERRED TAXES</b>	<b>1,027</b>	<b>507</b>	<b>437</b>
Germany	831	587	(41)
International	196	(80)	478
	<b>1,276</b>	<b>1,106</b>	<b>924</b>

Deutsche Telekom's combined income tax rate for 2015 amounts to 31.1 percent. It consists of corporate income tax at a rate of 15 percent, the solidarity surcharge of 5.5 percent on corporate income tax, and trade tax at an average multiplier of 436 percent (2014: 425 percent, 2013: 425 percent). The combined income tax rate for 2014 and 2013 amounted to 30.7 percent.

**Reconciliation of the effective tax rate.** Income taxes of EUR –1,276 million (as expense) in the reporting year, 2014: EUR –1,106 million (as expense), 2013: EUR –924 million (as expense) are derived as follows from the expected income tax expense/benefit that would have arisen had the statutory income tax rate of the parent company (combined income tax rate) been applied to profit/loss before income taxes:

T 130

millions of €

	2015	2014	2013
<b>PROFIT BEFORE INCOME TAXES</b>	<b>4,778</b>	<b>4,350</b>	<b>2,128</b>
Expected income tax expense (benefit) (income tax rate applicable to Deutsche Telekom AG: 2015: 31.1 %, 2014: 30.7 %, 2013: 30.7 %)	1,486	1,335	653
<b>ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)</b>			
Effect of changes in statutory tax rates	(3)	1	48
Tax effects from prior years	(112)	(78)	(61)
Tax effects from other income taxes	70	68	51
Non-taxable income	(154)	(456)	(36)
Tax effects from equity investments	(191)	(43)	20
Non-deductible expenses	98	85	120
Permanent differences	(27)	88	(89)
Goodwill impairment losses	(12)	3	166
Tax effects from loss carryforwards	34	57	136
Tax effects from additions to and reductions of local taxes	65	81	66
Adjustment of taxes to different foreign tax rates	24	(37)	(152)
Other tax effects	(2)	2	2
<b>INCOME TAX EXPENSE (BENEFIT) ACCORDING TO THE CONSOLIDATED INCOME STATEMENT</b>	<b>1,276</b>	<b>1,106</b>	<b>924</b>
Effective income tax rate %	27	25	43

### Current income taxes in the consolidated income statement

TABLE 131 provides a breakdown of current income taxes:

T 131

millions of €

	2015	2014	2013
<b>CURRENT INCOME TAXES</b>	<b>249</b>	<b>599</b>	<b>487</b>
Of which: Current tax expense	347	598	559
Prior-period tax expense	(98)	1	(72)

### Deferred taxes in the consolidated income statement

Deferred taxes developed as follows:

T 132

millions of €

	2015	2014	2013
<b>DEFERRED TAX EXPENSE (BENEFIT)</b>	<b>1,027</b>	<b>507</b>	<b>437</b>
Of which: From temporary differences	154	(252)	391
From loss carryforwards	917	780	34
From tax credits	(44)	(21)	12

## INCOME TAXES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### Current income taxes in the consolidated statement of financial position:

T 133

millions of €	Dec. 31, 2015	Dec. 31, 2014
Recoverable taxes	129	84
Tax liabilities	(197)	(276)
Current taxes recognized in other comprehensive income:		
Hedging instruments	(190)	54

### Deferred taxes in the consolidated statement of financial position:

T 134

millions of €	Dec. 31, 2015	Dec. 31, 2014
Deferred tax assets	5,248	5,169
Deferred tax liabilities	(9,205)	(7,712)
	<b>(3,957)</b>	<b>(2,543)</b>
Of which: recognized in other comprehensive income:		
Gain (loss) from the remeasurement of defined benefit plans	1,095	1,150
Revaluation surplus	-	1
Hedging instruments	(43)	(161)
<b>RECOGNIZED IN OTHER COMPREHENSIVE INCOME BEFORE NON-CONTROLLING INTERESTS</b>	<b>1,052</b>	<b>990</b>
Non-controlling interests	(11)	(6)
	<b>1,041</b>	<b>984</b>

### Development of deferred taxes:

T 135

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Deferred taxes recognized in the statement of financial position	(3,957)	(2,543)
Difference to prior year	(1,414)	(587)
Of which: Recognized in income statement	(1,027)	(507)
Recognized in other comprehensive income	62	480
Recognized in capital reserves	86	6
Acquisitions (disposals) (including assets and disposal groups held for sale)	(6)	(40)
Currency translation adjustments	(529)	(526)

### Development of deferred taxes on loss carryforwards:

T 136

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Deferred taxes on loss carryforwards before allowances	2,933	3,288
Difference to prior year	(355)	(498)
Of which: Recognition (derecognition)	(612)	(786)
Acquisitions (disposals) (including assets and disposal groups held for sale)	1	17
Currency translation adjustments	256	271

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

T 137

millions of €

	Dec. 31, 2015		Dec. 31, 2014	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
<b>CURRENT ASSETS</b>	<b>1,255</b>	<b>(369)</b>	<b>1,529</b>	<b>(270)</b>
Trade and other receivables	550	(129)	551	-
Inventories	185	(14)	130	-
Other assets	520	(226)	848	(270)
<b>NON-CURRENT ASSETS</b>	<b>3,459</b>	<b>(13,458)</b>	<b>2,828</b>	<b>(12,347)</b>
Intangible assets	632	(8,054)	807	(7,213)
Property, plant and equipment	1,053	(3,452)	787	(3,620)
Other financial assets	1,774	(1,952)	1,234	(1,514)
<b>CURRENT LIABILITIES</b>	<b>1,247</b>	<b>(677)</b>	<b>711</b>	<b>(847)</b>
Financial liabilities	372	(366)	306	(670)
Trade and other payables	58	(90)	48	(4)
Other provisions	278	(55)	120	(35)
Other liabilities	539	(166)	237	(138)
<b>NON-CURRENT LIABILITIES</b>	<b>5,870</b>	<b>(3,112)</b>	<b>5,159</b>	<b>(1,303)</b>
Financial liabilities	2,346	(1,714)	2,816	(126)
Provisions for pensions and other employee benefits	1,499	(1,154)	1,531	(1,044)
Other provisions	825	(186)	606	(118)
Other liabilities	1,200	(58)	206	(15)
<b>TAX CREDITS</b>	<b>367</b>	<b>-</b>	<b>296</b>	<b>-</b>
<b>LOSS CARRYFORWARDS</b>	<b>2,933</b>	<b>-</b>	<b>3,288</b>	<b>-</b>
<b>INTEREST CARRYFORWARDS</b>	<b>244</b>	<b>-</b>	<b>55</b>	<b>-</b>
<b>TOTAL</b>	<b>15,375</b>	<b>(17,616)</b>	<b>13,866</b>	<b>(14,767)</b>
Of which: non-current	11,708	(16,866)	11,599	(14,027)
Allowance	(1,716)	-	(1,642)	-
Netting	(8,411)	8,411	(7,055)	7,055
<b>RECOGNITION</b>	<b>5,248</b>	<b>(9,205)</b>	<b>5,169</b>	<b>(7,712)</b>

The allowances relate primarily to loss carryforwards.

### The loss carryforwards amount to:

T 138

millions of €

	Dec. 31, 2015	Dec. 31, 2014
<b>LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES</b>	<b>6,839</b>	<b>8,208</b>
Expiry within		
1 year	44	22
2 years	114	77
3 years	47	108
4 years	246	269
5 years	108	125
After 5 years	3,604	4,277
Unlimited carryforward period	2,676	3,330

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

T 139

millions of €

	Dec. 31, 2015	Dec. 31, 2014
<b>LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES</b>	<b>2,505</b>	<b>2,420</b>
Expiry within		
1 year	24	22
2 years	114	77
3 years	45	108
4 years	25	44
5 years	41	55
After 5 years	152	209
Unlimited carryforward period	2,104	1,905
<b>TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX</b>	<b>423</b>	<b>424</b>

for trade tax purposes in the amount of EUR 9 million (December 31, 2014: EUR 8 million). Furthermore, apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 858 million (December 31, 2014: EUR 796 million) were recognized for other foreign income tax loss carryforwards and, apart from temporary differences for trade tax purposes, no deferred taxes in the amount of EUR 30 million (December 31, 2014: EUR 50 million) were recognized for other foreign income taxes.

No deferred tax assets were recognized on the aforementioned tax loss carryforwards and temporary differences as it is not probable that taxable profit will be available in the foreseeable future against which these tax loss carryforwards can be utilized.

A positive tax effect in the amount of EUR 16 million (2014: EUR 17 million, 2013: EUR 14 million) attributable to the utilization of tax loss carryforwards on which deferred tax assets had not yet been recognized, was recorded in the reporting year.

No deferred tax liabilities were recognized on temporary differences in connection with equity interests in subsidiaries amounting to EUR 228 million (December 31, 2014: EUR 175 million) as it is unlikely that these differences will be reversed in the near future.

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 107 million (December 31, 2014: EUR 100 million) and on temporary differences

**Disclosure of tax effects relating to each component of other comprehensive income:**

T 140

millions of €

	2015			2014			2013		
	Before tax amount	Tax (expense) benefits	Net of tax amount	Before tax amount	Tax (expense) benefits	Net of tax amount	Before tax amount	Tax (expense) benefits	Net of tax amount
<b>Items not reclassified to the income statement retrospectively</b>									
Gain (loss) from the remeasurement of defined benefit plans	230	(60)	170	(1,581)	477	(1,104)	48	(16)	32
Share of profit (loss) of investments accounted for using the equity method	0	0	0	(29)	0	(29)	(17)	0	(17)
	<b>230</b>	<b>(60)</b>	<b>170</b>	<b>(1,610)</b>	<b>477</b>	<b>(1,133)</b>	<b>31</b>	<b>(16)</b>	<b>15</b>
<b>Items reclassified to the income statement retrospectively, if certain reasons are given</b>									
Exchange differences on translating foreign operations									
Recognition of other comprehensive income in income statement	4	(1)	3	(4)	0	(4)	0	0	0
Change in other comprehensive income (not recognized in income statement)	2,000	0	2,000	1,849	0	1,849	(901)	0	(901)
Available-for-sale financial assets									
Recognition of other comprehensive income in income statement	0	0	0	(1)	0	(1)	0	0	0
Change in other comprehensive income (not recognized in income statement)	31	0	31	41	1	42	(4)	1	(3)
Gains (losses) from hedging instruments									
Recognition of other comprehensive income in income statement	(255)	79	(176)	(267)	82	(185)	178	(55)	123
Change in other comprehensive income (not recognized in income statement)	653	(205)	448	265	(80)	185	(162)	49	(113)
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	0	0
Change in other comprehensive income (not recognized in income statement)	25	0	25	0	0	0	(37)	0	(37)
	<b>2,458</b>	<b>(127)</b>	<b>2,331</b>	<b>1,883</b>	<b>3</b>	<b>1,886</b>	<b>(926)</b>	<b>(5)</b>	<b>(931)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>2,688</b>	<b>(187)</b>	<b>2,501</b>	<b>273</b>	<b>480</b>	<b>753</b>	<b>(895)</b>	<b>(21)</b>	<b>(916)</b>
Profit (loss)			3,502			3,244			1,204
<b>TOTAL COMPREHENSIVE INCOME</b>			<b>6,003</b>			<b>3,997</b>			<b>288</b>

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## 26 PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

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millions of €

	2015	2014	2013
T-Mobile US	186	115	18
Hrvatski Telekom	69	65	79
Hellenic Telecommunications Organization (OTE)	(63)	48	24
Magyar Telekom	50	47	43
Slovak Telekom	6	36	25
T-Mobile Czech Republic	0	11	91
Other	0	(2)	(6)
	<b>248</b>	<b>320</b>	<b>274</b>

## 27 EARNINGS PER SHARE

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

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	2015	2014	2013
Profit attributable to the owners of the parent (net profit (loss))	3,254	2,924	930
Adjustment	-	-	-
<b>ADJUSTED BASIC/DILUTED NET PROFIT (LOSS)</b>	<b>3,254</b>	<b>2,924</b>	<b>930</b>
Number of ordinary shares issued	4,574	4,497	4,391
Treasury shares	(21)	(21)	(5)
Shares reserved for outstanding options	-	-	(16)
<b>ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC/DILUTED)</b>	<b>4,553</b>	<b>4,476</b>	<b>4,370</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b>	<b>€ 0.71</b>	<b>0.65</b>	<b>0.21</b>

The calculation of basic earnings per share is based on the time-weighted number of all ordinary shares outstanding. Furthermore, the weighted average number of ordinary shares outstanding is determined by deducting the weighted average number of treasury shares held by Deutsche Telekom AG. As part of the issue of new shares in the course of the acquisition of T-Mobile USA (VoiceStream/Powertel), the options and conversion rights existing in previous years were held in a trust depot for later issue and subsequent trading as registered shares and fully expired in the 2013 financial year. They have since been accounted for as treasury shares and were still included pro rata temporis in the average portfolio for the 2013 financial year. There are currently no diluting shares.

## 28 DIVIDEND PER SHARE

For the 2015 financial year, the Board of Management proposes a dividend of EUR 0.55 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 2,523 million would be appropriated to the no par value shares carrying dividend rights as of February 9, 2016. The final amount of the total dividend payment depends on the number of no par value shares carrying dividend rights as of the date of the resolution on the appropriation of net income as adopted on the day of the shareholders' meeting.

A dividend of EUR 0.50 for the 2014 financial year for each no par value share carrying dividend rights was paid out in 2015. The shareholders had the choice between payment in cash or, alternatively, the conversion of their dividend entitlement into Deutsche Telekom AG shares (dividend in kind). In June 2015, dividend entitlements of EUR 1.1 billion were thus substituted by shares from authorized capital and thus did not have an effect on cash flows (see Note 15 "Shareholders' equity," PAGE 206 ET SEQ.).

## 29 AVERAGE NUMBER OF EMPLOYEES AND PERSONNEL COSTS

### Average number of employees

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	2015	2014	2013
<b>GROUP (TOTAL)</b>	<b>226,332</b>	<b>228,248</b>	<b>229,704</b>
Domestic	113,277	116,067	117,995
International	113,055	112,181	111,709
Non-civil servants	207,153	207,855	208,422
Civil servants (domestic, active service relationship)	19,179	20,393	21,282
Trainees and students on cooperative degree courses	7,942	8,098	8,145
<b>PERSONNEL COSTS</b> (millions of €)	<b>15,856</b>	<b>14,683</b>	<b>15,144</b>

The average headcount decreased by 0.8 percent compared with the prior year. This trend is largely attributable to a lower domestic headcount, which was down by 2.4 percent. Intensified staff restructuring measures in the Systems Solutions operating segment in connection with the realignment of the business model, and in the Group Headquarters & Group Services segment contributed to this trend. In the Germany operating segment, by contrast, the headcount increased for the build-out of the network.

The average international headcount grew by 0.8 percent, due in particular to the higher staff levels in the United States operating segment as a result of the enhanced customer base. By contrast, the average headcount in the Europe operating segment declined as a consequence of efficiency enhancement measures in some countries.

Personnel costs increased by 8.0 percent year-on-year, almost half of which was attributable to exchange rate effects – primarily from the translation of U.S. dollars to euros. Higher restructuring expenses also increased personnel costs, as did the increase in the average salaries of employees. Here, the lower average headcount as described above had an offsetting effect.

### 30 DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

Depreciation, amortization and impairment losses included in the functional costs and in other operating expenses break down as follows:

T 144

millions of €	2015	2014	2013
<b>AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS</b>	<b>4,109</b>	<b>3,863</b>	<b>4,176</b>
Of which: Goodwill impairment losses	43	51	605
Amortization of mobile licenses	898	889	854
Impairment losses on mobile licenses	-	10	104
<b>DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT</b>	<b>7,251</b>	<b>6,711</b>	<b>6,728</b>
Of which: Impairment losses recognized on property, plant and equipment	101	78	117
	<b>11,360</b>	<b>10,574</b>	<b>10,904</b>

Impairment losses break down as follows:

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millions of €	2015	2014	2013
<b>INTANGIBLE ASSETS</b>	<b>61</b>	<b>65</b>	<b>721</b>
Of which: Goodwill from the year-end impairment test	43	51	600
FCC licenses	-	10	104
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>101</b>	<b>78</b>	<b>117</b>
Of which: From the year-end impairment test	-	-	-
	<b>162</b>	<b>143</b>	<b>838</b>

Depreciation, amortization and impairment losses increased by EUR 0.8 billion year-on-year. This development was mainly attributable to the increase in depreciation and amortization recorded in the United States operating segment primarily as a result of the build-out of 4G/LTE and the launch of the JUMP! On Demand business model, under which customers no longer purchase the device but lease it. The reduction in useful lives with regard to the decommissioning of the CDMA mobile network of MetroPCS taken over in 2013 also increased depreciation and amortization by EUR 0.1 billion.

In the reporting year, impairment losses of EUR 43 million were recognized on goodwill following scheduled impairment testing at the cash-generating units. For further details, please refer to Note 5 "Intangible assets," PAGE 184 ET SEQ.

Impairment losses on property, plant and equipment related mainly to land and buildings.

### OTHER DISCLOSURES

#### 31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS NET CASH FROM OPERATING ACTIVITIES

Net cash from operating activities increased by EUR 1.6 billion year-on-year to EUR 15.0 billion mainly as a result of the positive business development of the United States operating segment. During the reporting period, factoring agreements were concluded concerning monthly revolving sales of trade receivables. Factoring agreements resulted in positive effects of EUR 0.8 billion on net cash from operating activities in the 2015 financial year. This mainly comprises the renewed conclusion in 2015 of a factoring agreement in the Germany operating segment that was terminated in 2014 and a new factoring agreement concluded in the United States operating segment. The effect from factoring agreements in the prior year totaled EUR 0.2 billion. Cash inflows of EUR 0.2 billion resulted from an agreement to settle an ongoing complaints procedure under anti-trust law. Offsetting effects included payments made in 2015 in connection with the European Commission proceedings against Slovak Telekom and Deutsche Telekom. The dividend payment received for the first time from the Scout24 group of EUR 0.1 billion and a year-on-year increase of EUR 0.1 billion in the dividend payments from the EE joint venture increased net cash from operating activities.

Deutsche Telekom's working capital measures are focused on improvements in the area of liabilities as well as in the management of receivables and inventories. However, they are not used for active liquidity management. The negative effect on the change in assets carried as working capital can be attributed to the acquisition of mobile devices in connection with the JUMP! On Demand business model introduced by T-Mobile US in June 2015. The cash inflows from the factoring agreements and reduced trade receivables in the United States operating segment had a positive effect. Under the new business model, trade receivables no longer include the receivable from the sale of the device when a contract is concluded with a customer, but rather only the monthly lease installment for the device. For further explanations on individual assets carried as working capital, please refer to Note 2 "Trade and other receivables," PAGE 181, and Note 3 "Inventories," PAGE 182. The increase in other liabilities carried as working capital is attributable to the increase in trade payables, which is due in particular to the higher procurement volume in connection with the new business model introduced in the United States operating segment. Financing options selected in the reporting year under which the payments for trade payables become due at a later point in time by involving banks in the process also had a positive effect on other liabilities carried as working capital. For further explanations, please refer to Note 11 "Trade and other payables," PAGE 196.



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**Net cash used in investing activities**

millions of €

	2015	2014	2013
Cash capex			
Germany operating segment	(5,609)	(3,807)	(3,411)
United States operating segment	(6,381)	(5,072)	(3,279)
Europe operating segment	(1,652)	(2,101)	(3,661)
Systems Solutions operating segment	(1,169)	(1,171)	(1,066)
Group Headquarters & Group Services	(342)	(381)	(411)
Reconciliation	540	688	760
	<b>(14,613)</b>	<b>(11,844)</b>	<b>(11,068)</b>
Net cash flows for collateral deposited for hedging transactions	1,785	606	(776)
Cash inflows from the sale of the shares in Scout24 AG	390	-	-
Proceeds from the disposal of property, plant and equipment	363	265	245
Net change in cash and cash equivalents due to the first-time inclusion of MetroPCS	-	-	1,641
Acquisition of the GTS Central Europe group	-	(539)	-
Cash flows from the loss of control of subsidiaries and associates <sup>a</sup>	(58)	1,540	650
Allocation under Contractual Trust Agreement (CTA) on pension commitments	(250)	(250)	(250)
Acquisition/sale of government bonds, net	(2,759)	11	(159)
Other	127	(550)	(179)
	<b>(15,015)</b>	<b>(10,761)</b>	<b>(9,896)</b>

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

Cash capex increased by EUR 2.8 billion to EUR 14.6 billion. In the reporting period, mobile licenses were acquired for a total of EUR 3.8 billion, primarily in the United States and Germany operating segments. In the prior-year period, the United States and Europe operating segments had acquired mobile licenses for EUR 2.3 billion. In addition, cash capex increased primarily in the United States operating segment in connection with the network modernization, including 4G/LTE network roll-out, and in the Germany operating segment due to the investments made as part of the integrated network strategy in the vectoring/fiber-optic cable build-out, in the IP transformation, and in the LTE infrastructure.

Interest payments (including capitalized interest) of EUR 3.7 billion (2014: EUR 3.5 billion, 2013: EUR 3.0 billion) were made in the 2015 financial year. Capitalized interest was reported within cash capex in net cash used in investing activities, together with the associated assets.

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**Net cash used in/from financing activities**

millions of €

	2015	2014	2013
Repayment of bonds	(4,056)	(4,677)	(4,748)
Dividends (including to non-controlling interests)	(1,256)	(1,290)	(2,243)
Repayment of financial liabilities from financed capex and opex	(846)	(760)	-
Repayment of EIB loans	(412)	-	(32)
Net cash flows for collateral deposited for hedging transactions	(254)	170	(537)
Repayment of lease liabilities	(224)	(164)	(172)
Repayment of financial liabilities for media broadcasting rights	(192)	(40)	-
Cash deposits from the EE joint venture, net	(16)	3	(195)
Deutsche Telekom AG share buy-back	(15)	-	(2)
OTE credit line, net	-	(45)	(704)
Repayment of financial liabilities to Sireo	-	-	(534)
Cash flows from continuing involvement factoring (net)	30	31	-
Sale of Deutsche Telekom AG treasury shares	31	-	-
Loans taken out with the EIB	1,199	400	-
Promissory notes, net	1,655	(1,293)	(309)
Issuance of bonds	2,208	3,816	9,051
Commercial paper, net	2,645	1,561	-
Cash inflows from transactions with non-controlling entities			
T-Mobile US capital increase	-	-	1,313
T-Mobile US stock options	43	17	102
Cash inflows from the assignment of OTE stock options	-	26	-
	<b>43</b>	<b>43</b>	<b>1,415</b>
Cash outflows from transactions with non-controlling entities			
Acquisition of the remaining shares in Slovak Telekom	(900)	-	-
Acquisition of the remaining shares in T-Mobile Czech Republic	-	(828)	-
T-Mobile US share buy-back	(141)	(53)	-
OTE share buy-back	-	(69)	-
	<b>(1,041)</b>	<b>(950)</b>	<b>-</b>
Other	(375)	(239)	32
	<b>(876)</b>	<b>(3,434)</b>	<b>1,022</b>

**NON-CASH TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS**

In June 2015, dividend entitlements of Deutsche Telekom AG shareholders in the amount of EUR 1.1 billion did not have an effect on net cash used in/from financing activities when fulfilled; rather, they were substituted by shares from authorized capital (see Note 15 "Shareholders' equity," PAGE 206 ET SEQ.). The dividend entitlements of Deutsche Telekom AG shareholders having an effect on cash flows totaled EUR 1.2 billion. In the previous year, dividend entitlements of Deutsche Telekom AG shareholders amounting to EUR 1.0 billion did not have an impact on cash flows, while dividend entitlements of EUR 1.2 billion did have an effect on cash flows.

In the 2015 financial year, Deutsche Telekom chose financing options totaling EUR 0.7 billion (2014: EUR 0.6 billion) under which the payments for trade payables

from operating and investing activities become due at a later point in time by involving banks in the process. These payables are now shown under financial liabilities in the statement of financial position. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In the 2015 financial year, Deutsche Telekom primarily leased network equipment for a total of EUR 0.6 billion, which is recognized as a finance lease. This lease is now also shown under financial liabilities in the statement of financial position. Future repayments of the liabilities will be recognized in net cash from/used in financing activities.

Consideration for the acquisition of broadcasting rights will be paid by Deutsche Telekom in accordance with the terms of the contract on its conclusion or spread over the term of the contract. Financial liabilities of EUR 0.2 billion (2014: EUR 0.2 billion) were recognized in the 2015 financial year for future consideration for acquired broadcasting rights. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In the United States operating segment, mobile devices amounting to EUR 2.3 billion were recognized under property, plant and equipment in the reporting year. These relate to the business model JUMP! On Demand introduced at T-Mobile US in June 2015 under which customers no longer purchase the device but lease it. The payments are presented under net cash from in operating activities.

In the United States operating segment, the exchange of mobile licenses with Verizon Communication in the amount of EUR 0.3 billion was completed in

December 2015. A share of EUR 0.2 billion of the purchase price of the mobile licenses acquired in June 2015 in a spectrum auction in Germany was recognized under financial liabilities. As soon as the payments have been made, they are disclosed under net cash used in/from financing activities.

In November 2015, Deutsche Telekom received newly issued shares of Ströer with a value of some EUR 0.3 billion through the non-cash sale of the online platform t-online.de and the digital marketing company InteractiveMedia.

### 32 SEGMENT REPORTING

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

The **Germany** operating segment comprises all fixed-network and mobile activities for consumers and business customers in Germany. In addition, the operating segment provides wholesale telecommunications services for the Group's other operating segments. The **United States** operating segment combines all mobile activities in the U.S. market. The **Europe** operating segment comprises all fixed-network and mobile operations of the national companies in Greece, Romania, Hungary, Poland, the Czech Republic, Croatia, the Netherlands, Slovakia, Austria, Albania, the F.Y.R.O. Macedonia, and Montenegro. The Europe operating segment additionally comprises the GTS Central Europe group (GTS) and the units International Carrier Sales & Solutions (ICSS), Group Technology, and the Global Network

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millions of €

		Net revenue	Intersegment revenue	Total revenue	Profit (loss) from operations (EBIT)	Interest income	Interest expense	Share of profit (loss) of associates and joint ventures accounted for using the equity method	Income taxes	Segment assets <sup>a, b</sup>
Germany	2015	21,069	1,352	22,421	4,490	13	(221)	3	0	33,552
	2014	20,903	1,354	22,257	4,663	6	(277)	2	0	29,980
	2013	21,056	1,379	22,435	4,435	20	(367)	1	5	30,738
United States	2015	28,924	1	28,925	2,454	5	(1,284)	(12)	(360)	62,534
	2014	22,405	3	22,408	1,405	2	(867)	(41)	(203)	49,784
	2013	18,552	4	18,556	1,404	461	(737)	(33)	(418)	38,830
Europe	2015	12,415	303	12,718	1,450	19	(314)	2	(310)	30,296
	2014	12,596	376	12,972	1,704	27	(365)	2	(371)	31,215
	2013	13,174	530	13,704	972	25	(423)	4	(417)	30,400
Systems Solutions	2015	6,194	2,398	8,592	(516)	16	12	5	(39)	9,067
	2014	5,988	2,613	8,601	(422)	14	(1)	(9)	(31)	8,788
	2013	6,244	2,794	9,038	(294)	15	(1)	4	(29)	8,428
Group Headquarters & Group Services	2015	626	1,649	2,275	(860)	1,035	(1,641)	26	(566)	44,532
	2014	766	1,750	2,516	(109)	906	(1,808)	(152)	(492)	41,358
	2013	1,106	1,773	2,879	(1,582)	1,145	(1,871)	(47)	(249)	43,720
<b>TOTAL</b>	2015	<b>69,228</b>	<b>5,703</b>	<b>74,931</b>	<b>7,018</b>	<b>1,088</b>	<b>(3,448)</b>	<b>24</b>	<b>(1,275)</b>	<b>179,981</b>
	2014	<b>62,658</b>	<b>6,096</b>	<b>68,754</b>	<b>7,241</b>	<b>955</b>	<b>(3,318)</b>	<b>(198)</b>	<b>(1,097)</b>	<b>161,125</b>
	2013	<b>60,132</b>	<b>6,480</b>	<b>66,612</b>	<b>4,935</b>	<b>1,666</b>	<b>(3,399)</b>	<b>(71)</b>	<b>(1,108)</b>	<b>152,116</b>
Reconciliation	2015	-	(5,703)	(5,703)	10	(842)	839	-	(1)	(36,061)
	2014	-	(6,096)	(6,096)	6	(630)	653	-	(9)	(31,765)
	2013	-	(6,480)	(6,480)	(5)	(1,438)	1,009	-	184	(33,968)
<b>GROUP</b>	2015	<b>69,228</b>	<b>-</b>	<b>69,228</b>	<b>7,028</b>	<b>246</b>	<b>(2,609)</b>	<b>24</b>	<b>(1,276)</b>	<b>143,920</b>
	2014	<b>62,658</b>	<b>-</b>	<b>62,658</b>	<b>7,247</b>	<b>325</b>	<b>(2,665)</b>	<b>(198)</b>	<b>(1,106)</b>	<b>129,360</b>
	2013	<b>60,132</b>	<b>-</b>	<b>60,132</b>	<b>4,930</b>	<b>228</b>	<b>(2,390)</b>	<b>(71)</b>	<b>(924)</b>	<b>118,148</b>

<sup>a</sup>Relating to the Group Headquarters & Group Services segment, Deutsche Telekom AG shareholders opted to have part of their dividend entitlement converted into shares, meaning that this dividend in kind had no impact on cash flows (see Note 15 "Shareholders' equity," PAGE 206 ET SEQ.).

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Factory (GNF). The Europe operating segment also offers ICT services to business customers in individual national companies.

The **Systems Solutions** operating segment bundles business with ICT products and solutions for large multinational corporations and public institutions. The operating segment offers its customers information and communication technology from a single source and develops and operates infrastructure and industry solutions. The offering primarily includes services from the cloud, M2M and security solutions, complementary, highly standardized mobile and fixed-network products, as well as solutions for virtual collaboration and IT platforms. They form the basis for the digital business models of corporate customers.

The **Group Headquarters & Group Services** segment comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments, and the EE joint venture in the United Kingdom. As of December 31, 2015, the EE joint venture is reported under non-current assets and disposal groups held for sale (see also Note 4, PAGES 182 and 183).

Fixed-network business includes all voice and data communications activities based on fixed-network and broadband technology. This includes the sale of terminal equipment and other hardware, as well as the sale of services to resellers. The mobile communications business offers mobile voice and data services to consumers and business customers. Mobile devices and other hardware are sold in connection with the services offered. In addition, mobile services are sold to resellers and to companies that buy network services and market them independently to third parties (MVNOs).

The business segments shown are reviewed at regular intervals by the Deutsche Telekom Board of Management in terms of the allocation of resources and their earning performance.

The measurement principles for Deutsche Telekom's segment reporting structure are primarily based on the IFRSs adopted in the consolidated financial statements. Deutsche Telekom evaluates the segments' performance based on revenue and profit or loss from operations (EBIT), among other factors. Revenue generated and goods and services exchanged between segments are calculated on the basis of market prices. Services performed by Telekom IT are charged at cost. Segment assets and liabilities include all assets and liabilities that are carried in the financial statements prepared by the segments and included in the consolidated financial statements. Segment investments include additions to intangible assets and property, plant and equipment. Where entities accounted for using the equity method are directly allocable to a segment, their shares of profit or loss after income taxes and their carrying amounts are reported in this segment's accounts. The performance indicators shown in TABLE 148 are exclusively presented from the segments' perspective. The effects of intersegment transactions are eliminated and presented in aggregate form in the reconciliation line. The following table shows the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

Segment liabilities <sup>b</sup>	Segment investments	Investments accounted for using the equity method	Depreciation and amortization	Impairment losses	Average number of employees	Net cash from operating activities	Net cash (used in) from investing activities	Of which: cash capex <sup>c</sup>	Net cash (used in) from financing activities <sup>a</sup>
26,270	6,340	20	(3,746)	(9)	69,440	8,185	(5,736)	(5,609)	(4,830)
23,148	4,144	19	(3,884)	(9)	68,106	8,810	(4,171)	(3,807)	(6,844)
23,200	3,538	17	(3,959)	(7)	67,765	8,646	(3,444)	(3,411)	(5,691)
46,087	10,164	215	(3,774)	(1)	41,669	5,327	(8,624)	(6,381)	2,935
35,724	7,318	197	(2,829)	(10)	37,858	3,170	(5,417)	(5,072)	1,952
26,888	4,676	198	(2,133)	(105)	32,962	2,580	(1,232)	(3,279)	2,728
12,595	2,051	61	(2,571)	(48)	50,635	3,358	(1,982)	(1,652)	(2,287)
13,520	2,718	52	(2,567)	(30)	52,829	3,597	(2,196)	(2,101)	662
12,699	4,192	59	(2,755)	(644)	56,810	3,658	(3,026)	(3,661)	(2,128)
6,043	1,192	21	(625)	(24)	46,536	132	(815)	(1,169)	710
5,962	1,279	14	(712)	(5)	48,817	687	(840)	(1,171)	424
5,279	1,133	24	(639)	(13)	49,985	999	(531)	(1,066)	138
50,830	397	504	(545)	(82)	18,052	2,638	1,056	(342)	(1,374)
48,702	441	335	(582)	(89)	20,639	2,510	912	(381)	(4,055)
51,952	573	5,869	(627)	(72)	22,182	3,266	3,731	(411)	(5,552)
<b>141,825</b>	<b>20,144</b>	<b>821</b>	<b>(11,261)</b>	<b>(164)</b>	<b>226,332</b>	<b>19,640</b>	<b>(16,101)</b>	<b>(15,153)</b>	<b>(4,846)</b>
<b>127,056</b>	<b>15,900</b>	<b>617</b>	<b>(10,574)</b>	<b>(143)</b>	<b>228,249</b>	<b>18,774</b>	<b>(11,712)</b>	<b>(12,532)</b>	<b>(7,861)</b>
<b>120,018</b>	<b>14,112</b>	<b>6,167</b>	<b>(10,113)</b>	<b>(841)</b>	<b>229,704</b>	<b>19,149</b>	<b>(4,502)</b>	<b>(11,828)</b>	<b>(10,505)</b>
(36,055)	(777)	1	63	2	-	(4,643)	1,086	540	3,970
(31,762)	(819)	-	143	-	(1)	(5,381)	951	688	4,427
(33,933)	(752)	-	47	3	-	(6,132)	(5,394)	760	11,527
<b>105,770</b>	<b>19,367</b>	<b>822</b>	<b>(11,198)</b>	<b>(162)</b>	<b>226,332</b>	<b>14,997</b>	<b>(15,015)</b>	<b>(14,613)</b>	<b>(876)</b>
<b>95,294</b>	<b>15,081</b>	<b>617</b>	<b>(10,431)</b>	<b>(143)</b>	<b>228,248</b>	<b>13,393</b>	<b>(10,761)</b>	<b>(11,844)</b>	<b>(3,434)</b>
<b>86,085</b>	<b>13,360</b>	<b>6,167</b>	<b>(10,066)</b>	<b>(838)</b>	<b>229,704</b>	<b>13,017</b>	<b>(9,896)</b>	<b>(11,068)</b>	<b>1,022</b>

<sup>b</sup>In line with internal reporting, the carrying amounts for investments have not been disclosed in segment reporting at segment level since January 1, 2015. Three holding companies have been reallocated as of July 1, 2015 from the Group Headquarters & Group Services segment into the Europe operating segment in connection with the build-out of the pan-European all-IP network. The comparatives were adjusted as of December 31, 2014 and December 31, 2013.

<sup>c</sup>Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, as shown in the statement of cash flows.

**Information on geographic areas.** The Group's non-current assets and net revenue are shown by region: Germany, Europe (excluding Germany), North America, and Other countries. The North America region comprises the United States and Canada. The Europe (excluding Germany) region covers the entire European Union (excluding Germany) and the other countries in Europe. Other countries include all countries that are not Germany or in Europe (excluding Germany) or North America. Non-current assets are allocated to the regions according to the location of the assets in question. Non-current assets encompass intangible assets; property, plant and equipment; investments accounted for using the equity method; as well as other non-current assets. Net revenue is allocated according to the location of the respective customers' operations.

T 149

millions of €

	Non-current assets			Net revenue		
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013	2015	2014	2013
Germany	37,280	35,343	35,200	25,078	24,999	25,384
International	65,678	56,766	54,663	44,150	37,659	34,748
Of which: Europe (excluding Germany)	21,099	21,654	27,288	14,431	14,311	15,173
North America	44,505	35,039	27,289	29,224	22,701	18,796
Other countries	74	73	86	495	647	779
<b>GROUP</b>	<b>102,958</b>	<b>92,109</b>	<b>89,863</b>	<b>69,228</b>	<b>62,658</b>	<b>60,132</b>

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

T 150

millions of €

	Net revenue		
	2015	2014	2013
Telecommunications	61,769	55,946	53,220
ICT solutions	6,833	6,513	6,713
Other	626	199	199
	<b>69,228</b>	<b>62,658</b>	<b>60,132</b>

### 33 CONTINGENCIES

As part of its ordinary business activities, Deutsche Telekom is involved in various proceedings both in and out of court with government agencies, competitors, and other parties, the outcome of which often cannot be reliably anticipated. As of the reporting date, the Group was exposed to contingent liabilities amounting to EUR 0.2 billion (December 31, 2014: EUR 0.3 billion) and to contingent assets amounting to EUR 0.0 billion (December 31, 2014: EUR 0.0 billion) that, on the basis of the information and estimates available, do not fulfill the requirements for recognition as liabilities or assets in the statement of financial position. Litigation provisions include the costs of legal counsel services and any probable losses. Deutsche Telekom does not believe that any additional costs arising from legal counsel services or the results of proceedings will have a material adverse effect on the results of operations and financial position of the Group. In addition to individual cases that do not have any significant impact on their own, the aforementioned total contingent liabilities include the following items, the sequence of which does not imply an evaluation of their probability of occurrence or potential damage. In the event that in extremely rare cases disclosures required by IAS 37

are not made, Deutsche Telekom comes to the conclusion that these disclosures could seriously undermine the outcome of the relevant proceedings.

### CONTINGENT LIABILITIES

**Proceedings by the Anti-Monopoly Commission in Poland.** On November 23, 2011, the national Anti-Monopoly Commission (UOKiK) concluded investigations started in 2010. It decided that T-Mobile Polska (formerly PTC) and other Polish telecommunications companies had fixed prices in breach of anti-trust law and imposed a fine on T-Mobile Polska of PLN 34 million (approximately EUR 8 million). T-Mobile Polska believes these allegations are unfounded and thus appealed the decision. On June 19, 2015, the competent court canceled the fine on the grounds that the competition authorities were unable to prove the alleged price fixing. The national competition authorities appealed the decision of the court and a decision is pending. Any fine would only fall due after the decision becomes final and legally binding. The same applies to another fine of PLN 21 million (approximately EUR 5 million) imposed by UOKiK on T-Mobile Polska on January 2, 2012 for an alleged breach of consumer protection law. Overall, the risk remaining is classified as low and consequently Deutsche Telekom will not report further on the proceedings in the future.

**Claims by partnering publishers of telephone directories.** Several publishers that had set up joint ventures with DeTeMedien GmbH, a wholly owned subsidiary of Deutsche Telekom AG, to edit and publish subscriber directories, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The complainants have been claiming damages or refund from DeTeMedien GmbH and to a certain extent from Deutsche Telekom AG as joint and several debtor next to DeTeMedien GmbH. The complainants have based their claims on allegedly excessive charges for the provision of subscriber data in the joint ventures. The amounts claimed by the complainants totaled around EUR 470 million plus interest at the end of 2014. So far, the Frankfurt/Main Regional Court rejected 22 out of 81 claims in the first instance. Two of these rulings are legally binding, the claim total

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was accordingly reduced to approximately EUR 467 million plus interest. The complainants filed appeals against the other rulings with the Frankfurt/Main Higher Regional Court. On October 22, 2015, Deutsche Telekom AG, DeTeMedien GmbH and the majority of the partnering publishers of telephone directories concluded an agreement to settle their disputes, as a result of which 54 publishers applied to the court to waive their claims. Seven publishers withdrew their appeals, as a result of which the rulings of the first instance that rejected the claims became legally binding with immediate effect upon receipt by the court of the withdrawals. At present, 18 proceedings are still pending with a remaining claim total of approximately EUR 132 million (plus interest).

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

**Anti-trust and consumer protection proceedings.** Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to proceedings under competition law in various jurisdictions, which may also lead to civil follow-on claims. Looking at each of the proceedings individually, none has a material impact. Deutsche Telekom believes the respective allegations and claims for damages are unfounded. The outcome of the proceedings cannot be foreseen at this point in time.

**Claims for damages against Slovak Telekom following the European Commission's decision to impose fines.** Following the decision of the European Commission on October 15, 2014, both Orange Slovensko and SWAN filed civil action against Slovak Telekom with the competent court in Bratislava in August 2015, claiming compensation for damages of EUR 232 million and EUR 50 million respectively, plus interest. These claims seek compensation for alleged damages due to Slovak Telekom's abuse of a dominant market position, as determined by the European Commission. In December 2014, Slovak Telekom and Deutsche Telekom filed an appeal against the decision of the European Commission with the Court of the European Union; in addition, Slovak Telekom considers the complaint by Orange Slovensko to be largely unfounded. The complaint by SWAN has not yet been officially served to Slovak Telekom. It is uncertain whether SWAN is waiting for the outcome of the proceedings in relation to Orange Slovensko or, following publication of the European Commission's decision, considers it unlikely that a claim will be successful.

**Toll Collect arbitration proceedings.** The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom AG. In the arbitration proceedings between these principal shareholders and the consortium company Toll Collect GbR on one side and the Federal Republic of Germany on the other concerning disputes in connection with the truck toll collection system, Deutsche Telekom received the Federal Republic of Germany's statement of claim on August 2, 2005. In this statement, the Federal Republic claimed to have lost toll revenues of approximately EUR 3.51 billion plus interest owing to a delay in the commencement of operations. The total claims for contractual penalties amount to EUR 1.65 billion plus interest; these claims are based on alleged violations of the operator agreement: alleged lack of consent to subcontracting, allegedly delayed provision of on-board units and monitoring equipment. In a letter dated May 16, 2008, the Federal Republic recalculated its claim for damages

for lost toll revenues and reduced it by EUR 169 million. The claim is now approximately EUR 3.33 billion plus interest. The main claims by the Federal Republic – including the contractual penalty claims – thus amount to around EUR 4.98 billion plus interest. Further hearings took place in spring and fall 2014. In connection with the hearing in spring 2014, the proceedings and the share of the risk borne by Deutsche Telekom were reexamined and, as a result, appropriate provisions for risk were recognized in the statement of financial position. A further hearing took place in June 2015, which was resumed in January 2016. There is no reason to adjust the provisions for risk recognized in 2014 in the statement of financial position. Deutsche Telekom AG believes that a claim arising from the joint and several liability is unlikely to be made in excess of Deutsche Telekom's share of the risk.

- **Bank loans guarantee.** Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 100 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on October 15, 2018.
- **Equity maintenance undertaking.** The consortium partners have the obligation, on a joint and several basis, to provide Toll Collect GmbH with additional equity in order to ensure a minimum equity ratio of 15 percent (in the single-entity financial statements prepared in accordance with German GAAP) (equity maintenance undertaking). This obligation ends when the operating agreement expires on August 31, 2018, or earlier if the operating agreement is terminated prematurely. The amount of a potential settlement attributable to the equity maintenance undertaking cannot be estimated because of uncertainties.

In June 2006, the Federal Republic of Germany began to partially offset its monthly advance payments for operating fees to Toll Collect GmbH of EUR 8 million against the contractual penalty claims that are already subject of the aforementioned arbitration proceedings. As a result, it may become necessary for the consortium members to provide Toll Collect GmbH with further liquidity.

The risks and obligations of Compagnie Financière et Industrielle des Autoroutes S.A., Sèvres Cedex (Cofiroute, which holds a 10-percent stake in Toll Collect) are limited to EUR 70 million. Deutsche Telekom AG and Daimler Financial Services AG have the obligation, on a joint and several basis, to indemnify Cofiroute against further claims.

**Prospectus liability proceedings.** There are around 2,600 ongoing actions filed by around 16,000 alleged buyers of T-Shares sold on the basis of the prospectuses published on May 28, 1999 (second public offering, or DT2) and May 26, 2000 (third public offering, or DT3). The complainants assert that individual figures given in these prospectuses were inaccurate or incomplete. The amount in dispute totals approximately EUR 80 million. Some of the actions are also directed at KfW and/or the Federal Republic of Germany as well as the banks that handled the issuances. The Frankfurt/Main Regional Court has issued certified questions to the Frankfurt/Main Higher Regional Court in accordance with the German Capital Investor Model Proceedings Act (Kapitalanleger-Musterverfahrensgesetz – KapMuG) and has temporarily suspended the initial proceedings. In the model proceedings (“Musterverfahren”) on the second public offering (DT2) on July 3, 2013, the Frankfurt/Main Higher Regional Court issued a decision and ruled that the disputed stock exchange prospectus did not contain any errors.

On May 16, 2012, the Frankfurt/Main Higher Regional Court had ruled in the model proceedings ("Musterverfahren") on the third public offering (DT3) that there were also no errors in the prospectus for Deutsche Telekom AG's third public offering. The Frankfurt/Main Higher Regional Court therefore believes there is no basis for holding Deutsche Telekom AG liable. In its decision on October 21, 2014, the Federal Court of Justice revoked this ruling, determined that there was a mistake in the prospectus, and referred the case back to the Frankfurt/Main Higher Regional Court. A decision on possible liability for damages was not made. We continue to hold the opinion that there are compelling reasons why Deutsche Telekom AG should not be liable for damages.

**Claims relating to charges for the shared use of cable ducts.** With an action filed in spring 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) – now Vodafone Kabel Deutschland GmbH – is asserting two claims: first, Telekom Deutschland GmbH is to reduce the annual charge for the rights to use cable duct capacities in the future; second, it is to partially refund payments made in this connection since 2004. KDG quantified the amount of the claims incurred up to and including 2012 at approximately EUR 340 million plus interest. In its ruling on August 28, 2013, the Frankfurt/Main Regional Court dismissed the complaint. In the appeal proceedings, KDG also quantified its claims for 2013 through an extension of claim and is now seeking a refund of charges allegedly paid in excess of approximately EUR 407 million as well as the alleged benefit for Telekom Deutschland GmbH from additional interest of around EUR 34 million, plus interest in each case. On December 9, 2014, the Frankfurt/Main Higher Regional Court rejected the appeal and disallowed a further appeal. In response to the subsequent complaint against non-allowance of appeal filed by KDG, the Federal Court of Justice allowed KDG's appeal in a ruling dated December 15, 2015. In similar proceedings, Telekom Deutschland GmbH also received a claim filed on January 23, 2013 in which Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH and Kabel BW GmbH demand that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. For charges allegedly paid in excess for the shared use of cable ducts from 2009 up to and including 2012, Unitymedia Hessen GmbH & Co. KG is currently demanding payment of approximately EUR 36.5 million plus interest, Unitymedia NRW GmbH EUR 90.8 million plus interest, and Kabel BW GmbH EUR 61.5 million plus interest.

**Claim for compensation against OTE.** In May 2009, Lannet Communications S. A. filed an action against OTE claiming compensation for damages of around EUR 176 million plus interest arising from an allegedly unlawful termination of services by OTE – mainly interconnection services, unbundling of local loops, and leasing of dedicated lines. A hearing took place on May 30, 2013; a ruling has not yet been issued.

**Patents and licenses.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights disputes. There is a risk that Deutsche Telekom may have to pay license fees and/or compensation; Deutsche Telekom is also exposed to a risk of cease-and-desist orders, for example relating to the sale of a product or the use of a technology.

**Tax risks.** In many countries, Deutsche Telekom is subject to the applicable legal tax regulations. Risks can arise from changes in local taxation laws or case law and different interpretations of existing provisions. As a result, they can affect on Deutsche Telekom's tax expense and benefit as well as tax receivables and liabilities.

### 34 LEASES

#### DEUTSCHE TELEKOM AS LESSEE

**Finance leases.** When a lease transfers substantially all risks and rewards to Deutsche Telekom as lessee, Deutsche Telekom initially recognizes the leased assets in the statement of financial position at the lower of fair value or present value of the future minimum lease payments. Most of the leased assets carried in the statement of financial position as part of finance leases relate to long-term rental and lease agreements for office buildings and cell towers or mobile communications facilities. The average lease term is 17 years. The agreements include extension and purchase options. TABLE 151 shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

T 151

millions of €

	Dec. 31, 2015	Of which: sale and leaseback transactions	Dec. 31, 2014	Of which: sale and leaseback transactions
Land and buildings	559	290	599	347
Technical equipment and machinery	796	0	455	0
Other	9	0	8	0
<b>NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED</b>	<b>1,364</b>	<b>290</b>	<b>1,062</b>	<b>347</b>

The increase in technical equipment and machinery is primarily a result of new finance leases for network upgrades at T-Mobile US totaling EUR 0.4 billion.

At the inception of the lease term, Deutsche Telekom recognizes a lease liability equal to the carrying amount of the leased asset. In subsequent periods, the liability decreases by the amount of lease payments made to the lessors using the effective interest method. The interest component of the lease payments is recognized in the income statement.

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TABLE 152 provides a breakdown of these amounts:

T 152

millions of €

	Minimum lease payments		Interest component		Present values	
	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback	Total	Of which: sale and leaseback
<b>Dec. 31, 2015</b>						
<b>MATURITY</b>						
Within 1 year	425	103	114	42	311	61
In 1 to 3 years	774	198	253	69	521	129
In 3 to 5 years	422	126	65	48	357	78
After 5 years	1,052	333	314	136	738	197
	<b>2,673</b>	<b>760</b>	<b>746</b>	<b>295</b>	<b>1,927</b>	<b>465</b>
<b>Dec. 31, 2014</b>						
<b>MATURITY</b>						
Within 1 year	278	108	98	49	180	59
In 1 to 3 years	509	206	178	82	331	124
In 3 to 5 years	372	183	133	60	239	123
After 5 years	1,028	393	317	165	711	228
	<b>2,187</b>	<b>890</b>	<b>726</b>	<b>356</b>	<b>1,461</b>	<b>534</b>

**Operating leases.** Beneficial ownership of a lease is attributed to the lessor if this is the party to which all the substantial risks and rewards incidental to ownership of the asset are transferred. The lessor recognizes the leased asset in its statement of financial position. Deutsche Telekom recognizes the lease payments made during the term of the operating lease in profit or loss. Deutsche Telekom's obligations arising from operating leases are mainly related to long-term rental or lease agreements for cell towers, network infrastructure, and real estate.

Some leases include extension options and provide for stepped rents. Most of these leases relate to cell towers in the United States.

The operating lease expenses recognized in profit or loss amounted to EUR 3.2 billion in the 2015 financial year (2014: EUR 3.3 billion, 2013: EUR 3.2 billion). TABLE 153 provides a breakdown of future obligations arising from operating leases:

T 153

millions of €

	Dec. 31, 2015	Dec. 31, 2014
<b>MATURITY</b>		
Within 1 year	3,322	2,918
In 1 to 3 years	5,650	4,856
In 3 to 5 years	4,548	3,971
After 5 years	7,822	7,164
	<b>21,342</b>	<b>18,909</b>

Obligations arising from operating leases increased from EUR 18.9 billion to EUR 21.3 billion, with T-Mobile US accounting for EUR 2.3 billion of this trend in particular as a result of exchange rate effects totaling EUR 1.6 billion from the translation of U.S. dollars to euros. In addition, the increase resulted from new and modified operating leases in connection with the 700 MHz network build-out for mobile sites, network equipment, and leased fixed-network connections.

#### DEUTSCHE TELEKOM AS LESSOR

**Finance leases.** Deutsche Telekom is a lessor in connection with finance leases. Essentially, these relate to the leasing of routers and other hardware, which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. The lease payments made by the lessees are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as finance income in the income statement. TABLE 154 shows how the amount of the net investment in a finance lease is determined:

T 154

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Minimum lease payments	219	242
Unguaranteed residual value	5	2
Gross investment	224	244
Unearned finance income	(14)	(17)
<b>NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)</b>	<b>210</b>	<b>227</b>

TABLE 155 presents the gross investment amounts and the present value of payable minimum lease payments:

T 155

millions of €

	Dec. 31, 2015		Dec. 31, 2014	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
<b>MATURITY</b>				
Within 1 year	94	86	98	90
In 1 to 3 years	116	110	113	103
In 3 to 5 years	12	12	31	33
After 5 years	2	2	2	1
	<b>224</b>	<b>210</b>	<b>244</b>	<b>227</b>

**Operating leases.** If Deutsche Telekom is a lessor in connection with operating leases, it continues to recognize the leased assets in its statement of financial position. The lease payments received are recognized in profit or loss. The leases mainly relate to the rental of cell towers, building space, and terminal equipment, and have an average term of 15 years. TABLE 156 presents the future minimum lease payments arising from non-cancelable operating leases:

T 156

millions of €

	Dec. 31, 2015	Dec. 31, 2014
	<b>MATURITY</b>	
Within 1 year	1,184	314
In 1 to 3 years	728	380
In 3 to 5 years	339	289
After 5 years	485	507
	<b>2,736</b>	<b>1,490</b>

The increase in future minimum lease payments primarily results from expected lease payments from the lease of mobile terminal devices as part of the terminal equipment lease model introduced at T-Mobile US in June 2015.

### 35 OTHER FINANCIAL OBLIGATIONS

TABLE 157 provides an overview of Deutsche Telekom's other financial obligations:

T 157

millions of €

	Dec. 31, 2015			
	Total	Due within 1 year	Due > 1 year ≤ 5 years	Due > 5 years
Purchase commitments regarding property, plant and equipment	1,924	1,731	183	10
Purchase commitments regarding intangible assets	1,132	1,058	74	0
Firm purchase commitments for inventories	4,430	2,364	2,066	0
Other purchase commitments and similar obligations	10,774	5,445	3,980	1,349
Payment obligations to the Civil Service Pension Fund	4,185	492	1,409	2,284
Miscellaneous other obligations	755	277	478	0
	<b>23,200</b>	<b>11,367</b>	<b>8,190</b>	<b>3,643</b>

### 36 SHARE-BASED PAYMENT

#### SHARE MATCHING PLAN

In the 2011 financial year, specific executives were contractually obliged to invest a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG will award one additional share for every share acquired as part of this executive's aforementioned personal investment (Share Matching Plan). These shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period.

In the 2015 financial year, executives who were not contractually obliged to participate in the Share Matching Plan were given the opportunity to participate on a voluntary basis. To participate, the executives invested a minimum of 10 percent and a maximum of 33.3 percent of their variable short-term remuneration component, which is based on the achievement of targets set for each person for the financial year (Variable I), in Deutsche Telekom AG shares. Deutsche Telekom AG will award additional shares for every share acquired as part of this executive's aforementioned personal investment (Share Matching Plan). Participation in the Share Matching Plan and the number of additional shares granted are contingent on the executive's individual performance. The additional shares will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period. The offer to executives to participate voluntarily in the Share Matching Plan is only made in the years in which the previous year's free cash flow target was achieved.

The individual Share Matching Plans are each recognized for the first time at fair value on the grant date. To determine the fair value, the expected dividend entitlements are deducted from Deutsche Telekom AG's share price, as there are no dividend entitlements until the matching shares have been allocated. In the 2015 financial year, a total of 0.5 million matching shares were allocated to beneficiaries



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of the plan at a weighted average fair value of EUR 14.10. The cost is to be recognized against the capital reserves pro rata temporis until the end of the service period and amounted to EUR 2.91 million as of December 31, 2015 (December 31, 2014: EUR 1.89 million). The capital reserves recognized for the Share Matching Plan as of December 31, 2015 amounted to EUR 8.17 million (December 31, 2014: EUR 5.26 million).

For the compensation system of Board of Management members who also participate in the Share Matching Plan, please refer to the "Compensation report" in the combined management report, PAGE 143 ET SEQ.

### LONG-TERM INCENTIVE PLAN

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

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

The long-term incentive plan was measured at fair value on the grant date. The fair value of the plan is calculated by multiplying the number of virtual shares by Deutsche Telekom AG's share price discounted to the reporting date. In the 2015 financial year, a total of 4.4 million virtual shares were granted at a weighted average fair value of EUR 13.16. The plan must be remeasured at every reporting date until the end of the service period and expensed pro rata temporis. As of December 31, 2015, the cost of the long-term incentive plan amounted to EUR 17.24 million (December 31, 2014: EUR 0 million). A provision was recognized in the same amount.

### SHARE-BASED PAYMENT AT T-MOBILE US

T-Mobile US maintains the 2013 Omnibus Incentive Plan, which authorized the issuance of up to 63 million shares of common stock of T-Mobile US. Under the incentive plan, the company may grant stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), and performance awards to employees, consultants, advisors, and non-employee directors. As of December 31, 2015, there were 29 million T-Mobile US shares of common stock (December 31, 2014: 37 million shares) available for future grants under the incentive plan.

T-Mobile US grants RSUs to eligible employees and certain non-employee directors. RSUs entitle the grantee to receive shares of T-Mobile US common stock at the end of a vesting period up to 3.5 years.

T-Mobile US also grants performance stock units (PSUs) to eligible key executives of the company. PSUs entitle the holder to receive shares of T-Mobile US common stock at the end of a vesting period up to 2.5 years if a specific performance goal is achieved. The number of shares ultimately received is dependent on specified performance of T-Mobile US's operating free cash flow as well as its total shareholder return against a defined peer group.

The plan resulted in the following development:

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	Number of shares	Weighted average fair value at grant date USD
<b>Non-vested as of January 1, 2015</b>	<b>19,952,089</b>	<b>24.15</b>
Granted	9,760,057	35.56
Vested	(11,956,345)	25.28
Forfeited	(1,421,530)	27.36
<b>Non-vested as of December 31, 2015</b>	<b>16,334,271</b>	<b>29.95</b>

The program is measured at fair value on the grant date and recognized as expense, net of expected forfeitures, following a graded vesting schedule over the related service period. The fair value of stock awards for the RSUs is based on the closing price of T-Mobile US' common stock on the date of grant. The fair value of stock awards for the PSUs was determined using the Monte Carlo model. Stock-based compensation expense was EUR 227 million as of December 31, 2015 (December 31, 2014: EUR 159 million).

Prior to the business combination, MetroPCS had established various stock option plans (predecessor plans). The MetroPCS stock options were adjusted in connection with the business combination. Following stockholder approval of T-Mobile US' 2013 Omnibus Incentive Plan, no new awards may be granted under the predecessor plans.

The plan resulted in the following development of the T-Mobile US stock options:

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	Number of shares	Weighted average exercise price USD	Weighted average remaining contractual life (years)
<b>Stock options outstanding/ exercisable at January 1, 2015</b>	<b>4,348,912</b>	<b>24.96</b>	<b>3.7</b>
Exercised	(2,381,650)	19.91	
Forfeited	(142,908)	38.32	
<b>Stock options outstanding/ exercisable at December 31, 2015</b>	<b>1,824,354</b>	<b>30.50</b>	<b>2.7</b>

The exercise of stock options generated cash inflows of EUR 42 million (USD 47 million) in the 2015 financial year (2014: EUR 17 million (USD 27 million)).

## 37 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

millions of €

	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2015	Amounts recognized in the statement of financial position in accordance with IAS 39			
			Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
<b>ASSETS</b>						
Cash and cash equivalents	LaR	6,897	6,897			
Trade receivables	LaR	8,752	8,752			
Originated loans and receivables	LaR/n. a.	3,283	3,076			
Of which: collateral paid	LaR	98	98			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	10	10			
Available-for-sale financial assets <sup>a</sup>	AFS	3,354		156	3,198	
Derivative financial assets <sup>b</sup>						
Derivatives without a hedging relationship	FAHfT	1,526				1,526
Of which: termination rights embedded in bonds issued	FAHfT	390				390
Derivatives with a hedging relationship	n. a.	1,160			870	290
<b>LIABILITIES<sup>c</sup></b>						
Trade payables	FLAC	11,037	11,037			
Bonds and other securitized liabilities	FLAC	47,766	47,766			
Liabilities to banks	FLAC	4,190	4,190			
Liabilities to non-banks from promissory notes	FLAC	934	934			
Liabilities with the right of creditors to priority repayment in the event of default	FLAC	1,822	1,822			
Other interest-bearing liabilities	FLAC	3,009	3,009			
Of which: collateral received	FLAC	1,740	1,740			
Other non-interest-bearing liabilities	FLAC	1,798	1,798			
Finance lease liabilities	n. a.	1,927				
Derivative financial liabilities <sup>d</sup>						
Derivatives without a hedging relationship	FLHfT	817				817
Of which: conversion rights embedded in Mandatory Convertible Preferred Stock	FLHfT	298				298
Of which: options granted to third parties for the purchase of shares in subsidiaries	FLHfT	39				39
Derivatives with a hedging relationship	n. a.	117			107	10
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	18,725	18,725			
Held-to-maturity investments	HtM	10	10			
Available-for-sale financial assets <sup>a</sup>	AFS	3,354		156	3,198	
Financial assets held for trading	FAHfT	1,526				1,526
Financial liabilities measured at amortized cost	FLAC	70,556	70,556			
Financial liabilities held for trading	FLHfT	817				817

<sup>a</sup> For details, please refer to Note 8 "Other financial assets," PAGES 192 and 193.<sup>b</sup> For details, please refer to TABLE 166 on derivatives in this Note, PAGE 236.<sup>c</sup> For financial guarantees and loan commitments existing at the reporting date, please refer to the additional information provided in this section, PAGE 234.<sup>d</sup> The exemption provisions under IFRS 7.29a were applied for information on specific fair values.

Trade receivables include receivables amounting to EUR 1.0 billion (December 31, 2014: EUR 1.6 billion) due in more than one year. The fair value generally equates to the carrying amount.

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Amounts recognized in the statement of financial position in accordance with IAS 17	Fair value Dec. 31, 2015 <sup>d</sup>	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2014	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, 2014 <sup>d</sup>
				Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	-	LaR	7,523	7,523				-	
	-	LaR	10,262	10,262				-	
207	3,318	LaR/n.a.	3,224	2,997			227	3,256	
	-	LaR	527	527				-	
	-	HtM	10	10				-	
	3,198	AfS	683		122	561		561	
	1,526	FAHfT	835				835	835	
	390	FAHfT	183				183	183	
	1,160	n.a.	508			286	222	508	
	-	FLAC	9,631	9,631				-	
	52,194	FLAC	44,219	44,219				49,402	
	4,247	FLAC	3,676	3,676				3,788	
	1,069	FLAC	946	946				1,106	
	1,830	FLAC	-	-				-	
	3,059	FLAC	1,775	1,775				1,836	
	-	FLAC	486	486				-	
	-	FLAC	2,055	2,055				-	
1,927	2,166	n.a.	1,461				1,461	1,869	
	817	FLHfT	664				664	664	
	298	FLHfT	-					-	
	39	FLHfT	-					-	
	117	n.a.	431			423	8	431	
	3,111	LaR	20,782	20,782				3,029	
	-	HtM	10	10				-	
	3,198	AfS	683		122	561		561	
	1,526	FAHfT	835				835	835	
	62,399	FLAC	62,302	62,302				56,132	
	817	FLHfT	664				664	664	

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

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millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable <sup>a</sup>	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable <sup>a</sup>	Total
<b>ASSETS</b>								
Originated loans and receivables		3,318		3,318		3,256		3,256
<b>LIABILITIES</b>								
Financial liabilities measured at amortized cost (FLAC)	41,498	20,810	91	62,399	41,121	14,828	183	56,132
Of which: bonds and other securitized liabilities	41,498	10,605	91	52,194	41,121	8,098	183	49,402
Of which: liabilities to banks		4,247		4,247		3,788		3,788
Of which: liabilities to non-banks from promissory notes		1,069		1,069		1,106		1,106
Of which: liabilities with the right of creditors to priority repayment in the event of default		1,830		1,830				
Of which: other interest-bearing liabilities		3,059		3,059		1,836		1,836
Finance lease liabilities		2,166		2,166		1,869		1,869

<sup>a</sup>Separation of embedded derivatives; the fair value of the entire instrument must be categorized as Level 1.

### Financial instruments measured at fair value

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millions of €

	Dec. 31, 2015				Dec. 31, 2014			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
<b>ASSETS</b>								
Available-for-sale financial assets (AFS)	2,931		267	3,198	348	5	208	561
Financial assets held for trading (FAHfT)		1,136	390	1,526		652	183	835
Derivative financial assets with a hedging relationship		1,160		1,160		508		508
<b>LIABILITIES</b>								
Financial liabilities held for trading (FLHfT)		480	337	817		664		664
Derivative financial liabilities with a hedging relationship		117		117		431		431

Of the available-for-sale financial assets (AFS) presented under other non-derivative financial assets, the instruments presented in the different levels constitute separate classes of financial instruments. In Level 1, EUR 2,931 million (December 31, 2014: EUR 348 million) is recognized, the majority of which relates to listed government bonds, the fair values of which are the price quotations at the reporting date. The

carrying amount of EUR 2.8 billion – when translated into euros – of the year-on-year increase in the instruments recognized as Level 1, resulted from the acquisition of short-term U.S. government bonds. For information on the issue of liabilities by T-Mobile US, please refer to Note 10 “Financial liabilities,” PAGE 193 ET SEQ.

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The available-for-sale financial assets assigned to Level 3 that are carried under other non-derivative financial assets are equity investments with a carrying amount of EUR 267 million measured using the best information available at the reporting date. As a rule, Deutsche Telekom considers executed transactions involving shares in those companies to have the greatest relevance. Executed transactions involving shares in comparable companies are also considered. The closeness of the transaction in question to the reporting date and the question of whether the transaction was at arm's length are relevant for the decision on which information will ultimately be used for the measurement. Furthermore, the degree of similarity between the object being measured and comparable companies must be taken into consideration. Based on Deutsche Telekom's own assessment, the fair values of the equity investments at the reporting date could be determined with sufficient reliability. In the case of investments with a carrying amount of EUR 107 million, transactions involving shares in these companies took place at arm's length sufficiently close to the reporting date, which is why in Deutsche Telekom's view the share prices agreed in the transactions were to be used without adjustment for the measurement as of December 31, 2015. In the case of investments with a carrying amount of EUR 138 million, although the last arm's length transactions relating to shares in these companies took place some time ago, based on the analysis of operational development (in particular revenue, EBIT and liquidity) in Deutsche Telekom's assessment, the previous carrying amount nevertheless corresponds to the fair value and, due to limited comparability, is preferable to measurement on the basis of transactions executed more recently relating to shares in comparable companies. In the case of investments with a carrying amount of EUR 22 million, for which the last arm's length transactions relating to shares in these companies took place some time ago, in Deutsche Telekom's assessment, measurement on the basis of transactions executed more recently relating to shares in comparable companies provides the most reliable representation of the fair values. Here, multiples to the reference variable of net revenue (ranging between 1.40 and 5.56) were used, taking the respective median. In certain cases, due to specific circumstances, valuation discounts need to be applied to the respective multiples. If the value of the respective 2/3-quantile (1/3-quantile) had been used as a multiple with no change in the reference variables, the fair value of the investments at the reporting date would have been EUR 2 million higher (EUR 7 million lower). If the reference variables had been 10 percent higher (lower) with no change in the multiples, the fair value of the investments at the reporting date would have been EUR 2 million higher (EUR 2 million lower). In the reporting period, net expense of EUR 8 million was recognized in other financial income/expense for unrealized losses for the investments in the portfolio at the reporting date. Please refer to the following **TABLE 163** for the development of the carrying amounts in the reporting period. No plans existed as of the reporting date to sell these investments.

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

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

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

The financial assets held for trading assigned to Level 3 that are carried under other derivative financial assets relate to options embedded in bonds issued by T-Mobile US with a carrying amount of EUR 390 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 were measured using an option pricing model. Historical interest rate volatilities of bonds issued by T-Mobile US and comparable issuers were used for the measurement because we believe that these provide a more reliable estimate for these unobservable inputs at the reporting date than current market interest rate volatilities. The absolute figure used for the interest rate volatility at the current reporting date was between 1.8 and 2.4 percent. The spread curve, which is also unobservable, was derived on the basis of current market prices of bonds issued by T-Mobile US and debt instruments of comparable issuers. The spreads used at the current reporting date were between 3.3 and 4.9 percent for the maturities of the bonds and between 2.2 and 2.8 percent for shorter terms. In our opinion, 10 percent constituted the best estimate for the mean reversion, another unobservable input. If 10 percent higher (lower) interest rate volatilities in absolute terms had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 54 million higher (EUR 59 million lower) when translated into euros. If spreads of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 144 million lower (EUR 217 million higher) when translated into euros. If a mean reversion of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 13 million lower (EUR 16 million higher) when translated into euros. In the reporting period, net income of EUR 166 million when translated into euros was recognized under the Level 3 measurement in other financial income/expense for unrealized gains for the options in the portfolio at the reporting date. Please refer to **TABLE 163** for the development of the carrying amounts in the reporting period. The value increases recognized in profit or loss in the reporting period are mainly attributable to lower interest rates and a historically higher absolute interest rate volatility. The value reductions recognized in profit or loss in the reporting period are mainly due to an increase in the interest rate level. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

The financial liabilities held for trading assigned to Level 3 that are presented under financial liabilities with a carrying amount of EUR 298 million when translated into euros relate to stock options embedded in the Mandatory Convertible Preferred Stock issued by T-Mobile US. The Mandatory Convertible Preferred Stock will be converted into a variable number of shares of T-Mobile US on the maturity date in 2017 and, in accordance with IFRS, is accounted for as debt rather than equity. The entire instrument is split into a debt instrument (bond) measured at amortized cost and an embedded derivative measured at fair value through profit or loss. In addition to conversion on the maturity date, this derivative also includes the early conversion rights granted to investors. An observable market price is available regularly and at the reporting date for the Mandatory Convertible Preferred Stock as an entire instrument, but not for the options embedded therein. The conversion rights were measured using an option pricing model. The market price of the entire instrument and its individual components is largely dependent on T-Mobile US' share price performance and the market interest rates. If the share price of T-Mobile US had been 10 percent higher (lower) at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 110 million lower (EUR 108 million higher) when translated into euros. If a market interest rate of 100 basis points higher (lower) had been used for the measurement at the reporting date, with otherwise unchanged parameters, the fair value of the options from T-Mobile US' perspective would have been EUR 15 million lower (EUR 16 million higher) when translated into euros. In the reporting period, a net expense of EUR 295 million when translated into euros was recognized in other financial income/expense for unrealized losses for the options in the portfolio at the reporting date. Please refer to TABLE 163 for the development of the carrying amount in the reporting period. As of December 31, 2014, the value of the derivative was still slightly positive from Deutsche Telekom's perspective (carrying amount less than EUR 1 million), which is why it had to be disclosed as an asset. The change in the market price in the reporting period is largely attributable to the rise in T-Mobile US' share price. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

The financial liabilities assigned to Level 3 include derivative financial liabilities with a carrying amount of EUR 39 million resulting from an option granted to third parties in the reporting period for the purchase of shares in a subsidiary of Deutsche Telekom. The term ends in 2017 and no notable fluctuations in value are expected in future. Due to its distinctiveness, this instrument constitutes a separate class of financial instruments.

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

millions of €

	Available-for-sale financial assets (AFS)	Financial assets held for trading (FAHFT): Early redemption options embedded in bonds	Financial liabilities held for trading (FLHFT): Conversion rights embedded in Mandatory Convertible Preferred Stock
<b>Carrying amount as of January 1, 2015</b>	<b>208</b>	<b>183</b>	<b>0</b>
Additions (including first-time categorization as Level 3)	49	27	-
Value decreases recognized in profit/loss	(8)	(174)	(323)
Value increases recognized in profit/loss	-	340	28
Value decreases recognized directly in equity	(18)	-	-
Value increases recognized directly in equity	48	-	-
Disposals	(12)	-	-
Currency translation effects recognized directly in equity	-	14	(3)
<b>CARRYING AMOUNT AS OF DECEMBER 31, 2015</b>	<b>267</b>	<b>390</b>	<b>(298)</b>

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#### Net gain/loss by measurement category

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/allowances			
Loans and receivables (LaR)	34		1,854	(748)			2015 1,140
Held-to-maturity investments (HtM)							-
Available-for-sale financial assets (AFS)	7			(4)	31	3	37
Financial instruments held for trading (FAHFT and FLHFT)	n. a.	258					258
Financial liabilities measured at amortized cost (FLAC)	(2,381)		(2,144)				(4,525)
	<b>(2,340)</b>	<b>258</b>	<b>(290)</b>	<b>(752)</b>	<b>31</b>	<b>3</b>	<b>(3,090)</b>

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/allowances			
Loans and receivables (LaR)	16		1,865	(602)			2014 1,279
Held-to-maturity investments (HtM)							-
Available-for-sale financial assets (AFS)	7			(132)	41	20	(64)
Financial instruments held for trading (FAHFT and FLHFT)	n. a.	435					435
Financial liabilities measured at amortized cost (FLAC)	(2,446)		(2,255)			29	(4,672)
	<b>(2,423)</b>	<b>435</b>	<b>(390)</b>	<b>(734)</b>	<b>41</b>	<b>49</b>	<b>(3,022)</b>

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Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to Note 22 "Finance costs," PAGE 210, and Note 24 "Other financial income/expense," PAGE 210). Deutsche Telekom recognizes the other components of net gain/loss in other financial income/expense, except for allowances on trade receivables (please also refer to Note 2 "Trade and other receivables," PAGE 181) that are classified as loans and receivables, which are reported under selling expenses. The net gain from the subsequent measurement for financial instruments held for trading (EUR 258 million) also includes interest and currency translation effects. The net currency translation gains on financial assets classified as loans and receivables (EUR 1,854 million) are primarily attributable to the Group-internal transfer of foreign-currency loans taken out by Deutsche Telekom's financing company, Deutsche Telekom International Finance B. V., on the capital market. These were offset by corresponding currency translation losses on capital market liabilities of EUR 2,144 million. These include currency translation gains from derivatives that Deutsche Telekom used as hedges for hedge accounting in foreign currency (EUR 335 million; 2014: currency translation gains of EUR 331 million). Finance costs from financial liabilities measured at amortized cost (expense of EUR 2,381 million) primarily consist of interest expense on bonds and other (securitized) financial liabilities. The item also includes interest expenses from interest added back and interest income from interest discounted from trade payables. However, it does not include the interest expense and interest income from interest rate derivatives Deutsche Telekom used in the reporting period to hedge the fair value risk of financial liabilities (please also refer to Note 22 "Finance costs," PAGE 210).

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

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

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

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

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

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. Group Treasury hedges these risks in full. Cross-currency swaps and currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies.

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds in Australian dollars, pounds sterling, Japanese yen, Norwegian kroner, Swiss francs, and U.S. dollars. On account of these hedging activities, Deutsche Telekom was not exposed to any significant currency risks in the area of financing at the reporting date.

The Group entities predominantly execute their operating activities in their respective functional currencies. Payments made in a currency other than the respective functional currency result in foreign-currency risks in the Group. These relate in particular to payments for the procurement of network equipment and mobile handsets as well as payments to international telecommunications companies for the provision of access services. Deutsche Telekom generally uses currency derivatives for hedging purposes. On account of these hedging activities, Deutsche Telekom was not exposed to any significant exchange rate risks from its operating activities at the reporting date.

For the presentation of market risks, IFRS 7 requires sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. In addition to currency risks, Deutsche Telekom is exposed to interest rate risks and price risks in its investments. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date. It is assumed that the balance at the reporting date is representative for the year as a whole.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration. Relevant risk variables are generally all non-functional currencies in which Deutsche Telekom has contracted financial instruments.

The currency sensitivity analyses are based on the following assumptions: Major non-derivative monetary financial instruments (liquid assets, receivables, interest-bearing securities and/or debt instruments held, interest-bearing liabilities, finance lease liabilities, non-interest-bearing liabilities) are either directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. Exchange rate fluctuations therefore have no effects on profit or loss, or shareholders' equity.

Non-interest-bearing securities or equity instruments held are of a non-monetary nature and therefore are not exposed to a currency risk as defined by IFRS 7.

Interest income and interest expense from financial instruments are also either recorded directly in the functional currency or transferred to the functional currency using derivatives. For this reason, there can be no effects on the variables considered in this connection.

In the case of fair value hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging transaction attributable to exchange rate movements balance out almost completely in the income statement in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

In the case of net investment hedges designed to hedge currency risks, the changes in the fair values of the hedged item and the hedging instrument attributable to exchange rate movements balance out completely in shareholders' equity in the same period. As a consequence, these financial instruments are not exposed to currency risks with an effect on profit or loss, or shareholders' equity, either.

Cross-currency swaps are always assigned to non-derivative hedged items, so these instruments do not have any currency effects, either.

Deutsche Telekom is therefore only exposed to currency risks from specific currency derivatives. Some of these are currency derivatives that are part of an effective cash flow hedge for hedging payment fluctuations resulting from exchange rate movements in accordance with IAS 39. Exchange rate fluctuations of the currencies on which these transactions are based affect the hedging reserve in shareholders' equity and the fair value of these hedging instruments. Others are currency derivatives that are neither part of one of the hedges defined in IAS 39 nor part of a natural hedge. These derivatives are used to hedge planned transactions. Exchange rate fluctuations of the currencies on which such financial instruments are based affect other financial income or expense (net gain/loss from remeasurement of financial assets and liabilities to fair value).

If the euro had gained (lost) 10 percent against the U.S. dollar and the pound sterling at December 31, 2015, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 38 million higher (lower) (December 31, 2014: EUR 21 million higher (lower)). The hypothetical effect of EUR 38 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 52 million and EUR/GBP: EUR -14 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2015, other financial income and the fair value of the hedging instruments before taxes would have been EUR 42 million higher (lower) (December 31, 2014: EUR 115 million higher (lower)). The hypothetical effect of EUR 42 million on profit or loss primarily results from the currency sensitivities EUR/PLN: EUR 26 million and EUR/USD: EUR 18 million.

**Interest rate risks.** Deutsche Telekom is exposed to interest rate risks, mainly in the euro zone and in the United States. To minimize the effects of interest rate fluctuations in these regions, Deutsche Telekom manages the interest rate risk for net debt denominated in euros and U.S. dollars separately. Once a year, the Board of Management stipulates the desired mix of fixed- and variable-interest net debt for a planning period of at least three years. Taking account of the Group's existing and planned debt structure, Treasury uses interest rate derivatives to adjust the interest structure for the net debt of the composition specified by the Board of Management.

Due to the derivative hedging instruments, an average of 53 percent (2014: 60 percent) of net debt in 2015 denominated in euros and 87 percent (2014: 93 percent) of net debt denominated in U.S. dollars had a fixed rate of interest. The average value is representative for the year as a whole. Since T-Mobile US as a self-financing company is responsible for the "net exposure in USD" and a higher fixed portion for high-yield issuers is quite usual in the market and appropriate, no interest rate management measures for the U.S. dollar were resolved or implemented in 2015.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components, and, if appropriate, shareholders' equity. The interest rate sensitivity analyses are based on the following assumptions: Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

In the case of fair value hedges designed for hedging interest rate risks, the changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements balance out almost completely in the income statement in the same period. This means that interest-rate-based changes in the measurement of the hedged item and the hedging instrument do not affect income and are therefore not subject to interest rate risk.

In the case of interest rate derivatives in fair value hedges, however, changes in market interest rates affect the amount of interest payments. As a consequence, they have an effect on interest income and are therefore included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserve in shareholders' equity and are therefore taken into consideration in the equity-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities.



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Changes in the market interest rate regarding interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect other financial income or expense and are therefore taken into consideration in the income-related sensitivity calculations. Currency derivatives are not exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

If the market interest rates had been 100 basis points higher at December 31, 2015, profit or loss before taxes would have been EUR 369 million (December 31, 2014: EUR 301 million) lower. If the market interest rates had been 100 basis points lower at December 31, 2015, profit or loss before taxes would have been EUR 443 million (December 31, 2014: EUR 366 million) higher. This simulation includes the effects from the financial instruments assigned to Level 3 described above. The hypothetical effect of EUR -369 million/EUR +443 million on income primarily results from the potential effects of EUR -353 million/EUR +426 million from interest rate derivatives, EUR -35 million/EUR +35 million from non-derivative, variable-interest financial liabilities, as well as EUR +33 million/EUR -33 million from other non-derivative financial assets. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments, which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2015, the hedging reserve would have been EUR 24 million lower (higher) (December 31, 2014: EUR 97 million higher (lower)), and gains and losses recognized in equity from

the remeasurement of available-for-sale financial assets before taxes would have been EUR 9 million lower (higher) (December 31, 2014: EUR 0 million).

**Other price risks.** As part of the presentation of market risks, IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices or indexes.

Aside from the value-creating factors in the financial instruments assigned to Level 3 described above, there were no other price risks as of December 31, 2015, as was also the case at December 31, 2014.

**Credit risks.** Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. As a rule, transactions with regard to financing activities are only concluded with counterparties that have at least a credit rating of BBB+/Baa1, in connection with an operational credit management system. At the level of operations, the outstanding debts are continuously monitored in each area, i. e., locally. Credit risks are taken into account through individual and collective allowances.

The solvency of the business with corporate customers, especially international carriers, is monitored separately. In terms of the overall risk exposure from the credit risk, however, the receivables from these counterparties are not so extensive as to justify extraordinary concentrations of risk.

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millions of €

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

millions of €

	Dec. 31, 2014			
	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	301	347	1,160	1,095
Amounts set off in the statement of financial position in accordance with IAS 32.42	(102)	(102)	-	-
<b>Net amounts presented in the statement of financial position</b>	<b>199</b>	<b>245</b>	<b>1,160</b>	<b>1,095</b>
<b>Amounts subject to enforceable master netting arrangements or similar agreements and not meeting all offsetting requirements in accordance with IAS 32.42</b>	<b>(11)</b>	<b>(11)</b>	<b>(1,108)</b>	<b>(1,091)</b>
Of which: amounts related to recognized financial instruments	(11)	(11)	(624)	(624)
Of which: amounts related to financial collateral (including cash collateral)	-	-	(484)	(467)
<b>NET AMOUNTS</b>	<b>188</b>	<b>234</b>	<b>52</b>	<b>4</b>

Offsetting is applied in particular to receivables and liabilities at Deutsche Telekom AG and Telekom Deutschland GmbH for the routing of international calls via the fixed network and for roaming fees in the mobile network.

In line with the contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability. The net amounts are normally recalculated every bank working day and offset against each other. When the netting of the positive and negative fair values of all derivatives was positive from Deutsche Telekom's perspective, the counterparty provided Deutsche Telekom with cash pursuant to the collateral contracts mentioned in Note 1 "Cash and cash equivalents," PAGE 180. The credit risk was thus further reduced.

When the netting of the positive and negative fair values of all derivatives was negative from Deutsche Telekom's perspective, Deutsche Telekom provided cash collateral to counterparties pursuant to collateral agreements. The net amounts are normally recalculated every bank working day and offset against each other. The cash collateral paid (please also refer to Note 8 "Other financial assets," PAGES 192 and 193) is offset by corresponding negative net derivative positions of EUR 95 million at the reporting date, which is why it was not exposed to any credit risks in this amount as of the reporting date. The collateral paid is reported under originated loans and receivables within other financial assets. On account of its close connection to the corresponding derivatives, the collateral paid constitutes a separate class of financial assets. Likewise, the collateral received, which is reported as other interest-bearing liabilities under financial liabilities, constitutes a separate class of financial liabilities on account of its close connection to the corresponding derivatives.

In accordance with the terms of bonds issued by a Deutsche Telekom subsidiary, this subsidiary has the right to terminate the bonds prematurely under specific conditions. The rights of termination constitute embedded derivatives and are accounted for separately as derivative financial assets. The conversion rights contained in Mandatory Convertible Preferred Stock issued by a subsidiary of Deutsche Telekom constitute an embedded derivative and are recognized separately as a derivative. Since these rights of termination and conversion rights are not exposed to a credit risk, they constitute a separate class of financial instruments.

No other significant agreements reducing the maximum exposure to the credit risks of financial assets existed. The maximum exposure to credit risk of the other financial assets thus corresponds to their carrying amounts.

In addition, Deutsche Telekom is exposed to a credit risk through the granting of financial guarantees. Guarantees amounting to a nominal total of EUR 84 million had been pledged as of the reporting date (December 31, 2014: EUR 50 million), which also represent the maximum exposure to credit risk.

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

**Risks from financing and loan commitments.** Deutsche Telekom granted the EE joint venture an irrevocable loan commitment of a maximum of GBP 225 million at arm's length market conditions in the reporting period which has not yet been utilized. The credit facility can be utilized at any time and will expire on November 14, 2016. The credit facility will be extended each time by a further twelve months, unless terminated three months prior to the end of the term. The nominal amount of GBP 225 million is the maximum default risk associated with this loan commitment. The arrangement allows for Deutsche Telekom to unilaterally terminate the credit facility with immediate effect upon consummation of the sale of the EE joint venture. Deutsche Telekom made use of this right of termination at the time of the consummation of the sale on January 29, 2016. As a result, the loan commitment was canceled and since that time there has been no further obligation on the part of Deutsche Telekom. For information on the consummation of the sale, please refer to Note 40 "Related-party disclosures," PAGES 239 and 240, and Note 43 "Events after the reporting period," PAGE 241.

In connection with the operation of a network in the United Kingdom by the EE joint venture, Deutsche Telekom had undertaken to make a payment in the event that the joint venture is unable to meet its contractual obligations. This guarantee is valid until December 9, 2029. The nominal amount of GBP 150 million is the maximum default risk associated with this guarantee. Following the consummation of the sale of the EE joint venture in January 2016, the guarantee obligation will in future be adapted to the new circumstances. For information on the consummation of the sale, please refer to Note 40 "Related-party disclosures," PAGES 239 and 240, and Note 43 "Events after the reporting period," PAGE 241.

No significant agreements reducing the maximum default risk of financing and loan commitments exist. There were no indications as of the reporting date that Deutsche Telekom will incur a loss.

**Liquidity risks.** Please also refer to Note 10 "Financial liabilities," PAGE 193 SET SEQ.

#### **HEDGE ACCOUNTING**

**Fair value hedges.** To hedge the fair value risk of fixed-interest liabilities, Deutsche Telekom primarily used interest rate swaps and forward interest rate swaps (pay variable, receive fixed) denominated in EUR, GBP, NOK, and USD. Fixed-income bonds denominated in EUR, GBP, NOK, and USD were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the Euribor, GBP Libor, NOK OIBOR, or USD Libor swap rate are offset against the changes in the value of the interest rate swaps. In addition, a cross-currency swap totaling AUD 125 million has been designated as fair value hedge, which converts a fixed interest-bearing bond into a variable interest-bearing security. The aim of this hedging is to transform the fixed-income bonds into variable-interest debt, thus hedging the fair value of the financial liabilities. Credit risks are not part of the hedging.

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The effectiveness of the hedging relationship is tested prospectively and retrospectively at each reporting date using statistical methods in the form of a regression analysis. All hedging relationships were sufficiently effective as of the reporting date.

In the reporting period, new fair value hedges with a total nominal volume of EUR 5.4 billion were designated for reducing the fair value risk.

As the list of the fair values of derivatives shows (see TABLE 166, PAGE 236), Deutsche Telekom had interest rate derivatives with a net fair value of EUR 0.3 billion (December 31, 2014: EUR 0.2 billion) designated as fair value hedges at December 31, 2015. The remeasurement of the hedged items resulted in losses of EUR 0.1 billion being recorded in other financial income/expense in the 2015 financial year (2014: losses of EUR 0.4 billion); the changes in the fair values of the hedging transactions resulted in gains of EUR 0.1 billion (2014: gains of EUR 0.4 billion) being recorded in other financial income/expense.

**Cash flow hedges – interest rate risks.** Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (pay fixed, receive variable) to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. The terms of the hedging relationships will end in the years 2016 through 2018. Credit risks are not part of the hedging.

The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis.

Ineffectiveness of EUR 7 million (income) was recognized in profit or loss under other financial income/expense in the reporting year (2014: income of EUR 19 million).

All designated hedging relationships were sufficiently effective as of the reporting date.

As the list of the fair values of derivatives shows (see TABLE 166, PAGE 236), Deutsche Telekom had interest rate derivatives with a fair value of EUR –0.1 billion (December 31, 2014: EUR –0.3 billion) amounting to a nominal total of EUR 1.0 billion (December 31, 2014: EUR 3.1 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2015.

The recognition directly in equity of the change in the fair value of the hedging instruments resulted in losses (before taxes) of EUR 1 million (2014: losses of EUR 97 million) in shareholders' equity in the 2015 financial year. Losses amounting to EUR 100 million (2014: losses of EUR 77 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2015 financial year.

**Cash flow hedges – currency risks.** Deutsche Telekom entered into currency derivative and cross-currency swap agreements to hedge cash flows not denominated in a functional currency. The payments in foreign currency to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The terms of the hedging relationships will end in the years 2016 through 2033. The effectiveness of the hedging relationship is tested prospectively and retrospectively using statistical methods in the form of a regression analysis. All designated hedging relationships were sufficiently effective as of the reporting date.

No new cash flow hedges of this kind were designated in the reporting period.

In the 2015 financial year, gains (before taxes) totaling EUR 654 million (2014: gains of EUR 362 million) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. In the 2015 financial year, gains totaling EUR 358 million recognized directly in equity were reclassified to other financial income/expense and losses totaling EUR 4 million were reclassified to profit/loss from operations (2014: gains of EUR 338 million were reclassified to other financial income/expense and gains of EUR 6 million to profit/loss from operations). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (see TABLE 166, PAGE 236), Deutsche Telekom had currency forwards of a net fair value of EUR –26 million (December 31, 2014: EUR –5 million), that are the result of foreign currency purchases totaling EUR 0.5 billion and foreign currency sales totaling EUR 0.7 billion (December 31, 2014: foreign currency purchases of EUR 0.2 billion and foreign currency sales of EUR 0.4 billion), as well as cross-currency swaps of a net fair value of EUR 0.9 billion (December 31, 2014: EUR 0.1 billion) and a total volume of EUR 4.8 billion (December 31, 2014: EUR 4.8 billion) designated as hedging instruments for cash flow hedges as of December 31, 2015.

**Hedging of a net investment.** The hedge of the net investment in T-Mobile US against fluctuations in the U.S. dollar spot rate designated in 2012 did not generate any effects in 2015. The level of gains/losses recognized directly in equity (total other comprehensive income) remained unchanged at EUR –0.4 billion (before taxes).

**Derivatives.** TABLE 166 shows the fair values of the various derivatives carried. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge, net investment hedge) or not. Other derivatives can also be embedded, i. e., a component of a composite instrument that contains a non-derivative host contract.

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millions of €

	Net carrying amounts Dec. 31, 2015	Net carrying amounts Dec. 31, 2014
<b>ASSETS</b>		
Interest rate swaps		
Without a hedging relationship	49	53
In connection with fair value hedges	290	222
In connection with cash flow hedges	-	-
Currency forwards/currency swaps		
Without a hedging relationship	29	67
In connection with cash flow hedges	7	4
Cross-currency swaps		
Without a hedging relationship	1,057	531
In connection with fair value hedges	-	-
In connection with cash flow hedges	863	282
Other derivatives in connection with cash flow hedges	-	-
Other derivatives without a hedging relationship	1	1
Embedded derivatives	390	183
<b>LIABILITIES</b>		
Interest rate swaps		
Without a hedging relationship	238	235
In connection with fair value hedges	-	-
In connection with cash flow hedges	74	252
Currency forwards/currency swaps		
Without a hedging relationship	147	229
In connection with cash flow hedges	33	9
In connection with net investment hedges	-	-
Cross-currency swaps		
Without a hedging relationship	76	185
In connection with fair value hedges	10	8
In connection with cash flow hedges	-	162
Other derivatives in connection with cash flow hedges	-	-
Other derivatives without a hedging relationship	58	15
Embedded derivatives	298	-

### Transfer of financial assets

**Factoring transactions with substantially all risks and rewards being transferred.** Since January 1, 2015, a factoring transaction has been in place under which a bank is required to purchase current trade receivables. The bank's purchase obligation revolves on a monthly basis and covers a maximum receivables amount of EUR 250 million when translated into euros. Sales exceeding this amount must be agreed on a case-by-case basis. The agreement runs until 2020, giving Deutsche Telekom the freedom to decide whether receivables will be sold and in which revolving nominal volume. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late payment risk). The credit risk represents substantially all the risks and rewards of ownership of the receivables and is transferred to the bank in full in return for payment of a fixed purchase price discount. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from late-payment risk relating to the receivables sold and derecognized as of December 31, 2015 (nominal volume EUR 306 million) is EUR 1 million. At the

derecognition date, the fixed purchase price discount and the fair value of the expected loss resulting from the late-payment risk was expensed. The expected loss resulting from the late-payment risk recognized under financial liabilities represents Deutsche Telekom's entire continuing involvement; as of December 31, 2015, the carrying amount and fair value each amounted to less than EUR 1 million. Deutsche Telekom expensed EUR 72 million in total in the 2015 financial year from its continuing involvement to account for purchase price discounts and program fees (interest and bank margin). Deutsche Telekom recognizes the purchase price payments received from the buyers under cash generated from operations (please refer to Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ.). The volume of receivables sold during the financial year amounted to between EUR 193 million and EUR 348 million. As of December 31, 2015, a total provision of EUR 3 million was recognized for the receivables management to be performed by Deutsche Telekom. A factoring agreement that was still active in the prior period was completed and settled as of the reporting date.

**Factoring transactions involving the splitting of significant risks and rewards as well as the transfer of control.** Factoring transactions are in place under which banks are required to purchase trade receivables. The receivables sold entail both charges already due and charges from sales of handsets payable over a period of up to two years. The banks' purchase obligation revolves on a monthly basis and covers a maximum receivables amount of EUR 737 million when translated into euros. Sales exceeding this amount must be agreed on a case-by-case basis. The purchase price up to a maximum amount of EUR 503 million will be paid out immediately upon sale; remaining portions of the purchase price will only be paid to the extent that the volume of receivables sold decreases further accordingly. The term of the agreements ends between 2016 and 2019, giving Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late payment risk). The purchase price corresponds to the nominal amount. The maximum credit risk from the various tranches to be borne by Deutsche Telekom amounts to EUR 134 million. The other credit risk-related losses are borne by the banks. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 150 million and thus reduces the exposure to loss. The late-payment risk continues to be borne almost in full by Deutsche Telekom. The maximum exposure to loss resulting from credit risk and late-payment risk relating to the receivables sold as of December 31, 2015 (nominal volume EUR 451 million when translated into euros), excluding loan insurance coverage, is EUR 151 million. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks between Deutsche Telekom and the bank). Control of the receivables sold was transferred to the banks because these have the practical ability to resell the receivables. All receivables sold as of December 31, 2015 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2015, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 4 million and its fair value was EUR 4 million. Deutsche Telekom expensed EUR 13 million, including credit-risk discounts and loss allocations to cover monthly credit risks, in the financial year from its continuing involvement including program fees (interest and bank margin), and has expensed a total amount of EUR 51 million since the beginning of the transaction. Deutsche Telekom recognizes the purchase price payments received from the buyers under cash generated from operations (please refer to Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ.). The bank has the right to sell back all overdue receivables to Deutsche Telekom. For some of the transactions, the

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purchase price corresponds to the nominal amount and is payable in the month following the buy-back (outstanding receivables volume as of December 31, 2015: EUR 370 million when translated into euros). In other transactions, the purchase price equals the actual proceeds from collection or disposal, and is payable in the month after Deutsche Telekom receives these proceeds from collection or disposal (outstanding receivables volume as of December 31, 2015: EUR 81 million when translated into euros). Such buy-backs would not affect the allocation of the credit risk-related losses in any way, not even in the event of buy-back at nominal amount, as such losses would be passed back to the bank in line with the agreed risk allocation. The volume of receivables sold was not subject to major fluctuations since the beginning of the transaction. The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2015 for the receivables management to be performed is less than EUR 1 million.

**Factoring transactions involving the splitting of significant risks and rewards with control remaining at Deutsche Telekom.** Deutsche Telekom has entered into five factoring agreements under which it sells trade receivables on a revolving basis. The receivables are sold on a daily basis and settled on a monthly basis. The receivables sold entail both charges already due and charges from sales of handsets payable over a period of up to two years. The debtors are consumers as well as business customers. In none of the transactions is Deutsche Telekom exposed to risks other than the credit risk and late-payment risk resulting from the sold receivables agreed in the respective agreement. The term of the agreements ends between 2017 and 2020.

In one factoring agreement, the buyers have a monthly revolving purchase obligation that covers a maximum receivables amount of EUR 1,331 million when translated into euros. The purchase price up to a maximum of EUR 689 million when translated into euros will be paid out immediately upon sale; remaining portions of the purchase price will only be paid to the extent that the volume of receivables sold decreases further accordingly. As part of this transaction, subsidiaries of Deutsche Telekom sell receivables to a structured entity that is also a subsidiary of Deutsche Telekom and was established for the sole purpose of this factoring agreement. The structured entity has no assets and liabilities other than those resulting from the purchase and sale of the receivables under the factoring agreement. It resells the receivables to another structured entity. Deutsche Telekom does not consolidate this other structured entity because it has no ability to direct this entity's relevant activities. This other structured entity sells the ownership interests in the receivables to banks on a pro-rata basis. The required funding is provided to the structured entity consolidated by Deutsche Telekom in the context of Deutsche Telekom's general Group financing. The structured entity not consolidated by Deutsche Telekom is financed by the external buyers of the receivables. All receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. The cash flows resulting from the buy-backs would be in the month following the buy-back. Such buy-backs of receivables would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 856 million as of the reporting date when translated into euros.

In another factoring agreement, the buyers have a monthly revolving purchase obligation. Here the amount of the purchase price to be paid immediately is determined on the basis of the characteristics of the receivables. The buyers' purchase obligation covers a receivables amount that leads to an immediate purchase price payment of EUR 735 million when translated into euros. The remaining purchase price is only paid if the volume of the receivables sold decreases accordingly or the characteristics of the receivables change. As part of this transaction, subsidiaries of Deutsche Telekom sell receivables to a structured entity that is also a subsidiary of Deutsche Telekom and was established for the sole purpose of this factoring agreement. The required funding is provided to this structured entity in the context of Deutsche Telekom's general Group financing. It has no assets and liabilities other than those resulting from the purchase and sale of the receivables under the factoring agreement. The structured entity transfers the legal role of creditor for the receivables to a bank that performs this role on behalf of the investors who have beneficial ownership of the receivables (administrative agent). These investors are a bank and a structured entity. Deutsche Telekom does not consolidate this structured entity because it has no ability to direct this entity's relevant activities. The structured entity is financed through the issue of commercial paper to third parties outside the Group or, alternatively, through a credit facility provided by a bank. All receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. Such buy-backs would not result in any cash outflow, but rather would correspondingly reduce the retained portions of the purchase price payable to Deutsche Telekom in the future. The buy-backs would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 941 million as of the reporting date when translated into euros.

Another factoring agreement has a maximum program volume of EUR 150 million. If the buyer agrees to purchase receivables beyond this amount, the purchase price payment shall be deferred until the maximum program volume decreases again by the corresponding amount. With this structure, there is no structured entity consolidated by Deutsche Telekom. Rather, the receivables are sold directly to a structured entity that is not consolidated by Deutsche Telekom due to the lack of ability to direct the entity's relevant activities. This structured entity holds the receivables and allocates the risks and rewards resulting from these to Deutsche Telekom and a bank on the basis of contractual arrangements. The structured entity is financed through the issue of commercial paper to third parties outside the Group or, alternatively, through a credit facility provided by a bank. In one receivables portfolio, the receivables are purchased in an automated process based on the purchase criteria set out in the receivables purchase agreement. In another receivables portfolio, the structured entity has the freedom to decide whether and which receivables will be purchased, though purchase of the agreed minimum volume is imperative. Deutsche Telekom is obligated to buy back aged receivables and receivables for which a write-down is imminent at nominal value. The cash flows resulting from the buy-backs would occur in the month following the buy-back. Such buy-backs of receivables would not affect the allocation of the credit risk-related losses in any way, as the latter would be passed back to the buyers in line with the agreed risk allocation. The nominal volume of the receivables sold by Deutsche Telekom and not yet settled by the debtors was EUR 100 million as of the reporting date.

None of the structured entities has business activities other than the purchase or sale of trade receivables or other investments.

Under another factoring agreement with a maximum volume of receivables of EUR 725 million, Deutsche Telekom sells the receivables directly to the purchasers outside the Group without using structured entities as intermediaries. If more receivables are purchased, the purchase price payment is deferred until the maximum program volume accordingly falls again. Deutsche Telekom has the freedom to decide whether receivables can be sold and in which volume. Receivables for which a write-down is imminent are sold back to Deutsche Telekom. Here the purchase price corresponds to the actual proceeds from collection or disposal and is payable in the month after Deutsche Telekom receives these proceeds from collection or disposal. As such, these buy-backs would affect neither the allocation of the credit risk-related losses nor Deutsche Telekom's liquidity situation.

Under another factoring agreement with a maximum volume of receivables of EUR 150 million, Deutsche Telekom sells the receivables directly to the purchasers outside the Group without using structured entities as intermediaries. Deutsche Telekom has the freedom to decide whether receivables can be sold and in which volume. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 35 million and thus reduces the exposure to loss.

The nominal volume of the receivables sold by Deutsche Telekom under the five factoring agreements and not yet settled by the debtors was EUR 2,773 million as of the reporting date when translated into euros. The risks relevant for the risk assessment with respect to the receivables sold are the credit risk and the risk of late payments (late payment risk). The maximum credit risk to be borne by Deutsche Telekom amounts to EUR 457 million as of the reporting date when translated into euros and is largely attributable to transactions involving structured entities. The other credit risk-related losses are borne by the buyers. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss for Deutsche Telekom resulting from credit risk and late-payment risk relating to the receivables sold at the reporting date is EUR 469 million when translated into euros and is largely attributable to transactions involving structured entities. Substantially all the risks and rewards of ownership of the receivables were neither transferred nor retained (allocation of the material risks and rewards between Deutsche Telekom and the buyers). Deutsche Telekom continues to perform servicing for the receivables sold. Under the factoring agreements in which structured entities are engaged, buyers have the right to transfer the servicing to third parties for no specific reason. Although Deutsche Telekom is not authorized to use the receivables sold other than in its capacity as servicer, it retains control over the receivables sold because the buyers and the structured entities do not have the practical ability to resell the purchased receivables. At the time the receivables are sold, the fair value of the expected losses is expensed. Expected future payments are presented as a component of the associated liability. In transactions with structured entities, certain portions of the purchase price are initially held back and, depending on the amount of the actual defaults, are only paid to Deutsche Telekom at a later date. To the extent that such portions of the purchase price are expected to be received in the future, they are recognized at fair value. Deutsche Telekom

continues to recognize the trade receivables sold to the extent of its continuing involvement, i. e., in the maximum amount with which it is still liable for the credit risk and late-payment risk inherent in the receivables sold, and recognizes a corresponding associated liability presented in liabilities to banks. The receivables and the associated liability are then derecognized in the extent to which Deutsche Telekom's continuing involvement is reduced (particularly when payment is made by the customer). The carrying amount of the receivables is subsequently reduced by the extent to which the actual losses to be borne by Deutsche Telekom resulting from the credit risk and the late-payment risk exceed the losses initially expected. This amount is recognized as an expense. Deutsche Telekom's continuing involvement as of December 31, 2015 amounted to EUR 469 million when translated into euros, and the carrying amount of the associated liability was EUR 475 million when translated into euros. Deutsche Telekom presents the purchase price payments received from the buyers under cash generated from operations where these relate to the derecognized portion of the receivables, and under net cash from/used in financing activities where they relate to the portion of the receivables that is still recognized (please also refer to Note 31 "Notes to the consolidated statement of cash flows," PAGE 216 ET SEQ.). The carrying amount of the provision recognized by Deutsche Telekom as of December 31, 2015 for the receivables management to be performed is EUR 4 million. The volume of receivables sold was not subject to major fluctuations since the beginning of the respective transaction.

### 38 CAPITAL MANAGEMENT

**Disclosures on capital management.** The overriding aim of Deutsche Telekom's capital management is to strike a balance between the contrasting expectations of the four stakeholders:

- Shareholders
- Providers of debt capital
- Employees
- "Entrepreneurs within the enterprise"

For further information, please refer to the section "Management of the Group," PAGE 63 ET SEQ., in the combined management report.

An important key performance indicator for the capital market communication with investors, analysts, and rating agencies is relative debt, i. e., net debt to adjusted EBITDA. This ratio stood at 2.4 at December 31, 2015 (December 31, 2014: 2.4). The target corridor for relative debt is between 2.0 and 2.5. Net debt is a non-GAAP figure not governed by International Financial Reporting Standards and its definition and calculation may vary from one company to another. A further essential key performance indicator is the equity ratio, i. e., the ratio of shareholders' equity to total assets as shown in the consolidated statement of financial position. The equity ratio was 26.5 percent as of December 31, 2015 (December 31, 2014: 26.3 percent). The target corridor is between 25 and 35 percent. In addition, Deutsche Telekom maintains a liquidity reserve covering all maturities of the next 24 months.

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**Calculation of net debt; shareholders' equity**

millions of €

	Dec. 31, 2015	Dec. 31, 2014
Financial liabilities (current)	14,439	10,558
Financial liabilities (non-current)	47,941	44,669
<b>FINANCIAL LIABILITIES</b>	<b>62,380</b>	<b>55,227</b>
Accrued interest	(1,014)	(1,097)
Other	(857)	(1,038)
<b>GROSS DEBT</b>	<b>60,509</b>	<b>53,092</b>
Cash and cash equivalents	6,897	7,523
Available-for-sale/held-for-trading financial assets	2,877	289
Derivative financial assets	2,686	1,343
Other financial assets	479	1,437
<b>NET DEBT</b>	<b>47,570</b>	<b>42,500</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>38,150</b>	<b>34,066</b>

**39 SERVICE CONCESSION ARRANGEMENTS**

Satellie NV, Machelen, Belgium, is a fully consolidated subsidiary of Deutsche Telekom and on July 25, 2014 signed a contractual arrangement with Viapass, the public agency responsible for toll collection in Belgium, for the establishment, operation, and financing of an electronic toll collection system. The system is expected to be in place by March 31, 2016. The operation phase that follows will have a duration of twelve years, with the additional option for Viapass to extend the term three times by one year. Satellie has no entitlement to the toll revenue collected but will receive contractually agreed fees for setting up and operating the system. Viapass is authorized to terminate the arrangement giving notice of six months with payment of reasonable compensation. In the event of regular or premature termination of the agreement, Satellie has an obligation to hand over to Viapass, on request, material assets for the operation of the toll collection system that have not yet passed to the ownership of Viapass; in such an event, however, the software platform for toll collection would not be handed over to Viapass. The agreement was classified as a service concessions arrangement within the meaning of IFRIC 12. During the phase of setting up the system, revenue from long-term construction contracts will be recognized pursuant to IAS 11 and a financial asset carried in accordance with IFRIC 12. The percentage of completion is determined as the percentage of cost incurred up until the reporting date relative to the total estimated cost (cost-to-cost method). Revenue from separate fees for operation and maintenance services during the operation phase will be recognized on an accrual basis in accordance with IAS 18. In the reporting year, revenue from construction contracts of EUR 239 million and capitalized costs from long-term construction contracts of EUR 293 million were reported under trade receivables. In accordance with IAS 11, revenue is only recognized in the amount of the contract costs expensed (zero-profit method). Total costs of EUR 293 million have been incurred so far under the construction contract.

**40 RELATED-PARTY DISCLOSURES**

**Federal Republic of Germany and other related parties.** The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 31.8 percent (December 31, 2014: 31.7 percent) of the share capital of Deutsche Telekom AG. The Federal Republic usually represents a solid majority at the shareholders' meeting due to its high attendance rate, giving the Federal Republic control over Deutsche Telekom. Therefore, the Federal Republic and the companies controlled by the Federal Republic, or companies over which the Federal Republic can exercise a significant influence are classified as related parties of Deutsche Telekom. Charges for services provided to the Federal Republic and its departments and agencies, and the individual companies are based on Deutsche Telekom's commercial pricing policies. Deutsche Telekom participates in the spectrum auctions of the Federal Network Agency. The acquisition of mobile communications spectrum through licenses may result in build-out requirements stipulated by the Agency.

The Federal Posts and Telecommunications Agency (Federal Agency) has been assigned certain tasks by law that affect cross-company issues at Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The Federal Agency's responsibilities include the continuation of the Civil Service Health Insurance Fund (Postbeamtenkrankenkasse), the recreation service (Erholungswerk), the supplementary retirement pensions institution (Versorgungsanstalt der Deutschen Bundespost), and the welfare service (Betreuungswerk) for Deutsche Telekom AG, Deutsche Post AG, and Deutsche Postbank AG. The coordination and administrative tasks are performed on the basis of agency agreements. Up to and including the 2012 reporting year, Deutsche Telekom maintained a joint pension fund, Bundes-Pensions-Service für Post und Telekommunikation e. V., Bonn (Federal Pension Service for Post and Telecommunications – BPS-PT), together with Deutsche Post AG and Deutsche Postbank AG for civil-servant pension plans. The German Act on the Reorganization of the civil-servant Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil-servant pensions (organized within the Civil Service Pension Fund) to the existing Federal Agency effective January 1, 2013. The civil-servant pension functions are therefore performed by the Civil Service Pension Fund as an integral part of the Federal Agency. This joint Civil Service Pension Fund works for the funds of all three companies and also handles the financial administration of the pension plan for the Federal Republic on a trust basis. For the 2015 financial year, Deutsche Telekom made payments in the amount of EUR 85 million (2014: EUR 58 million, 2013: EUR 58 million). Furthermore, payments are made to the Civil Service Pension Fund according to the provisions of the Act on the Reorganization of the Civil Service Pension Fund (please also refer to Note 12 "Provisions for pensions and other employee benefits," PAGE 197 ET SEQ.).

The Federal Republic and the companies controlled by the Federal Republic, or companies over which the Federal Republic can exercise a significant influence, are customers or suppliers of Deutsche Telekom and as such have mutual contractual relationships with Deutsche Telekom.

The Federal Republic of Germany (Federal Republic) and KfW Bankengruppe requested their dividend entitlements for the 2014 financial year relating to shares held in Deutsche Telekom AG be paid out partly in cash and partly in shares from authorized capital. In this connection, 13,905 thousand shares were transferred to the Federal Republic and 12,761 thousand shares to KfW Bankengruppe in June 2015. As of December 31, 2015, the Federal Republic held a share of 14.3 percent and KfW Bankengruppe a share of 17.5 percent in Deutsche Telekom AG. Otherwise, Deutsche Telekom did not execute any individually material transactions in the 2015 financial year at off-market terms and conditions or, as described, outside of its normal business activities.

**Joint ventures.** In the 2015 financial year, Deutsche Telekom generated revenue from service agreements (e. g., roaming charges) and service and licensing agreements, as well as other operating income totaling EUR 193 million (2014: EUR 283 million; 2013: EUR 294 million) from the EE joint venture established on April 1, 2010. Revenue generated with Toll Collect totaled EUR 83 million (2014: EUR 65 million, 2013: EUR 62 million), in particular from data processing and telecommunications services as well as consulting services.

Net funds of EUR 0.2 billion that had been originally invested by the EE joint venture were repaid to the company by Deutsche Telekom in the reporting year. Subsequently, the EE joint venture again invested a net EUR 0.2 billion with Deutsche Telekom.

At the end of the year, there were receivables vis-à-vis the EE joint venture in the amount of EUR 38 million (December 31, 2014: EUR 175 million, December 31, 2013: EUR 94 million), liabilities of EUR 235 million (December 31, 2014: EUR 257 million, December 31, 2013: EUR 241 million), and loan commitments of EUR 0.3 billion (December 31, 2014: EUR 0.3 billion, December 31, 2013: EUR 0.3 billion). The arrangement concerning the loan commitments allowed for unilateral termination by Deutsche Telekom with immediate effect upon consummation of the sale of the EE joint venture. At the closing date of the transaction, Deutsche Telekom AG exercised this termination right. As result, obligations from the loan commitment no longer exist. Loan guarantees and guarantee statements of EUR 0.9 billion (December 31, 2014: EUR 0.6 billion, December 31, 2013: EUR 0.6 billion) given by the company to third parties existed. Following the consummation of the sale of the EE joint venture on January 29, 2016, the guarantee obligations will in future be adapted to the new circumstances.

As of December 31, 2015, there were receivables vis-à-vis Toll Collect in the amount of EUR 40 million (December 31, 2014: EUR 11 million, December 31, 2013: EUR 13 million), liabilities of EUR 0 million (December 31, 2014: EUR 12 million, December 31, 2013: EUR 12 million), an equity maintenance undertaking, and loan guarantees granted to banks. For further details, please refer to Note 33 "Contingencies," PAGE 220 ET SEQ.

There are otherwise no material revenue, receivables or liabilities from or to joint ventures.

**Related individuals.** In the reporting period, expenses for short-term benefits payable to members of the Board of Management and the Supervisory Board amounted to EUR 16.1 million (2014: EUR 13.5 million) and expenses for other long-term benefits amounted to EUR 3.2 million (2014: EUR 2.5 million). Service cost of EUR 3.2 million (2014: EUR 2.4 million) was recorded for Board of Management benefits. In addition, expenses for share-based payment for Board of Management members were incurred in the amount of EUR 870 thousand (2014: EUR 862 thousand). EUR 0.0 million (2014: EUR 2.9 million) was paid for termination benefits and recognized as an expense.

As of December 31, 2015, Deutsche Telekom recognized provisions for Board of Management compensation from short-term benefits of EUR 5.6 million (2014: EUR 4.7 million) and from other long-term benefits of EUR 7.3 million (2014: EUR 5.9 million). Furthermore, the present value of the defined benefit obligation (DBO) from the Board of Management pension amounts to EUR 20.5 million (2014: EUR 18.3 million).

The compensation of the Board of Management and the Supervisory Board totaled EUR 23.5 million in the reporting year (2014: EUR 22.2 million).

For further information, please refer to the "Compensation report" in the combined management report, PAGE 143 ET SEQ., and Note 41 "Compensation of the Board of Management and the Supervisory Board," PAGE 240.

Employees elected to the Supervisory Board of Deutsche Telekom continue to be entitled to a regular salary as part of their employment contract. The amount of the salary is the adequate compensation for their job or activity within the Company. Besides this, no major transactions took place with related individuals.

## 41 COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

### COMPENSATION OF THE BOARD OF MANAGEMENT

The presentation of the system used for compensation of the Board of Management and the disclosures required in accordance with § 314 (1) No. 6a sentences 5–8 HGB are a component of the combined management report, PAGE 143 ET SEQ.

#### Board of Management compensation for the 2015 financial year

Total compensation of the members of the Board of Management for the 2015 financial year amounted to EUR 17.6 million (2014: EUR 13.9 million). This includes in total 101,207 entitlements to matching shares with a fair value on the date granted of EUR 1.4 million (2014: EUR 1.2 million).

#### Former members of the Board of Management

A total of EUR 7.1 million (2014: EUR 9.2 million) was granted for payments to and entitlements for former members of the Board of Management and their surviving dependents. Provisions (measured in accordance with IAS 19) totaling EUR 188.1 million (2014: EUR 196.9 million) were recognized for current pensions and vested rights to pensions for this group of persons and their surviving dependents.

#### Other

The Company has not granted any advances or loans to current or former Board of Management members, nor were any other financial obligations to the benefit of this group of people entered into.

### COMPENSATION OF THE SUPERVISORY BOARD

The main features of the compensation system and the disclosure of the compensation of the individual members of the Supervisory Board are a component of the combined management report, PAGE 151.

Total compensation of the members of the Supervisory Board for 2015 amounted to EUR 2,683,500.00 (plus VAT) and is comprised of fixed annual remuneration plus meeting attendance fees.

The Company has not granted any advances or loans to current or former Supervisory Board members, nor were any other financial obligations to the benefit of this group of people entered into.



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#### 42 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH § 161 AktG

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of Deutsche Telekom AG have submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom AG's website. The full text of the Declaration of Conformity can be found on the Deutsche Telekom website (www.telekom.com) under Investor Relations in the Corporate Governance section.

#### 43 EVENTS AFTER THE REPORTING PERIOD

**Sale of the EE joint venture.** After the British Competition and Markets Authority (CMA) had approved the sale of the EE joint venture to the UK company BT unconditionally and without remedies in January 2016, Deutsche Telekom AG and the French telecommunications provider Orange consummated the transaction on January 29, 2016 at an adjusted purchase price of GBP 13.2 billion. In return for its stake in the EE joint venture, Deutsche Telekom AG received a financial stake of 12.0 percent in BT and a cash payment of GBP 25.7 million. In total, the sale is expected to generate income of around EUR 2.5 billion; around EUR 0.9 billion of this amount will result from effects recognized directly in equity in prior years. In addition, on January 25, 2016, the shareholders received a final dividend totaling GBP 0.3 billion from the EE joint venture, which Deutsche Telekom participated in with the capital share the Company had at that date of 50.0 percent. The financial stake in BT received in connection with this transaction will be disclosed as available-for-sale financial assets under other financial assets. The financial stake will be measured at fair value directly in equity.

**Acquisition of mobile spectrum in the United States.** In January 2016, T-Mobile US acquired spectrum licenses covering nearly 20 million people in seven major metropolitan markets for approximately USD 0.6 billion in cash. In January 2016, T-Mobile US entered into agreements with third parties for the exchange and acquisition of spectrum licenses covering approximately 23 million people in seven major metropolitan markets. In the first quarter of 2016, spectrum licenses to be exchanged of USD 0.3 billion will therefore be reclassified to non-current assets and disposal groups held for sale. A non-cash gain is expected to be recognized upon closing of the exchange transaction, which is expected to occur in mid-2016, subject to regulatory approval and other customary closing conditions.

**Acquisition of mobile spectrum in Poland.** At the spectrum auction in Poland which ended in October 2015, T-Mobile Polska was the highest bidder, acquiring spectrum of some EUR 0.5 billion, which was paid at the start of February 2016. T-Mobile Polska is also in negotiations with the Polish regulatory authority UKE to accept additional spectrum amounting to around EUR 0.5 billion. This was offered to T-Mobile Polska by UKE after the highest bidder had declined to accept the spectrum. In accordance with the rules of the auction, T-Mobile Polska was offered the spectrum for purchase as the second highest bidder. T-Mobile Polska submitted an application for the allocation of this spectrum block on February 8, 2016.

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

TABLE 168 provides a breakdown of the auditor's professional fees recognized as expenses in the 2015 financial year:

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**PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft**  
 millions of €

	2015
Auditing services	15
Other assurance services	6
Tax advisory services	0
Other non-audit services	1
	22

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements, the review of the interim financial statements, auditing activities in connection with the documentation of the internal control system for financial reporting, and the auditing of information systems and processes, as well as fees for other auditing services.

Professional fees for other assurance services primarily relate to the commissioning of a review of regulatory issues for the Federal Network Agency.

Other non-audit services mainly relate to services in connection with fundamental business issues for the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities, and services for the strategic support.

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which is combined with the management report of Deutsche Telekom AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, February 9, 2016

Deutsche Telekom AG  
Board of Management

Timotheus Höttges

Reinhard Clemens

Niek Jan van Damme

Thomas Dannenfeldt

Dr. Christian P. Illek

Dr. Thomas Kremer

Claudia Nemat

# INDEPENDENT AUDITOR'S REPORT

## To Deutsche Telekom AG, Bonn

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Deutsche Telekom AG, Bonn, and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, for the financial year from January 1 to December 31, 2015.

### Board of Management's responsibility for the consolidated financial statements

The Board of Management of Deutsche Telekom AG, Bonn, is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Board of Management is also responsible for the internal controls as the Board of Management deems to be necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Audit opinion

According to § 322 (3) sentence 1 HGB we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2015 as well as the results of operations for the financial year then ended, in accordance with these requirements.

### Report on the Group management report

We have audited the accompanying Group management report of Deutsche Telekom AG, Bonn, which is combined with the management report of the Company, for the financial year from January 1 to December 31, 2015. The Board of Management of Deutsche Telekom AG is responsible for the preparation of the combined management report in accordance with the requirements of German commercial law applicable pursuant to § 315a (1) HGB. We conducted our audit in accordance with § 317 (2) HGB and German generally accepted standards for the audit of the combined management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the combined management report to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 (3) sentence 1 HGB we state that our audit of the combined management report has not led to any reservations.

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

Frankfurt/Main, February 9, 2016

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Thomas Tandetzki
Wirtschaftsprüfer	Wirtschaftsprüfer

# MEMBERS OF THE SUPERVISORY BOARD OF DEUTSCHE TELEKOM AG IN 2015

## PROF. DR. ULRICH LEHNER

Member of the Supervisory Board since April 17, 2008  
Chairman of the Supervisory Board since April 25, 2008  
Member of the Shareholders' Committee of Henkel AG & Co. KGaA, Düsseldorf

### Seats on the supervisory bodies of other companies:

- Porsche Automobil Holding SE, Stuttgart (since 11/2007)
- E.ON SE, Düsseldorf (since 4/2003)
- ThyssenKrupp AG, Duisburg and Essen (since 1/2008),  
Chairman of the Supervisory Board (since 3/2013)

### Member of comparable supervisory bodies of companies in Germany or abroad:

- Novartis AG, Basel, Switzerland,  
Member of the Board of Directors (from 3/2002 to 2/2015)

## LOTHAR SCHRÖDER

Member of the Supervisory Board since June 22, 2006  
Deputy Chairman of the Supervisory Board since June 29, 2006  
Member of the ver.di National Executive Board, Berlin

### Seats on the supervisory bodies of other companies:

- Vereinigte Postversicherung VVaG, Stuttgart (since 6/2011)

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Telekom Deutschland GmbH, Bonn (since 8/2003),  
Deputy Chairman of the Supervisory Board (since 9/2003)

## SARI BALDAUF

Member of the Supervisory Board since November 1, 2012  
Non-Executive Director and Chairwoman of the Board of Directors of Fortum Oyj, Espoo, Finland

### Seats on the supervisory bodies of other companies:

- Akzo Nobel N.V., Amsterdam, Netherlands (since 4/2012)
- Daimler AG, Stuttgart (since 2/2008)

## JOSEF BEDNARSKI

Member of the Supervisory Board since November 26, 2013  
Chairman of the Group Works Council at Deutsche Telekom AG, Bonn, since November 25, 2015  
Chairman of the Central Works Council at Deutsche Telekom Kundenservice GmbH, Bonn, until December 10, 2015  
Deputy Chairman of the Group Works Council at Deutsche Telekom AG, Bonn, until November 25, 2015

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Kundenservice GmbH, Bonn (from 11/2007 to 12/2015)

## DR. WULF H. BERNOTAT

Member of the Supervisory Board since January 1, 2010  
Managing Director and partner of Bernotat & Cie. GmbH, Essen  
Former Chairman of the Board of Management of E.ON AG, Düsseldorf

### Seats on the supervisory bodies of other companies:

- Allianz SE, Munich (since 4/2003)
- Bertelsmann SE & Co. KGaA, Gütersloh (since 5/2006)
- Bertelsmann Management SE, Gütersloh (since 5/2012)
- Deutsche Annington Immobilien SE, Düsseldorf,  
Chairman of the Supervisory Board (since 6/2013)
- Metro AG, Düsseldorf (from 5/2003 to 9/2015)

## MONIKA BRANDL

Member of the Supervisory Board since November 6, 2002  
Chairwoman of the Central Works Council at Deutsche Telekom AG, Bonn  
– no other seats –

## JOHANNES GEISMANN

Member of the Supervisory Board since February 6, 2014  
State Secretary, Federal Ministry of Finance, Berlin

### Seats on the supervisory bodies of other companies:

- KfW IPEX-Bank GmbH, Frankfurt/Main (since 2/2014)

## DR. HUBERTUS VON GRÜNBERG

Member of the Supervisory Board since May 25, 2000  
Deputy Chairman of the Board of Directors, Sapinda Holding B. V., Schiphol, Netherlands

### Member of comparable supervisory bodies of companies in Germany or abroad:

- ABB Ltd., Zurich, Switzerland, Chairman of the Board of Directors (from 5/2007 to 4/2015)
- Schindler Holding AG, Hergiswil, Switzerland,  
Member of the Board of Directors (from 5/1999 to 3/2015)

## KLAUS-DIETER HANAS

Member of the Supervisory Board since June 1, 2012  
Chairman of the Works Council at Deutsche Telekom Kundenservice GmbH, Central-Eastern District, Bonn

### Seats on the supervisory bodies of other companies:

- PSD-Bank Braunschweig eG, Braunschweig (since 11/1999),  
Deputy Chairman of the Supervisory Board (since 7/2011)

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### SYLVIA HAUKE

Member of the Supervisory Board since May 3, 2007  
 Chairwoman of the Central Works Council at Telekom Deutschland GmbH, Bonn

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Telekom Deutschland GmbH, Bonn (since 1/2011)

### LARS HINRICHS

Member of the Supervisory Board since October 1, 2013  
 CEO of Cinco Capital GmbH, Hamburg  
 – no other seats –

### HANS-JÜRGEN KALLMEIER

Member of the Supervisory Board since October 15, 2008  
 Chairman of the Central Works Council at T-Systems International GmbH, Frankfurt/Main

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (since 12/2010)

### PROF. DR. MICHAEL KASCHKE

Member of the Supervisory Board since April 22, 2015  
 CEO & President of Carl Zeiss AG, Oberkochen

Seats on the supervisory bodies of other companies:

- Henkel AG & Co. KGaA, Düsseldorf (since 4/2008)
- Carl Zeiss Meditec AG, Jena,  
Chairman of the Supervisory Board (since 3/2010)<sup>a</sup>
- Carl Zeiss Microscopy GmbH, Jena,  
Chairman of the Supervisory Board (since 10/2006)<sup>a</sup>
- Carl Zeiss Industrielle Messtechnik GmbH, Oberkochen,  
Chairman of the Supervisory Board (since 1/2014)<sup>a</sup>
- Carl Zeiss SMT GmbH, Oberkochen,  
Chairman of the Supervisory Board (since 1/2011)<sup>a</sup>

Member of comparable supervisory bodies of companies in Germany or abroad:

- Carl Zeiss de México S. A. de C.V., México D.F., Mexico,  
Chairman of the Board of Directors (since 1/2014)<sup>a</sup>
- Carl Zeiss Far East Co., Ltd., Hong Kong, China,  
Chairman of the Board of Directors (since 4/2002)<sup>a</sup>
- Carl Zeiss India (Bangalore) Private Ltd., Bangalore, India,  
Chairman of the Board of Directors (since 12/2009)<sup>a</sup>
- Carl Zeiss Pte. Ltd., Singapore, Singapore,  
Member of the Board of Directors (since 4/2002)<sup>a</sup>
- Carl Zeiss Pty. Ltd., North Ryde, Australia,  
Chairman of the Board of Directors (since 7/2001)<sup>a</sup>
- Carl Zeiss (Pty.) Ltd., Randburg, South Africa,  
Chairman of the Board of Directors (since 10/2003)<sup>a</sup>

<sup>a</sup>Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) sentence 2 AktG (German Stock Corporation Act).

### NICOLE KOCH

Member of the Supervisory Board since January 1, 2016  
 Deputy Chairwoman of the Group Works Council at Deutsche Telekom AG, Bonn  
 Chairwoman of the Works Council at Telekom Shop Vertriebsgesellschaft mbH, Bonn

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Telekom Shop Vertriebsgesellschaft mbH, Bonn (since 6/2004),  
formerly T-Punkt Vertriebsgesellschaft mbH, Bonn

### DAGMAR P. KOLLMANN

Member of the Supervisory Board since May 24, 2012  
 Entrepreneur, Deputy Chairwoman of the Supervisory Board, Deutsche Pfandbriefbank AG, Unterschleißheim  
 Former CEO of Morgan Stanley Bank, Frankfurt/Main  
 Former Member of the Board of Directors, Morgan Stanley Bank International Limited, London, United Kingdom

Seats on the supervisory bodies of other companies:

- Hypo Real Estate Holding AG, Unterschleißheim,  
Deputy Chairwoman of the Supervisory Board (from 8/2009 to 7/2016)
- Deutsche Pfandbriefbank AG, Unterschleißheim,  
Deputy Chairwoman of the Supervisory Board (since 8/2009)
- KfW IPEX-Bank GmbH, Frankfurt/Main (since 5/2012)
- Unibail-Rodamco SE, Paris, France (since 5/2014)

Member of comparable supervisory bodies of companies in Germany or abroad:

- Bank Gutmann Aktiengesellschaft, Vienna, Austria,  
Member of the Supervisory Board (since 9/2010)
- Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) (regional state bank/development bank of Baden-Württemberg), Karlsruhe, agency under public law (not a commercial enterprise within the meaning of § 100 (2), sentence 1, no. 1 AktG),  
Member of the Advisory Board, purely advisory body (since 7/2004)
- Member of the Monopolies Commission (since 1/2012)

### PETRA STEFFI KREUSEL

Member of the Supervisory Board since January 1, 2013  
 Senior Vice President, Strategic Development and Support, at T-Systems International GmbH, Frankfurt/Main  
 Deputy Chairwoman of the Group Executive Staff Representation Committee of Deutsche Telekom AG, Bonn  
 Deputy Chairwoman of the Executive Staff Representation Committee of T-Systems International GmbH, Frankfurt/Main

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (since 12/2010)

**DR. ULRICH SCHRÖDER**

Member of the Supervisory Board since October 1, 2008  
 Chairman of the Board of Managing Directors of KfW, Frankfurt/Main

**Seats on the supervisory bodies of other companies:**

- DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne (since 10/2009)<sup>a</sup>
- Deutsche Post AG, Bonn (since 9/2008)
- 2020 European Fund for Energy, Climate Change and Infrastructure (“Marguerite Fund”), Luxembourg, Luxembourg (since 11/2009)

**MICHAEL SOMMER**

Member of the Supervisory Board since April 15, 2000  
 Trade Union Secretary, former Chairman of the German Confederation of Trade Unions (DGB), Berlin  
 – no other seats –

**SIBYLLE SPOO**

Member of the Supervisory Board since May 4, 2010  
 Lawyer, Trade Union Secretary at the ver.di Federal Administration, Berlin  
 – no other seats –

**KARL-HEINZ STREIBICH**

Member of the Supervisory Board since October 1, 2013  
 CEO of Software AG, Darmstadt

**Seats on the supervisory bodies of other companies:**

- Deutsche Messe AG, Hanover (since 1/2013)
- Dürr AG, Bietigheim-Bissingen (since 5/2011),  
 Deputy Chairman of the Supervisory Board (since 4/2014)

**Supervisory Board members who left in 2015:****INES KOLMSEE**

Member of the Supervisory Board from January 31 to April 9, 2015  
 Entrepreneur at Smart Hydro Power GmbH, Feldafing, and  
 Member of the Board of Management, Technik EWE AG,  
 Oldenburg, since May 1, 2015

**Seats on the supervisory bodies of other companies:**

- Fuchs Petrolub SE, Mannheim (from 5/2011 to 5/2015)

**Member of comparable supervisory bodies of companies in Germany or abroad:**

- Umicore SA, Brussels, Belgium (since 4/2011)
- Suez Environnement SA, Paris, France (since 5/2014)

**WALTRAUD LITZENBERGER**

Member of the Supervisory Board from June 1, 1999 to December 31, 2015  
 Chairwoman of the Group Works Council at Deutsche Telekom AG,  
 Bonn, until November 25, 2015  
 – no other seats –

**DR. H. C. BERNHARD WALTER**

Member of the Supervisory Board from May 27, 1999 to January 11, 2015 (†)  
 Former Chairman of the Board of Managing Directors, Dresdner Bank AG,  
 Frankfurt/Main  
 – no other seats –

<sup>a</sup>Supervisory board seats in companies that are part of the same group, as defined in § 100(2) sentence 2 AktG (German Stock Corporation Act).

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# MEMBERS OF THE BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG IN 2015

## TIMOTHEUS HÖTTGES

Chairman of the Board of Management since January 1, 2014

### Seats on the supervisory bodies of other companies:

- FC Bayern München AG, Munich (since 2/2010)

### Member of comparable supervisory bodies of companies in Germany or abroad:

- BT Group plc, London, United Kingdom, Member of the Board of Directors (since 1/2016)

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Mobile US, Inc., Bellevue, United States, Chairman of the Board of Directors (since 5/2013)
- Telekom Deutschland GmbH, Bonn (since 4/2005), Chairman of the Supervisory Board (since 7/2009)

## REINHARD CLEMENS

Board member responsible for T-Systems since December 1, 2007  
 – no other seats –

## NIEK JAN VAN DAMME

Board member responsible for Germany since July 1, 2009

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Kundenservice GmbH, Bonn (since 8/2009)
- Deutsche Telekom Technischer Services GmbH, Bonn (since 9/2009), Chairman of the Supervisory Board (since 12/2009)
- Telekom Shop Vertriebsgesellschaft mbH, Bonn (since 8/2009), Chairman of the Supervisory Board (since 9/2009)
- T-Mobile Netherlands Holding B. V., The Hague, Netherlands, Chairman of the Supervisory Board (since 4/2014)

## THOMAS DANNENFELDT

Board member responsible for Finance since January 1, 2014

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- BUYIN S. A., Brussels, Belgium, Member of the Board of Directors (since 2/2014)
- Deutsche Telekom Services Europe GmbH, Bonn, Chairman of the Supervisory Board (since 1/2016)
- EE Limited, Hatfield, United Kingdom (from 2/2014 to 1/2016), Chairman of the Board of Directors (from 4/2014 to 1/2016)
- T-Mobile US, Inc., Bellevue, United States, Member of the Board of Directors (since 11/2013)
- T-Systems International GmbH, Frankfurt/Main, Chairman of the Supervisory Board (since 1/2014)

## DR. CHRISTIAN P. ILLEK

Board member responsible for Human Resources and Labor Director since April 1, 2015

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Telekom Deutschland GmbH, Bonn (since 5/2015)
- T-Systems International GmbH, Frankfurt/Main (since 5/2015)

## DR. THOMAS KREMER

Board member responsible for Data Privacy, Legal Affairs and Compliance since June 1, 2012, and acting Board member responsible for Human Resources from January to April 2014, and interim Board member responsible for Human Resources from May 1, 2014 to March 31, 2015

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (since 5/2015)

## CLAUDIA NEMAT

Board member responsible for Europe and Technology since January 1, 2012  
 Board member responsible for Europe since October 1, 2011

### Seats on the supervisory bodies of other companies:

- LANXESS AG, Leverkusen (since 7/2013)

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- BUYIN S. A., Brussels, Belgium (since 2/2012), Chairwoman of the Board of Directors (since 1/2015)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S. A. (OTE S. A.), Marousi, Athens, Greece (since 10/2011)

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# GLOSSARY

**4G.** Refers to the fourth-generation mobile communications standard that supports higher transmission rates (see LTE).

**5G.** The 5G mobile communications standard is to be introduced from 2020.

**All IP – All Internet Protocol.** An all-IP network makes services such as VoIP (Voice over IP), IPTV (Internet Protocol Television), data transfer, etc. available to all users anywhere at all times. The data is transmitted in switched packets using the Internet Protocol (IP).

**AT&T transaction.** For details on the AT&T transaction relating to T-Mobile USA and the effects of the termination of the agreement on the sale of the former T-Mobile USA to AT&T, please refer to the 2011 Annual Report (in particular PAGES 76 and 182 ET SEQ.).

**Big data.** The storage, preparation, processing, and analysis of large volumes of data.

**Bitstream access.** Wholesale service used by alternative telephone companies to provide broadband lines.

**Carrier.** A telecommunications network operator.

**Cash capex.** Investments in property, plant and equipment, and intangible assets (excluding goodwill) as shown in the statement of cash flows.

**Cloud computing.** Refers to the dynamic provision of infrastructure, software, or platform services online. Apart from a high level of automation and virtualization, the services provided have to be multi-client-capable and include standardized hardware and software. Customers source these services on demand and pay based on actual usage. The communication infrastructure may be the Internet (public cloud), a corporate network (private cloud), or a mix of the two (hybrid cloud). Dynamic Services is a T-Systems product for the flexible procurement of ICT resources and services.

**Connected life and work.** Refers to the convenient management of all personal data and Internet services on any screen – whether tablet, PC, cell phone, or TV set. Requires secure storage of data in the network, which can then be accessed by all devices via broadband networks.

**Contingent model.** Contract concluded over a long period of time with defined advance payment and minimum purchase requirement. In return, the resellers pay a reduced monthly charge for VDSL. This allows them to put together interesting offers for their own consumers without having to invest in fiber-optic lines of their own. This improves the utilization of Telekom Deutschland GmbH's existing VDSL network. The current "contingent model" is being developed further to reflect the network build-out in terms of availability and bandwidth.

**Cyber security/safety.** Protection against Internet crime.

**De-Mail.** The secure electronic counterpart to classic paper-based mail. With the new service, private individuals and companies can send and receive messages and documents securely, confidentially, and verifiably over the Internet.

**Desktop services.** Global desktop services involve a variety of support services, including the outsourcing of entire IT networks. In this context, Deutsche Telekom offers a full portfolio of corporate IT services, from server infrastructure and PC workstations through to application management and call center services that provide user support.

**Entertain.** Deutsche Telekom's Internet Protocol TV service (see also IPTV). TV signals are transported over the digital subscriber line, facilitating interactive features such as time-shift TV or access to online video stores. Entertain provides hybrid offerings which use not only the DSL line but also the satellite infrastructure for delivering TV signals.

**ERP – Enterprise Resource Planning.** Refers to systems that help deploy an organization's resources such as capital, equipment, and human resources as efficiently as possible in order to optimize business processes.

**Fiber-optic lines.** Sum of all FTTx access lines (e.g., FTTC/VDSL, vectoring, and FTTH).

**Fixed-network lines.** Lines in operation excluding internal use and public telecommunications, including IP-based lines. The totals reported in the combined management report were calculated on the basis of precise figures and rounded to millions or thousands. Percentages were calculated on the basis of the figures shown.

**FMC – Fixed Mobile Convergence.** The merger of fixed-network and mobile rate plans for customers that have fixed-network and mobile contracts with Deutsche Telekom.

**FTTB – Fiber to the Building or Fiber to the Basement.** In telecommunications FTTB means that the fiber-optic cable is terminated in the user's house (basement).

**FTTC – Fiber to the Curb.** In the FTTC architecture the fiber-optic cable is not terminated inside users' homes (see FTTH) but in a cable distribution box (gray street cabinet). Existing copper technology is used for the last section of the connection to the user.

**FTTH – Fiber to the Home.** In telecommunications FTTH means that the fiber-optic cable is terminated right in the user's home or apartment.

**FTTx.** This includes the three options for fiber-optic roll-out: FTTB, FTTC, and FTTH.

**GHG Protocol.** The Greenhouse Gas (GHG) Protocol divides emissions into the Scope 1, Scope 2, and Scope 3 categories, depending on the degree to which they can be influenced by the reporting company.

- Scope 1 accounts for all direct GHG emissions.
- Scope 2 accounts for indirect emissions associated with the generation of electricity, steam, or heat purchased from external sources.
- Scope 3 allows for the treatment of all other indirect emissions associated with logistics, use of materials, supplies, and waste disposal, including emissions generated by service and manufacturing companies working for the reporting company and their upstream suppliers.

**Housing sector.** Business model: partnering between Deutsche Telekom and the housing sector.

**Hybrid line.** Combines the strengths of the DSL/VDSL fixed network and the LTE mobile network. While using the Internet at home the hybrid router transports the permanent data load with top priority via the DSL/VDSL line. During peak load the router automatically connects to the high-speed mobile network for down- and uploading.

**Hybrid router.** Routers that are able to combine the customer's fixed and mobile bandwidths.

**IC – Interconnection.** See MTR.

**ICT – Information and Communication Technology.**

**Intelligent network.** Refers to a service-oriented centralized system that piggybacks onto an existing communication network, adding intelligent network components and additional features in the process.

**IP – Internet Protocol.** Non-proprietary transport protocol in Layer 3 of the OSI reference model for inter-network communications.

**IPTV – Internet Protocol Television.** Refers to the digital transfer of television programs and films over a digital data network using the Internet Protocol (IP).

**Joint venture.** Two or more companies set up a joint enterprise for cooperation.

**LTE – Long Term Evolution.** New generation of 4G mobile communications technology using, among others, wireless spectrum on the 800 MHz band freed up by the digitization of television. Powerful TV frequencies enable large areas to be covered with far fewer radio masts. LTE supports speeds of over 100 Mbit/s downstream and 50 Mbit/s upstream, and facilitates new services for mobile phones, smartphones, and tablets.

**M2M – Machine to Machine. Communication between machines.** The information is automatically sent to the recipient. For example, in an emergency, alarm systems automatically send a signal to security or the police.

**Mobile customers.** In the combined management report, one mobile communications card corresponds to one customer. The totals were calculated on the basis of precise figures and rounded to millions or thousands. Percentages were calculated on the basis of the figures shown (see also SIM card).

**MTR – Mobile Termination Rate.** Termination refers to the transportation of a call, e. g., from the competitor's network to the Deutsche Telekom network. When a call is transported to the mobile communications network, this is referred to as mobile termination. If the call is transported to the fixed network, this is called fixed-network termination, or simply interconnection (IC). Termination rates are the fee a telephone company must pay for network interconnection when a call is terminated in a third-party network.

**MVNO – Mobile Virtual Network Operator.** Company that offers mobile minutes at relatively low prices without subsidized handsets. A mobile virtual network operator does not have its own wireless network, but uses the infrastructure of another mobile operator to provide its services.

**Optical fiber.** Channel for optical data transmission.

**OTT player – Over-The-Top player.** Provider of IP-based, platform-independent services, such as WhatsApp.

**Postpaid.** Customers who pay for communications services after receiving them (usually on a monthly basis).

**Prepay/prepaid.** In contrast to postpay contracts, prepay communication services are services for which credit has been purchased in advance with no fixed-term contractual obligations.

**PSTN – Public Switched Telephone Network.** Global public telephone network comprising elements such as telephones, connecting cables, and exchanges.

**Rating.** Assessment of the creditworthiness of securities or debtors by rating agencies. Deutsche Telekom defines a rating corridor in its finance strategy that is designed to safeguard access to the international capital markets.

**Retail.** The sale of goods and services to end users, as opposed to resale or wholesale.

**Reverse factoring.** Reverse factoring is a method of financing that enables suppliers to sell receivables.

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**Roaming.** Refers to the use of a communication device or just a subscriber identity in a visited network rather than one's home network. This requires the operators of both networks to have reached a roaming agreement and switched the necessary signaling and data connections between their networks. Roaming comes into play when cell phones and smartphones are used across national boundaries.

**Router.** A coupling element that connects two or more sub-networks. Routers can also extend the boundaries of a network, monitor data traffic, and block any faulty data packets.

**Servers managed and serviced.** Computing & desktop services of the business customer segment. Comprises all systems – physical and logical (virtual) systems.

**Service revenues.** Revenues generated with mobile customers from services (i. e., revenues from voice services – incoming and outgoing calls – and data services), plus roaming revenues, monthly charges, and visitor revenues.

**SIM card – Subscriber Identification Module card.** Chip card that is inserted into a cell phone to identify it in the mobile network. Deutsche Telekom counts its customers by the number of SIM cards activated and not churned. Customer totals also include the SIM cards with which machines can communicate automatically with one another (M2M cards). The churn rate is determined and reported based on the local markets of the respective countries.

**Stakeholder.** The stakeholder approach is an extension of the shareholder value approach, a concept frequently used in business administration. In contrast to the shareholder value principle, which focuses on the needs and expectations of a company's shareholders, the stakeholder approach attempts to appreciate the company against its overall social background and reconcile the needs of the different stakeholders. In addition to shareholders, stakeholders include staff, customers, suppliers, the government, and the public at large.

**ULL – Unbundled Local Loop.** Competitors whose own networks do not reach into customers' premises can rent unbundled local loop lines from Deutsche Telekom. Their networks end at the local exchanges. The ULL bridges the distance between the local exchange and the termination point on the customer's premises or in their home, so it is also known as the "last mile."

**Utilization rate.** Ratio of average number of hours billed to maximum possible hours billed per period.

**Vectoring.** Vectoring is a noise-canceling technology that removes the electromagnetic interference between lines, enabling higher bit rates. However, in order to cancel noise, the operator must have control over all lines. This means that other operators cannot install their own technology at the cable distribution boxes.

**VPN – Virtual Private Network.** A computer network that uses a public network to transmit private data. The data is "tunneled" through the public network and is usually encrypted in the process. However, the term "private" does not necessarily imply encrypted transmission. The variant commonly used today is the IP VPN that connects users via IP tunnels.

**Wholesale.** Refers to the business of selling services to third parties who sell them to their own end customers either directly or after further processing.

**Wholesale bundled lines – IP-Bitstream Access/IP-BSA.** Wholesale product for which Deutsche Telekom leases DSL lines to the competitor and transports the datastream via its concentrator network to the associated broadband point of presence (PoP), where the datastream is handed over to the competitor. In contrast to voluntary DSL resale, IP-BSA is a wholesale service required by the regulatory authority. This product is available in conjunction with a Deutsche Telekom PSTN line or as a DSL stand-alone variant (see also Wholesale unbundled lines).

**Wholesale unbundled lines – including IP-BSA Stand Alone (IP-BSA SA).** Wholesale product not bundled with a PSTN line of Deutsche Telekom that enables competitors to provide an all-IP service to retail customers.

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

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## FINANCIAL CALENDAR

### Financial calendar<sup>a</sup>

Press conference on the 2015 financial statements and publication of the 2015 Annual Report	February 25, 2016
Group report as of March 31, 2016	May 4, 2016
2016 shareholders' meeting (Cologne)	May 25, 2016
Dividend payout <sup>b</sup>	June 22, 2016
Group report as of June 30, 2016	August 11, 2016
Group report as of September 30, 2016	November 10, 2016
Press conference on the 2016 financial statements and publication of the 2016 Annual Report	March 2, 2017

All dates are subject to change.

<sup>a</sup>For more dates, an updated schedule, and information on webcasts, please go to [www.telekom.com/financial-calendar](http://www.telekom.com/financial-calendar).

<sup>b</sup>Deutsche Telekom is again considering paying out the dividend either in cash or in the form of shares. The cash dividend is expected to be paid out on June 22, 2016. Subject to approval by the relevant bodies and the fulfillment of other legal provisions.

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