



# ANATOMY OF THE DIGITAL FUTURE.

THE 2013 FINANCIAL YEAR.



LIFE IS FOR SHARING.



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## NAVIGATION AID.



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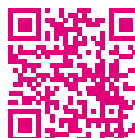
Further information  
can be found in the  
Annual Report.



Glossary for  
definition of terms.



Sustainability at  
Deutsche Telekom.



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2013 FACTS AND FIGURES.

# **2013 FACTS AND FIGURES**



**LIFE IS FOR SHARING.**

# SHORT PROFILE.

Life is for sharing. We make this possible by providing digital arteries for society. In the form of the best, fastest, and the most secure networks. In the form of innovative products and services for the fixed network, for mobile communications, Internet, and television. And in the form of innovative IT solutions for business customers. We are looking ahead: The anatomy of the digital future is already taking shape and we are an important part of it. As the heart – with our enthusiasm for communication and our motivation to keep improving. As the head – with a whole raft of innovations developed in-house or together with imaginative partners. And as the backbone – with an ambitious program to build out today's best networks. We will keep bringing the digital world to as many people's fingertips as possible, now and in the future.

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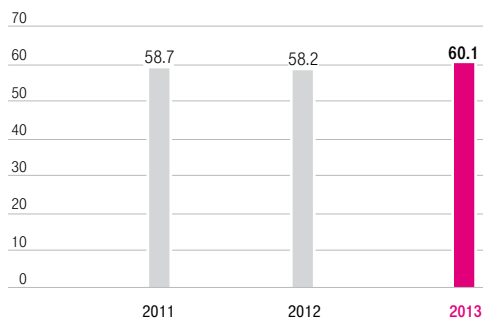
# DEUTSCHE TELEKOM AT A GLANCE.

In 2013, we were once again in line with all of our key financial targets, with adjusted EBITDA at EUR 17.4 billion and free cash flow even slightly over target at EUR 4.6 billion. Net revenue increased by 3.4 percent to EUR 60.1 billion, largely due to encouragingly strong revenue growth in the United States. While revenue in Germany decreased only slightly, the sustained difficult economic environment, intense competition, and massive regulatory intervention had a negative impact on revenue at our European subsidiaries. As expected, adjusted EBITDA declined by 3.1 percent. Although we recorded slight growth in adjusted EBITDA in the United States and only a moderate decline in Germany, cost-cutting measures only partially offset the decline in revenues in the Europe operating segment.

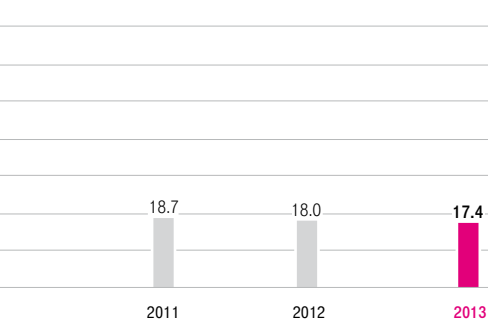
Following the net loss of EUR 5.4 billion we recorded in 2012 due mainly to the impairment loss recognized in our United States operating segment, we generated net profit of EUR 0.9 billion in the reporting year. Net profit adjusted for special factors also increased from EUR 2.5 billion to EUR 2.8 billion as a result of lower depreciation, amortization and impairment losses, which more than offset the decline in adjusted EBITDA.

The business combination of T-Mobile USA and MetroPCS in May 2013 had a lasting impact on the development of earnings, contributing as much as EUR 2.5 billion to the Group's net revenue in the reporting year. By contrast, sales of companies such as Globul

**Net revenue.**  
billions of €



**Adjusted EBITDA.<sup>a</sup>**  
billions of €



<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013. ROCE was only adjusted for 2012.



and Germanos in Bulgaria and Hellas Sat in Greece had a negative effect of around EUR 0.25 billion on the development of revenue. The impact of these transactions on net profit was only minor, however.

Net debt increased over the course of the year from EUR 36.9 billion to EUR 39.1 billion. Free cash flow (EUR 4.6 billion), proceeds from the sale of stakes (EUR 0.9 billion), and the capital increase at T-Mobile US (EUR 1.3 billion) in particular had a positive impact. This was offset primarily by an effect of EUR 3.4 billion from the first-time inclusion of MetroPCS, the payment of dividends, including to non-controlling interests, totaling EUR 2.2 billion, and the acquisition of mobile spectrum for a total amount of EUR 2.2 billion, mainly in the Netherlands (EUR 0.9 billion), Austria (EUR 0.7 billion) and the United States (EUR 0.3 billion).

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



Cash capex (before spectrum investments) totaled EUR 8.9 billion in the reporting year and mainly related to further rolling out broadband and expanding capacities in existing networks. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes. In the fixed-network area, priority was given to expanding the fiber-optic infrastructure, to IPTV, and to the continued migration of the existing telephone network to an IP-based network. Investments in our home market in Germany remained at a consistently high level. In the United States operating segment, our investment activities continued to focus on modernizing the mobile communications network, and capital expenditure increased overall as a result of acquiring MetroPCS in 2013. Cash capex in our Europe operating segment increased slightly as a result of the intensified LTE roll-out. Capital expenditure in our Systems Solutions operating segment focused on the Group's internal IT systems as well as on investments in connection with customer orders and the continued roll-out of new multi-purpose platforms, e.g., for cloud services, De-Mail, and intelligent networks.

At 3.8 percent, our key performance indicator "return on capital employed" (ROCE) substantially recovered in 2013 from the negative value in the prior year. The improvement in the operating result after depreciation, amortization and impairment losses and tax (net operating profit after taxes, or NOPAT) and the reduction in the average value of assets tied up in the course of the year (net operating assets, or NOA) contributed to this development. Examples of measures we have implemented to date to improve our ROCE include network partnerships, our "contingent" model, joint ventures we have entered into, the changes we have made to our portfolio, cell tower sales in the United States, and the realignment of our central management and service functions.

2013 was also a good year for our shareholders: They benefited not only from the dividend of EUR 0.70 per share paid out for the 2012 financial year, but also from an increase of 42 percent in our share price.

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

# SELECTED FINANCIAL DATA OF THE GROUP.

T 001

billions of €

		Change compared to prior year % <sup>a</sup>	2013	2012 <sup>b</sup>	2011 <sup>b</sup>	2010
<b>REVENUE AND EARNINGS</b>						
Net revenue		3.4	60.1	58.2	58.7	62.4
Of which: domestic <sup>a</sup>	%	(2.1)	42.2	44.3	44.9	43.7
Of which: international <sup>a</sup>	%	2.1	57.8	55.7	55.1	56.3
Profit (loss) from operations (EBIT)		n. a.	4.9	(4.0)	5.6	5.5
Net profit (loss)		n. a.	0.9	(5.4)	0.5	1.7
Net profit (loss) (adjusted for special factors)		8.6	2.8	2.5	2.9	3.4
EBITDA <sup>c,d</sup>		(12.0)	15.8	18.0	20.0	17.3
EBITDA (adjusted for special factors) <sup>c,d</sup>		(3.1)	17.4	18.0	18.7	19.5
EBITDA margin (adjusted for special factors) <sup>a</sup>	%	(2.0)	28.9	30.9	31.8	31.2
<b>PROFITABILITY</b>						
ROCE		6.2	3.8	(2.4)	3.8	3.5
<b>STATEMENT OF FINANCIAL POSITION</b>						
Total assets		9.5	118.1	107.9	122.5	127.8
Shareholders' equity		5.0	32.1	30.5	40.0	43.0
Equity ratio <sup>a</sup>	%	(1.2)	27.1	28.3	32.7	33.7
Net debt <sup>d</sup>		6.1	39.1	36.9	40.1	42.3
Relative debt (Net debt/EBITDA (adjusted for special factors)) <sup>a,c</sup>		n. a.	2.2	2.1	2.1	2.2
<b>CASH FLOWS</b>						
Net cash from operating activities		(4.1)	13.0	13.6	16.2	14.7
Cash capex		31.3	(11.1)	(8.4)	(8.4)	(9.9)
Free cash flow (before dividend payments, spectrum investment) <sup>d,e,f,g</sup>		(26.2)	4.6	6.2	6.4	6.5
Net cash used in investing activities		(48.3)	(9.9)	(6.7)	(9.3)	(10.7)
Net cash from (used in) financing activities		n. a.	1.0	(6.6)	(6.0)	(6.4)
<b>EMPLOYEES</b>						
Average number of employees (full-time equivalents, without trainees)	thousands	(1.1)	230	232	240	252
Revenue per employee <sup>a</sup>	thousands of €	4.6	261.8	250.4	244.0	247.2
<b>T-SHARE - KEY FIGURES</b>						
Earnings per share (basic and diluted)	€	n. a.	0.21	(1.24)	0.13	0.39
Dividend per share	€	(28.6)	0.50	0.70	0.70	0.70
Total dividend <sup>h</sup>	billions of €	(26.4)	2.2	3.0	3.0	3.0
Total number of ordinary shares at the reporting date <sup>i</sup>	millions	3.0	4,451	4,321	4,321	4,321

	2009	2008	2007	2006	2005
	64.6	61.7	62.5	61.3	59.6
	43.4	46.8	49.1	52.9	57.4
	56.6	53.2	50.9	47.1	42.6
	6.0	7.0	5.3	5.3	7.6
	0.4	1.5	0.6	3.2	5.6
	3.4	3.4	3.0	3.9	4.7
	19.9	18.0	16.9	16.3	20.1
	20.7	19.5	19.3	19.4	20.7
	32.0	31.6	30.9	31.7	34.8
	3.9	-	-	-	-
	127.8	123.1	120.7	130.2	128.5
	41.9	43.1	45.2	49.7	48.6
	32.8	35.0	37.5	38.2	37.8
	40.9	38.2	37.2	39.6	38.6
	2.0	2.0	1.9	2.0	1.9
	15.8	15.4	13.7	14.2	15.1
	(9.2)	(8.7)	(8.0)	(11.8)	(9.3)
	7.0	7.0	6.6	3.0	6.2
	(8.6)	(11.4)	(8.1)	(14.3)	(10.1)
	(5.1)	(3.1)	(6.1)	(2.1)	(8.0)
	258	235	244	248	244
	250.8	262.5	256.5	246.9	244.3
	0.08	0.34	0.13	0.74	1.31
	0.78	0.78	0.78	0.72	0.72
	3.4	3.4	3.4	3.1	3.0
	4,361	4,361	4,361	4,361	4,198

<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> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013. ROCE was only adjusted for 2012.

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

<sup>d</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 78 ET SEQ.

<sup>e</sup> Figures for 2006 include EUR 3.3 billion for the acquisition of licenses.

<sup>f</sup> Since the beginning of the 2007 financial year, Deutsche Telekom has defined free cash flow as cash generated from operations less interest paid and net cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment. Prior-year figures have been adjusted accordingly.

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

<sup>h</sup> Subject to approval by the 2014 shareholders' meeting concerning the dividend payments for the 2013 financial year. For more detailed explanations, please refer to Note 28 "Dividend per share," PAGE 218.

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

# KEY DATA OF THE GROUP.

T 002

		2013	2012	2011
<b>GROUP<sup>a</sup></b>				
Mobile customers	millions	142.5	127.8	125.1
Fixed-network lines	millions	31.0	32.4	34.7
Broadband lines <sup>b</sup>	millions	17.4	17.2	16.9
<b>GERMANY</b>				
Mobile customers <sup>c</sup>	millions	38.6	36.6	35.4
Fixed-network lines	millions	21.4	22.4	23.4
Of which: IP-based	millions	2.1	0.9	0.5
Broadband lines	millions	12.4	12.4	12.3
TV (IPTV, satellite)	millions	2.2	2.0	1.6
Unbundled local loop lines (ULLs)	millions	9.3	9.4	9.6
Wholesale unbundled lines	millions	1.6	1.3	1.2
Wholesale bundled lines	millions	0.4	0.5	0.7
<b>UNITED STATES</b>				
Mobile customers	millions	46.7	33.4	33.2
<b>EUROPE</b>				
Mobile customers	millions	56.7	57.4	56.0
Fixed-network lines	millions	9.5	10.0	10.6
Of which: IP-based	millions	2.7	1.9	1.1
Retail broadband lines	millions	5.0	4.8	4.6
TV (IPTV, satellite, cable)	millions	3.6	2.9	2.7
Unbundled local loop lines (ULLs)/wholesale PSTN	millions	2.3	2.2	2.1
Wholesale bundled lines	millions	0.2	0.2	0.2
Wholesale unbundled lines	millions	0.1	0.1	0.1
<b>SYSTEMS SOLUTIONS</b>				
Order entry <sup>d</sup>	millions of €	8,259	8,737	7,396
Computing & Desktop Services				
Number of servers managed and serviced	units	62,308	57,121	58,053
Number of workstations managed and serviced	millions	1.31	1.93	2.00
Systems Integration				
Hours billed <sup>e</sup>	millions	6.6	6.3	n. a.
Utilization rate <sup>f</sup>	%	82.5	85.1	n. a.

Prior-year figures have been adjusted on a pro forma basis. Totals were calculated on the basis of precise figures and rounded to millions.

	2010	2009	2008	2007
	124.6	130.6	126.8	114.5
	36.0	38.5	41.5	44.7
	16.4	15.4	13.9	11.4
	34.7	39.1	39.1	36.0
	24.7	26.2	28.3	30.8
	0.1	0.1	0.0	0.0
	12.0	11.5	10.6	9.0
	1.2	0.8	0.4	0.1
	9.5	9.1	8.3	6.4
	1.0	0.6	0.2	-
	1.0	1.6	2.5	3.5
	33.7	33.8	32.8	29.8
	56.2	57.7	54.9	48.7
	11.3	12.3	13.2	13.9
	n. a.	n. a.	n. a.	n. a.
	4.4	3.9	3.3	2.4
	2.4	1.9	1.3	n. a.
	1.5	1.1	0.7	0.3
	0.2	0.2	0.3	0.4
	0.0	0.0	0.0	0.0
	9,281	9,305	10,235	n. a.
	58,073	47,092	56,734	39,419
	1.95	1.86	1.51	1.46
	n. a.	n. a.	n. a.	n. a.
	n. a.	n. a.	n. a.	n. a.

#### Group

<sup>a</sup> Including business customers (corporate mobile customers and fixed-network lines) that were reclassified from the Europe to the Systems Solutions segment with effect from January 1, 2011.

<sup>b</sup> Excluding wholesale.

#### Germany

<sup>c</sup> 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 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. They have been eliminated from historical customer figures to improve comparability.

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 all historical customer figures.

The OTE group has been fully consolidated since February 1, 2009. Prior-year figures have been adjusted accordingly on a pro forma basis.

Zapp (Romania) has been consolidated since November 1, 2009. Prior-year figures have not been adjusted.

The fixed-network and broadband lines in the Netherlands are included in the figures for all years shown.

#### Systems Solutions

<sup>d</sup> The comparatives for 2007 through 2010 have not been adjusted.

<sup>e</sup> Cumulative figures as of the reporting date.

<sup>f</sup> Ratio of average number of hours billed to maximum possible hours billed per period.

# 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
	Dec. 31, 2013 %	2013 millions of €	2013 millions of €	2013 millions of €	2013
Telekom Deutschland GmbH, Bonn, Germany	100.00	21,990	4,562	4,671	12,834
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a,b</sup>	66.75	18,556	1,404	11,942	32,962
T-Systems International GmbH, Frankfurt/Main, Germany	100.00	6,730	(265)	1,275	22,347
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece <sup>a</sup>	40.00	4,244	315	3,597	25,325
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a,b</sup>	59.23	2,145	193	2,151	14,493
T-Mobile Netherlands Holding B.V., The Hague, Netherlands <sup>a,b</sup>	100.00	1,666	181	2,252	1,658
T-Mobile Polska S.A., Warsaw, Poland <sup>b</sup>	100.00	1,584	348	2,199	4,721
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>a,b</sup>	60.77	988	271	1,540	3,360
Hrvatski Telekom d.d., Zagreb, Croatia <sup>a,b</sup>	51.00	929	202	1,920	5,606
T-Mobile Austria Holding GmbH, Vienna, Austria <sup>a,b</sup>	100.00	828	(510)	921	1,207
Slovak Telekom a.s., Bratislava, Slovakia <sup>a,b</sup>	51.00	828	69	1,903	3,811


<sup>a</sup> Consolidated subgroup.<sup>b</sup> Indirect shareholding of Deutsche Telekom AG.<sup>c</sup> IFRS figures.

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/ir](http://www.telekom.com/ir)). Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB or disclosure simplification options in accordance with § 264 b HGB.

For information about our places of operations, please visit [www.telekom.com/worldwide](http://www.telekom.com/worldwide).

# THE OPERATING SEGMENTS.

## GERMANY.

We held our own well in our home market of Germany again in 2013. The decrease in revenue improved 0.7 percentage points compared with 2012 and amounted to 1.3 percent. Adjusted EBITDA decreased 2.5 percent to EUR 8.9 billion. We increased the number of our television customers by 10.7 percent year-on-year to 2.2 million; the number of Entertain Sat customers grew by as much as 34.8 percent. The total number of fiber-optic lines rose to 1.5 million. The number of mobile customers increased by 2.1 million in the reporting year to 38.6 million. 

### Contribution of the segment to net revenue. %




For more information, please refer to the section "Development of business in the operating segments," **PAGE 90 ET SEQ.**

T 004

billions of €

	Change %	2013	2012	2011	2010	2009
<b>TOTAL REVENUE</b>	<b>(1.3) %</b>	<b>22.4</b>	<b>22.7</b>	<b>23.2</b>	<b>24.2</b>	<b>25.4</b>
Profit from operations (EBIT)	5.3 %	4.4	4.2	4.6	5.1	5.1
EBITDA (adjusted for special factors)	(2.5) %	8.9	9.2	9.6	9.7	9.6
Number of employees (at reporting date)	(1.1) %	66,725	67,497	69,574	70,902	81,336

## UNITED STATES.

The growth in the number of new customers in our United States operating segment remained strong. T-Mobile US saw a net increase of 13.3 million in its customer base, bringing the figure to 46.7 million at December 31, 2013. This increase was driven by the acquisition of 8.9 million customers following the first-time inclusion of MetroPCS in May 2013 and 4.4 million customers from organic growth. Total revenue grew 20.7 percent to EUR 18.6 billion. This was partly due to an increase in handset sales, which compensated for the decrease in service revenues. Adjusted EBITDA increased slightly by 0.9 percent from EUR 3.8 billion in the prior year to EUR 3.9 billion in the reporting year. 

### Contribution of the segment to net revenue. %



For more information, please refer to the section "Development of business in the operating segments," **PAGE 90 ET SEQ.**

T 005

billions of €

	Change %	2013	2012	2011	2010	2009
<b>TOTAL REVENUE</b>	<b>20.7 %</b>	<b>18.6</b>	<b>15.4</b>	<b>14.8</b>	<b>16.1</b>	<b>15.5</b>
Profit (loss) from operations (EBIT)	n. a.	1.4	(7.5)	(0.7)	2.1	2.2
EBITDA (adjusted for special factors)	0.9 %	3.9	3.8	3.8	4.2	4.3
Number of employees (at reporting date)	22.4 %	37,071	30,288	32,868	37,760	40,697

## EUROPE.

Customer numbers in our Europe operating segment developed solidly despite the difficult economic environment, ongoing tense competition, and significant price cuts imposed by regulatory authorities. The number of IP-based lines increased considerably by around 47 percent to more than 2.7 million. Our television business was a consistent growth driver, growing by 21.1 percent compared with the end of 2012. Total revenue amounted to EUR 13.7 billion, 5.2 percent lower than in the prior year. Adjusted EBITDA amounted to EUR 4.5 billion. 

### Contribution of the segment to net revenue. %

21.6  
Europe




For more information, please refer to the section "Development of business in the operating segments," **PAGE 90 ET SEQ.**

T 006

billions of €

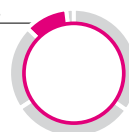
	Change %	2013	2012	2011	2010	2009
<b>TOTAL REVENUE</b>	<b>(5.2) %</b>	<b>13.7</b>	<b>14.4</b>	<b>15.1</b>	<b>16.8</b>	<b>19.6</b>
Profit from operations (EBIT)	(33.3) %	1.0	1.4	0.8	1.0	0.1
EBITDA (adjusted for special factors)	(8.5) %	4.5	4.9	5.3	5.7	6.4
Number of employees (at reporting date)	(8.2) %	52,519	57,196	58,794	63,338	71,163

## SYSTEMS SOLUTIONS.

Even though our corporate customer arm T-Systems concluded numerous new deals in Germany and abroad in the reporting year, order entry was 5.5 percent lower than in the prior year. Total revenue amounted to EUR 9.5 billion, a decrease of 5.2 percent. This was mainly attributable to a marked decrease in revenues at Telekom IT, reflecting the Group's savings on IT costs. Adjusted EBITDA increased by 7.9 percent thanks to a significant increase in the profitability of our operating business activities and effective efficiency measures. 

### Contribution of the segment to net revenue. %

10.7  
Systems Solutions



For more information, please refer to the section "Development of business in the operating segments," **PAGE 90 ET SEQ.**


T 007

billions of €

	Change %	2013	2012	2011	2010	2009
<b>TOTAL REVENUE</b>	<b>(5.2) %</b>	<b>9.5</b>	<b>10.0</b>	<b>10.0</b>	<b>9.9</b>	<b>8.8</b>
Loss from operations (EBIT)	9.1 %	(0.3)	(0.3)	(0.4)	(0.2)	(0.01)
EBITDA (adjusted for special factors)	7.9 %	0.8	0.7	0.7	0.8	0.9
Number of employees (at reporting date)	(4.8) %	50,286	52,847	52,170	51,742	46,021

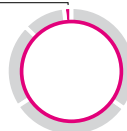


## GROUP HEADQUARTERS & GROUP SERVICES.

We have realigned our central management and service functions: At the beginning of 2013, we launched our new Group Headquarters and the restructured Group Services. We therefore renamed this segment Group Headquarters & Group Services. The segment's total revenue increased 1.6 percent year-on-year in 2013. Adjusted EBITDA improved by EUR 0.1 billion year-on-year to minus EUR 655 million. 

### Contribution of the segment to net revenue. %

1.8  
Group Headquarters &  
Group Services



For more information, please refer to the section "Development of business in the operating segments," **PAGE 90 ET SEQ.**

T 008

billions of €

	Change %	2013	2012	2011	2010	2009
<b>TOTAL REVENUE</b>	<b>1.6 %</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>3.1</b>	<b>2.4</b>
Profit (loss) from operations (EBIT)	9.6 %	(1.6)	(1.8)	1.3	(2.5)	(1.2)
EBITDA (adjusted for special factors)	8.4 %	(0.7)	(0.7)	(0.6)	(0.9)	(0.3)
Number of employees (at reporting date)	0.6 %	21,995	21,858	21,726	23,035	20,703

# MEASURING SUSTAINABLE PERFORMANCE.

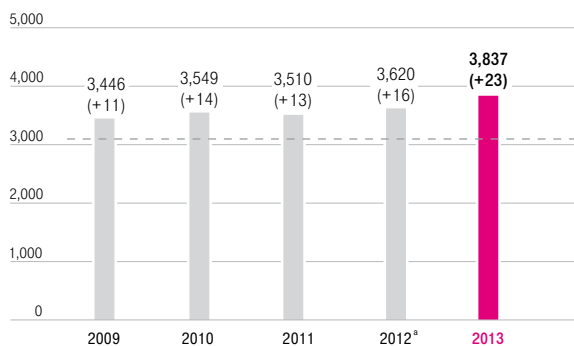
Across the Group, Deutsche Telekom strives for sustainable business development. "We take responsibility" means that we square up to the challenges facing society as a whole and are committed both to the environment and to society. The strategic orientation of corporate responsibility (CR) is derived from our Group strategy. We define specific areas of focus, such as climate protection or ensuring a sustainable supply chain. In 2013, we achieved significant milestones, including the further development of our Social Charter and adoption of an international climate protection target. We have developed CR-specific steering parameters, known as our CR key performance indicators (CR KPIs), to measure our success. Key indicators of Deutsche Telekom's performance include the CR KPIs shown below: CO<sub>2</sub> Emissions, Energy Consumption, and Sustainable Procurement.



For further information on Deutsche Telekom's commitment to corporate responsibility, please refer to the "Corporate responsibility" section in the combined management report, **PAGE 110 ET SEQ.**

## CO<sub>2</sub> Emissions CR KPI.

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



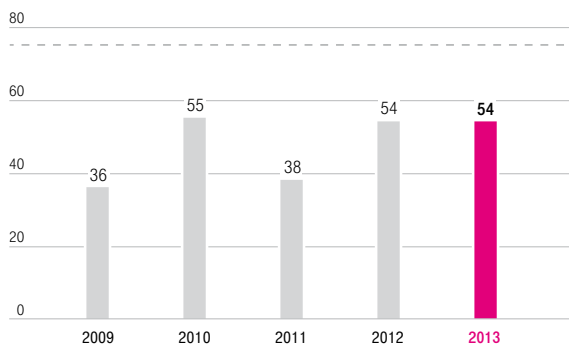
■ CO<sub>2</sub> emissions (Scopes 1 and 2). Emissions are measured in CO<sub>2</sub>-equivalent values based on energy and fuel consumption in accordance with the Greenhouse Gas Protocol and employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

--- Base year 2008: 3,117,000 t CO<sub>2</sub>

<sup>a</sup> Minor corrections were made subsequently to total emissions (–0.7%) and the CO<sub>2</sub> Emissions CR KPI (–1 percentage point) for 2012 due to minor adjustments to energy and fuel consumption at individual national companies and to a retroactive correction of emission factors by IEA that was relevant for individual national companies.

## Sustainable Procurement CR KPI.

%

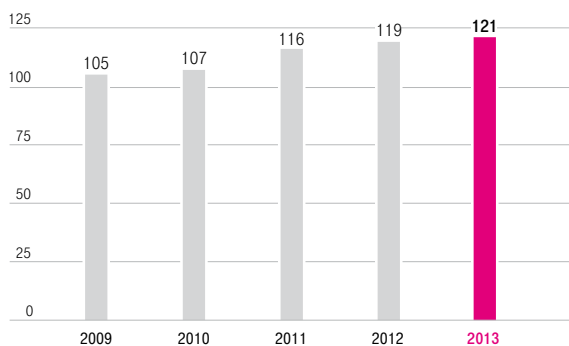


■ Procurement volume covered by supplier self-assessments and/or audits as a percentage of total sourcing volume.

--- Target value

## Energy Consumption CR KPI.<sup>a</sup>

Expressed as MPEI: electricity consumption ('000 MWh)/revenue (billions of €)



Revenue billions of €	57.6	58.4	55.4	55.7	57.8
Energy consumption (‘000 MWh)	6,049.2	6,262.6	6,409.4	6,624.7 <sup>b</sup>	6,992.9

■ Energy Consumption CR KPI: Ratio of energy 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> A minor correction was made subsequently (–0.2%) as a result of minor adjustments to electricity consumption in 2012 at individual national companies.

# FINANCIAL CALENDAR.

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

Press conference on the 2013 financial statements and publication of the 2013 Annual Report	March 6, 2014
Group report as of March 31, 2014	May 8, 2014
2014 shareholders' meeting (Cologne)	May 15, 2014
Dividend payout <sup>b</sup>	June 11, 2014
Group report as of June 30, 2014	August 7, 2014
Group report as of September 30, 2014	November 6, 2014
Press conference on the 2014 financial statements and publication of the 2014 Annual Report	February 26, 2015

<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 11, 2014. Subject to approval by the relevant bodies and the fulfillment of other legal provisions.

The English version of the brochure "2013 facts and figures" is a translation of the German version. The German version of this brochure is legally binding.

## CONTACTS.

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Deutsche Telekom's Annual Report is available on the Internet at:  
[www.telekom.com/geschaeftsbericht](http://www.telekom.com/geschaeftsbericht)  
[www.telekom.com/annualreport](http://www.telekom.com/annualreport)

Paper:  
Circle Silk Premium White



This Annual Report was produced and delivered in a climate-neutral way. The greenhouse gas emissions generated were completely offset by corresponding climate protection measures.



DEUTSCHE TELEKOM AG  
FRIEDRICH-EBERT-ALLEE 140  
53113 BONN, GERMANY

[WWW.TELEKOM.COM](http://WWW.TELEKOM.COM)

# ANATOMY OF THE DIGITAL FUTURE.



Life is for sharing. We make this possible by providing digital arteries for society. In the form of the best, fastest, and the most secure networks. In the form of innovative products and services for the fixed network, for mobile communications, Internet, and television. And in the form of innovative IT solutions for business customers. We are looking ahead: The anatomy of the digital future is already taking shape and we are an important part of it. As the heart – with our enthusiasm for communication and our motivation to keep improving. As the head – with a whole raft of innovations developed in-house or together with imaginative partners. And as the backbone – with an ambitious program to build out today's best networks. We will keep bringing the digital world to as many people's fingertips as possible, now and in the future.

## LETTER FROM THE CHAIRMAN OF THE BOARD OF MANAGEMENT.



**“We are not just another company that provides society with infrastructure. More than that, we are a trusted companion in an increasingly complex digital world – at home and at work, anyplace, anytime.”**

**TIMOTHEUS HÖTTGES.**

Chairman of the Board of Management.

Dear Shareholders,

2013 was a good year for Deutsche Telekom, despite the still difficult regulatory environment in Europe and intense competition. Investors and analysts value our implementing power, our reliability, and our credibility. Experts believe that we are better able to master the challenges facing our industry than others are.

Our latest figures prove that we deserve to be trusted. We maintained our position in many of our markets last year, even improving significantly in some key markets. This means that we were more innovative and more successful than many of our peers, some of which have seen their share price decline significantly.

By contrast, the Deutsche Telekom share developed well. Last year, this resulted in a total shareholder return of 56 percent for our investors. In particular, those shareholders benefited who chose the option of the dividend in kind, offered for the first time in Germany.

The share price increase also reflects our good financial position. Deutsche Telekom met its financial targets for the 2013 financial year. Despite higher investments in the networks, along with the takeover of MetroPCS, total debt remained well below EUR 40 billion and the equity ratio stood at a good 27.1 percent.

In 2013, adjusted EBITDA – in other words, earnings before interest, taxes, depreciation, and amortization – was EUR 17.4 billion and free cash flow EUR 4.6 billion. Revenue for the full year increased by 3.4 percent to EUR 60.1 billion. The year-on-year increase in revenue in the fourth quarter reached as much as 6.5 percent due, in part, to the first-time inclusion of MetroPCS as of May 1, 2013. In organic terms, i.e. excluding changes in the composition of the Group and currency effects, our net revenue increased by 0.8 percent in 2013, and 2.8 percent in the fourth quarter.

On this basis, the Board of Management and Supervisory Board will propose a dividend of EUR 0.50 per share to the shareholders' meeting as planned. To those shareholders who want to support our growth strategy and to give us the necessary room for maneuver, we are once again offering the option of receiving the dividend in kind with a financial benefit of two percent.

How do things look in the individual segments?

In **Germany**, our network investments paid off. We not only came first in all of the quality tests, but in the fourth quarter we also achieved the best result for years in mobile communications business. Deutsche Telekom gained 638,000 mobile contract customers between October and December 2013 while keeping market investments at a constant level. Alongside customers gained in business with service providers, 280,000 of these additions were attributable to business under the Telekom and “congstar” brands. Furthermore, we strengthened our position as market leader in mobile service revenues. Adjusted for the cut in mobile termination rates, service revenues remained practically stable in 2013 compared with the prior year. We thus not only outperformed the overall market, but we were the only one of the four network operators to gain market shares in 2013.

By contrast, development in the broadband fixed-network market remains under pressure. This is caused in part by the current regulatory framework, which still does not consider the intense competition with alternative infrastructures such as cable or city networks. Although Deutsche Telekom remains the market leader, with some 12.4 million lines, its market share has declined slightly to 43 percent. It is important to point out, however, that over the course of the year around 105,000 customers switched to mobile broadband, which means they still get their broadband from Deutsche Telekom. Strong demand for the fiber-optic products VDSL and FTTH continued unabated. The total number of these lines climbed by 54 percent within one year to over 1.5 million.

All in all, we continued to stabilize revenue in Germany, which decreased by a mere 1.3 percent, i.e., at a clearly lower rate than in previous years. Despite slightly lower adjusted EBITDA, we reached our target of an adjusted EBITDA margin of around 40 percent for the full year.

In the **United States**, we are enjoying success all along the line. The un-carrier strategy attracted 4.4 million new customers with innovative and unconventional product offerings. As the challenger on the U.S. market, T-Mobile US reported the biggest customer growth of all carriers. Consequently, the value of T-Mobile US increased by 53 percent between the end of April and the end of December 2013.

Total revenue in the fourth quarter increased by 34 percent year-on-year to EUR 5.1 billion. In the full year, revenue increased 20.7 percent to EUR 18.6 billion. A radically simplified rates and service strategy, the first-time inclusion of MetroPCS in the Group from May 1, 2013, and the accelerated build-out of our cutting-edge 4G network all contributed toward this development.



In the **Europe** operating segment, the financial figures are developing encouragingly. In organic terms, i.e., adjusted for changes in the composition of the Group, such as the sale of Globul in Bulgaria, and currency effects, this positive trend becomes particularly evident. In organic terms, revenues declined by 3.6 percent in the reporting year. In the fourth quarter, by contrast, revenue increased year-on-year by 0.4 percent to EUR 3.5 billion. Growth areas such as mobile data and business customers (B2B ICT) proved to be driving factors. The share of growth areas in the Europe revenue mix has risen from 21 to 25 percent within one year.

At **T-Systems**, revenue generated by the Market Unit – primarily external business with Deutsche Telekom's corporate customers – grew organically in the 2013 financial year by 0.7 percent. The Market Unit's revenue reported for the full year decreased slightly by 1.8 percent year-on-year to EUR 7.7 billion.

Despite the improved result of Systems Solutions, there is however a profitability gap in the peer comparison. In order to close this gap over the next few years, we have worked out extensive plans with regard to changing the business model and increasing the digitization of T-Systems' business processes even more.

Dear shareholders,

The figures for 2013 underscore that Deutsche Telekom is now excellently positioned to become the leading European telecommunications provider. We expect revenue to increase further in 2014. Adjusted EBITDA is expected to be around EUR 17.6 billion, with free cash flow of around EUR 4.2 billion. Our growth will be driven in large part by business in the United States. We expect further customer additions at T-Mobile US of two to three million in 2014, followed by a significant increase in revenue.

At Deutsche Telekom, we aim to create a basis of trust and lay the foundation for a long-standing relationship with our customers and shareholders. This is what we work for – with passion, focus, and efficiency. I would like to take this opportunity to say a sincere thank you to my colleagues for their dedication.

We are not just another company that provides society with infrastructure. More than that, we are a trusted companion in an increasingly complex digital world – at home and at work, anyplace, anytime. Our mission is to always simplify and enrich people's lives. Deutsche Telekom views its network as a lifeline – fast, reliable, and secure. Easily accessible to all, while we remain close to the customer, transparent, fair, and open to dialogue.

Technical progress opens up more chances, but also increases complexity and raises the expectations of our customers. I see this as an opportunity. We will (continue to) develop our own innovative products such as Entertain. And where others may have more expertise, we will bring in partners to provide new services for our customers.

We want to link all of our network access technologies with each other in an intelligent way. Network integration plays a key role here – on a pan-European level. Networks will speak one language with all IP.

At the same time, customers should be unbothered by the complex technology. They simply get the best connection, whether they're at home or on the move – and at a good price.

Bonn, March 2014  
Sincerely,

Tim Hötting



**THE 2013 BOARD OF MANAGEMENT  
OF DEUTSCHE TELEKOM AG.**





# THE 2013 BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG.



**“WE ARE A TRUSTED COMPANION IN AN INCREASINGLY COMPLEX DIGITAL WORLD.”**

## **TIMOTHEUS HÖTTGES.**

**Chairman of the Board of Management.**

Born in 1962. Timotheus Höttges has been Chairman of Deutsche Telekom AG's Board of Management since January 2014. Prior to being appointed Chairman, he was Member of the Board of Management with responsibility for Finance and Controlling from 2009. In December 2006, Mr. Höttges was made Member of the Board of Management responsible for T-Home, where he was in charge of fixed-network and broadband business, as well as integrated sales and service in Germany. From 2005, until being appointed to the Group Board of Management, Mr. Höttges headed European operations as Member of the Board of Management for T-Mobile International. From 2000 until the end of 2004, he was T-Mobile Deutschland's Director of Finance and Controlling, before becoming Chairman of its Managing Board. After studying business administration at Cologne University, Mr. Höttges spent three years at a business consulting firm before moving to the VIAG group in Munich at the end of 1992.



**“WE DO OUR UTMOST TO ENSURE MAXIMUM SECURITY FOR OUR CUSTOMERS AND TO STRENGTHEN THEIR TRUST IN THE NETWORK.”**

## **THOMAS KREMER.**

**Board member responsible for Data Privacy, Legal Affairs and Compliance.**

Born in 1958. Thomas Kremer has been Member of Deutsche Telekom AG's Board of Management with responsibility for Data Privacy, Legal Affairs and Compliance since June 2012. In October 2013, he also became member of the Government Commission on the German Corporate Governance Code. Previously, he worked for ThyssenKrupp AG. He joined Krupp's legal department in 1994 and took over as head of the Legal & Compliance Corporate Center of ThyssenKrupp AG in 2003. In addition, he was made Chief Compliance Officer of the ThyssenKrupp Group in 2007 and was appointed General Counsel in 2011. Kremer spent a period of time working as an attorney at Sozietät Schäfer, Wipprecht, Schickert (now CMS Hasche Sigle) in Düsseldorf. After graduating with a degree in law, Kremer worked as a research assistant at the University of Bonn. His areas of research included laws governing limited liability companies, stock corporations, and corporate groups. He gained a doctorate in law in 1994.



**“ENTERPRISES AND INSTITUTIONS ARE AT THE DAWN OF A NEW ERA: THE DIGITIZATION OF THEIR BUSINESS MODELS. WE TAKE OUR CUSTOMERS BEYOND CONVENTIONAL WAYS OF USING INFORMATION AND COMMUNICATION TECHNOLOGY TO TAP PROMISING GROWTH AREAS FOR THEM AND US.”**

## **REINHARD CLEMENS.**

**Board member responsible for T-Systems.**

Born in 1960. Reinhard Clemens studied electrical engineering and worked as a research assistant for the machine tool engineering chair at RWTH Aachen University. He began his career in the ITC industry in 1990 as General Manager of the Association for Industry Automation, before moving to the IBM corporation in 1994. There he held a range of management positions in sales, service and outsourcing until 2001, when he joined the executive board of Systematics AG and then began working for EDS in Germany. Later he became chairman of the EDS executive board for sales, business operations and strategy in Central Europe. Since December 2007 Reinhard Clemens has served on the Deutsche Telekom AG Board of Management, where he is in charge of T-Systems. He is also T-Systems' Chief Executive Officer.



**“OUR GOAL IS THE SAME: WE ARE THE FIRST CHOICE FOR CUSTOMERS. WITH A COMPLETE NETWORK BUILD-OUT, INNOVATIVE AND SECURE PRODUCTS, AS WELL AS EXCELLENT SERVICE.”**

## **NIEK JAN VAN DAMME.**

**Board member responsible for Germany and Managing Director of Telekom Deutschland GmbH.**

Born in 1961. Niek Jan van Damme has been Member of Deutsche Telekom AG's Board of Management since March 2009. Since July 2009 he has headed the Germany department, where he is in charge of the sales, marketing and service activities in connection with fixed-network and mobile products for consumers and business customers in Germany. In April 2010 he was also appointed Managing Director of Telekom Deutschland GmbH. Between April and September 2011 he held temporary responsibility for the Europe Board department. Niek Jan van Damme was Chairman of the Managing Board of T-Mobile Netherlands from January 2004 through 2009. Van Damme holds a degree in business administration from Vrije Universiteit Amsterdam. He began his career at Procter & Gamble in 1986, then joined Dutch retailer Ahold in 1993 before moving to Floor Heijn Retail in 1997. In June 1999 he began working for Ben Nederland, the predecessor company to T-Mobile Netherlands.





**“EVERYTHING WE DO SHOULD CONTRIBUTE TO DEVELOPING THE GROUP’S VALUE. WE MUST RECOUP OUR CAPITAL COSTS.”**

#### THOMAS DANNENFELDT.

Board member responsible for Finance.

Born in 1966. Thomas Dannenfeldt has been Member of Deutsche Telekom AG’s Board of Management responsible for Finance since January 2014. Prior to this, he was Director of Finance at Telekom Deutschland GmbH, which was founded in 2010. He was initially appointed CFO of T-Mobile Deutschland in July 2009 before also taking on the same position at T-Home in January 2010. When the T-Mobile and T-Home units were merged to form Telekom Deutschland GmbH in April 2010, he became CFO of Telekom Deutschland. From 2007 through 2009, Dannenfeldt was a member of the T-Home Board of Management, responsible for the Market and Quality Management department, before also taking charge of the Finance department of T-Mobile. Up until 2007, he was in charge of sales management, supply chain management and sales development at T-Mobile International for the national companies in Europe. After studying business mathematics at the University of Trier, he began his career in 1992 at T-Mobile Deutschland. He moved to T-Mobile International in 2003.



**“WE WANT TO SUCCEED AS TECHNOLOGY LEADER IN EUROPE WITH INTEGRATED ALL-IP NETWORKS.”**

#### CLAUDIA NEMAT.

Board member responsible for Europe and Technology.

Born in 1968. Claudia Nemat has been Member of Deutsche Telekom AG’s Board of Management with responsibility for the Europe business area and strategic technology management since October 2012. Before she joined Deutsche Telekom, she spent 17 years working in various positions at business consulting firm McKinsey & Company, most recently as Senior Partner in charge of the high-tech sector in Europe, the Middle East, and Africa. In addition, she was responsible for managing projects in information and communications technology (ICT) integration, sustainable IT, and medical technology for international companies. Her areas of interest as a consultant also included leadership and performance culture and the influence of diversity on corporate success. Claudia Nemat holds a degree in physics from Cologne University, where she also taught at the Institute for Theoretical Physics and Mathematics.



**“OUR HUMAN RESOURCES PLANNING IS GEARED TOWARDS THE DIFFERENT PHASES OF OUR EMPLOYEES’ LIVES AND EMPHASIZES SUPPORTING FAMILIES.”**

#### MARION SCHICK.

Board member responsible for Human Resources.

Born in 1958. Marion Schick has been Member of Deutsche Telekom AG’s Board of Management with responsibility for Human Resources, and Labor Director, since May 2012. Previously, she was Minister for Cultural Affairs, Youth and Sports of the German Land of Baden-Württemberg. Until 2010, Marion Schick was Senior Vice President of Personnel and Legal Affairs at the Fraunhofer-Gesellschaft Society. She was President of Munich University of Applied Sciences from 2000 to 2008 – the first woman in Bavaria ever to hold the position of university president. From 2006 to 2008, she also chaired the Conference of the Rectors and Presidents of Bavaria’s universities of applied sciences. Marion Schick’s academic career began in 1993, when she was appointed professor of human resources management, cost accounting, and general business administration at Munich University of Applied Sciences. She holds a degree in business education from Ludwig Maximilian University in Munich.



**“OVER THIS PAST YEAR, MUCH OF WHAT WE HAVE WORKED LONG AND HARD TO ACHIEVE HAS COME TO BEAR, SUCH AS THE SUCCESS IN THE U.S. AND LEADERSHIP ON THE GERMAN MOBILE MARKET.”**

#### RENÉ OBERMANN.

Former Chairman of the Board of Management.

Born in 1963. René Obermann joined the Deutsche Telekom AG Group in 1998 as member of the management at T-Mobile Deutschland GmbH, where he took over as Managing Director in April 2000. One year later he also assumed international responsibility for the European business of T-Mobile International AG & Co. KG as Member of the Board of Management for European Operations and Group Synergies. Between 2002 and 2006, Obermann was CEO of T-Mobile International AG & Co. KG and also a member of the Deutsche Telekom Group’s Board of Management. After finishing his commercial training at BMW AG in Munich, in 1986 he started his own business, ABC Telekom. When in 1991 the Hong Kong-based conglomerate Hutchison Whampoa acquired a stake in this business, he became Managing Partner of Hutchison Mobilfunk GmbH and served as Chairman of the company’s Management Board between 1993 and 1998. Obermann was appointed Chairman of Deutsche Telekom AG’s Board of Management in November 2006. He stepped down from his role as Chairman of the Board of Management of Deutsche Telekom AG on December 31, 2013 at his own request.

# WE ARE THE HEART OF THE DIGITAL FUTURE.

More than anything else, our aim is to delight our customers. This is the yardstick by which all of our strategic initiatives are measured. We would like people to associate our products with positive emotions and to enjoy using our services. Partly this involves making it as convenient as possible to access our networks – at home, at work, on the train, or in the car. Yet it also includes seamless service provision on any number of devices. And the peace of mind that comes from knowing we give top priority to protecting our customer data, with security standards “Made in Germany.” If, despite our best efforts, technical problems arise, one of our 20,000 service staff in Germany is never far away.





**MORE  
THAN  
40,000**

people attended our  
Street Gigs.

**MOBILE  
TELEVISION**

Entertain to go – Deutsche Telekom's  
TV service – is now available for smart-  
phones and tablets.

**100,000**

customers of Deutsche Telekom use Spotify for  
music streaming.

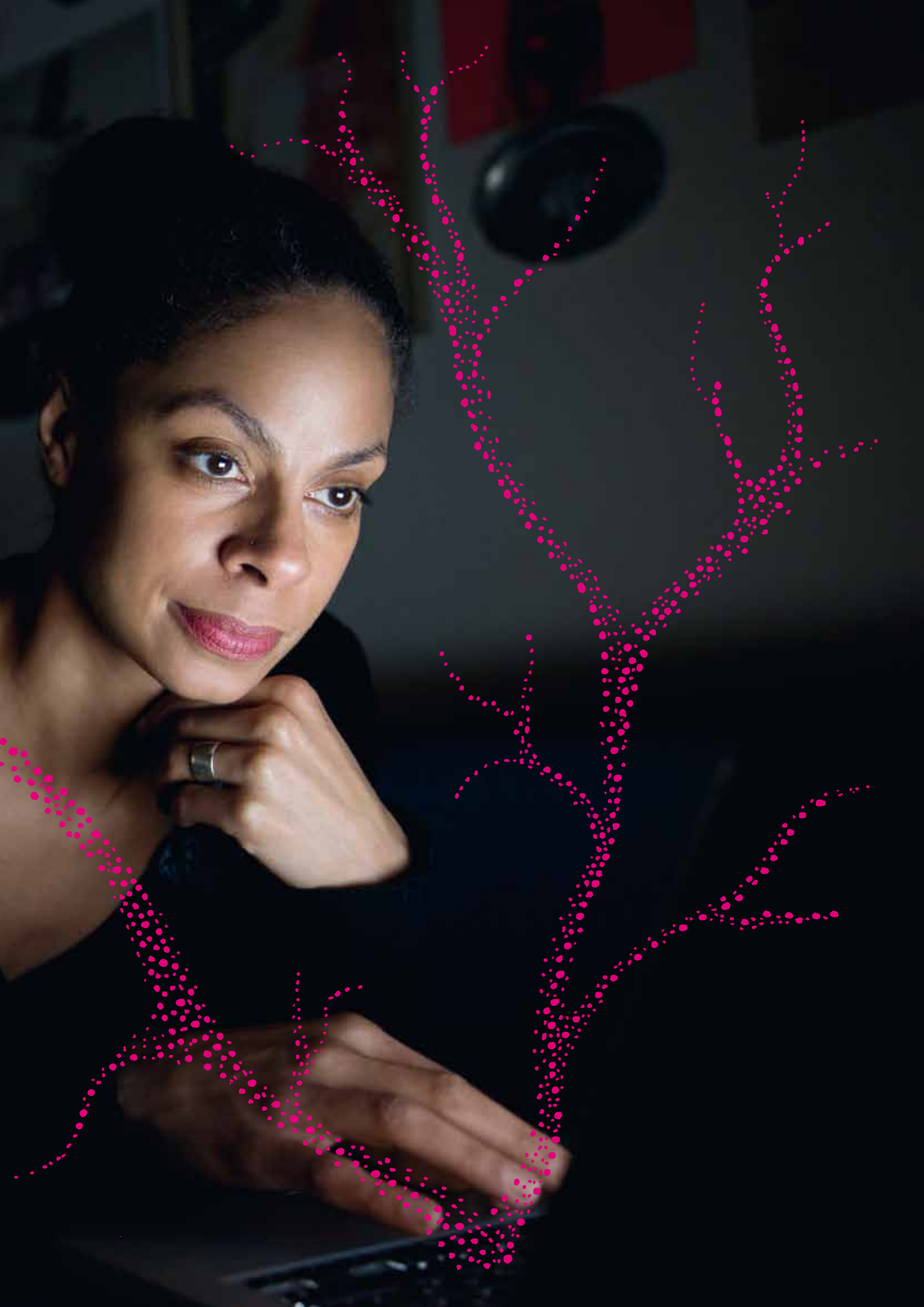
WE ARE THE HEART OF THE DIGITAL FUTURE.



**“WHEN I SHARE MY MUSIC,  
MY AUDIENCE RESPONDS  
JUST AS IF THEY WERE AT A  
LIVE SHOW.”**

Singer and musician Astrid North loves the interaction with her fans. And thanks to the fastest network she can – without having to be on stage.

To make this happen, our customers need high-speed, high-performance networks – no matter where they are. Because wherever you are, there are always moments you want to share. Our secure cloud solutions provide secure access to services, programs and data at any time for our consumers and business customers. Now any location can become a concert venue.





# 15,000

Telekom employees are involved in volunteer work.

Twenty-six pianists from 12 countries competed in the 2013 International Telekom

## BEETHOVEN COMPETITION

in Bonn.

"Yes, I can!" initiative has already supported

## OVER 500 PROJECTS

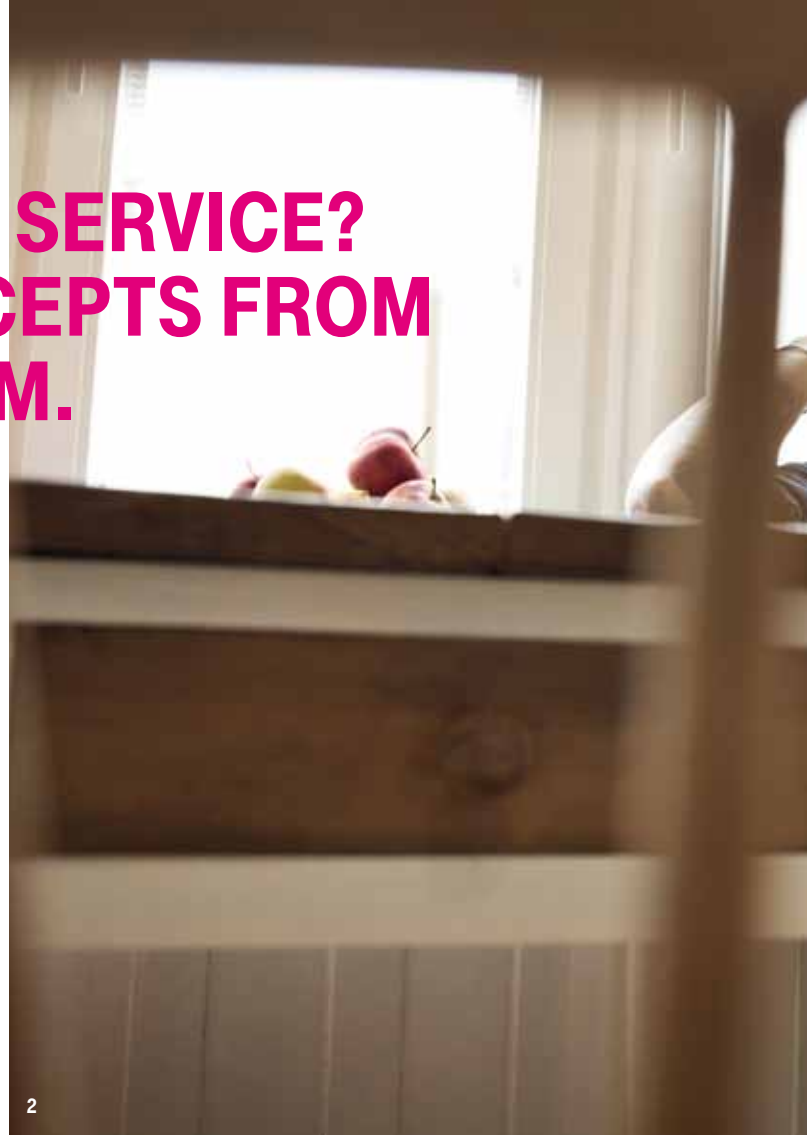
for children and young people.

**WE ARE THE HEART OF THE DIGITAL FUTURE.**

# **SHARING SPECIAL MOMENTS BRINGS PEOPLE TOGETHER.**

Succeeding together – our goals for our customers are what drive us as a company. That's why we value diversity and equal opportunities for all employees. A clear commitment to sustainability is just as important to us as accepting social responsibility and supporting culture and sports. So that the digital future benefits all of us together.

# HOW CAN WE BE OF SERVICE? NEW SERVICE CONCEPTS FROM DEUTSCHE TELEKOM.



Good service has to be measurable. So we regularly ask our customers what they want and have our products and services externally reviewed. This year, for example, TÜV Rheinland (Technical Control Association) tested Deutsche Telekom service units. Telekom Shops, our technical service and our free customer hotline were all graded as "good." We want to do even better in future. In 2013, we launched a range of new services and technologies that make life easier for our customers.

## IN TOUCH WITH OUR CUSTOMERS THROUGH ALL CHANNELS.

One example is our "Telekom hilft" (Telekom helps) customer service format on Twitter and Facebook. This gives customers new channels for contacting us – and we can respond to inquiries faster and more directly. Of course, we also continue to be available for our customers on site.

## SERVING CONSUMERS AND THE ENVIRONMENT – BUYING BACK USED DEVICES.

Our dense network of around 750 Telekom Shops not only sells cell phones – now we buy them back as well. Employees in the shops assess the value of the device and the customer receives a voucher for the buy-back amount that can be redeemed in any Telekom Shop. Of course, any prospective seller can also get their mobile phone valued in advance using the Telekom Shop app. The Telekom Shop then sends

the device to our partner, Tecycle. They test each device to make sure it is fully functional, and delete any data stored on it that the customer has not removed. Finally, the cell phones are approved for resale. Faulty devices are recycled in an environmentally friendly way. This option thus benefits both our customers and the environment – and allows us to reinforce our customer contact.

## WE COME TO THE CUSTOMER – EASIER REGISTRATION FOR DE-MAIL.

When secure e-mail communication is paramount, De-Mail is the optimum solution (see info box on the right). De-Mail is a secure, confidential and verifiable e-mail service, making it ideal for communicating with government agencies and for legal transactions. 1.5 million customers have now registered with De-Mail providers. In addition, we already have signed up 100 large companies and 5,000 small and medium-sized enterprises for De-Mail. Before using the service for the first time, customers have to register using an approved form of identification. Until now, this meant they had to visit one of our many Telekom Shops. Now, on request, we will go directly to meet our customers – free of charge at any agreed location in Germany, whether at work, out and about, or simply at home. So our customers have more time for the essential things in life.



- 1 Our Customer Service team is made up of some 13,000 people, making it one of the biggest service units in Europe.
- 2 Help for our customers, whenever, wherever: face to face, e-mail, Facebook, or the good old telephone.
- 3 De-Mail makes sure customers and their data always stay on the safe side.

**THE DE-MAIL ACT.** The German Federal Ministry of the Interior (BMI) developed this new service together with representatives of business, government, and professional bodies. It is based on the De-Mail Act, which came into force in May 2011. Secure login procedures and encrypted transmission, as well as send and receive confirmations, enable secure and verifiable electronic communication.



The best service doesn't cost a cent. Since 2013, all Telekom hotlines for every single fixed-network and mobile customer have been free of charge around the clock.

3





### INDUSTRY PARTNER FOR M2M COMMUNICATION.

Machines that communicate with one another independently make life easier for many of our customers. For example, truck delivery routes can be planned more efficiently, remote maintenance carried out on machines, or alerts sent out by vending machines before their stock runs out. We are already a leading M2M (machine-to-machine) service provider, offering solutions for a wide range of industries including logistics, automotive, energy, health, commerce and transport together with our partners around the world. Our high-performance mobile network, IT expertise and local presence for service, sales and operation make us a valuable partner in the M2M field – both for customers and for providers.

### INNOVATIVE M2M SOLUTIONS IN THE HOME.

If a person in need of care gets out of bed unassisted, there is a risk that they might fall and be seriously injured. An intelligently networked care bed can provide greater safety while easing the burden on family caregivers at home. Bed sensors, for example, can detect when a patient gets out of bed and immediately switch the light on. At the same time, an M2M communication module sends information via the Deutsche Telekom network to the German Red Cross (DRK) control center in Herten. DRK can call the patient back via the same connection, and when necessary can alert specified family members by phone or text message. If needed, DRK can also send a care team to provide assistance.

### M2M in the cowshed

Even cows can send texts with M2M. In conjunction with our French partner MEDRIA Technologies, we have developed a system that uses special neckband sensors to monitor cows' vital data. The farmer automatically receives a message when a cow is about to calve – so there is no need to sit out the night in the stalls. As a first step, we are equipping 5,000 farms across Europe with these systems and SIM cards.

Digital networking doesn't stop at the modern cowshed.







Safety has top priority. Regardless of which product our customers choose, they always enjoy the best possible protection – from HotSpot encryption and cloud services, to child protection software.



Our products offer maximum data security along with personalizable protection and privacy features.

## WE PROTECT WHAT'S IMPORTANT TO YOU.

Interest in the cloud and using its services is steadily growing. Nearly one in every four Internet users in Germany is now an active cloud user, according to a survey we commissioned. At the same time, data protection and the security of Internet communication are becoming increasingly important topics of public debate. We therefore offer services to address both of these trends.

### FAST, SECURE, ALWAYS AVAILABLE – HOW CONSUMERS AND BUSINESS CUSTOMERS BENEFIT FROM CLOUD SERVICES.

The cloud keeps getting bigger. We are well positioned in this attractive growth market, which experts estimate will be worth EUR 200 billion in 2017. We offer maximum security cloud services worldwide along with innovative products and state-of-the-art infrastructure to business and consumers alike.

### IF YOU HAD TO CHOOSE, WHICH WOULD BE MORE IMPORTANT TO YOU PERSONALLY IN THE ONLINE WORLD?\*

%



Security



Freedom



No answer

### DATA PRIVACY AND COMMUNICATION – WHAT MATTERS TO PEOPLE.


In conjunction with the Munich Security Conference, we commissioned a survey of 1,500 Internet users in Germany. The survey revealed that if they had to choose, 79 percent of those surveyed would rank online security over online freedom. In another survey we commissioned that was conducted by the Handelsblatt Research Institute, 62 percent of respondents desired more data protection in Germany. At the same time, this survey indicates that at least some customers are not opposed in principle to companies analyzing their data – but it depends what for.

We believe we have a special responsibility not only to meet the needs of our customers and comply with German data protection policies, but also to be a leader in data privacy. Together with GMX, WEB.de and now freenet, we launched the partners' program "E-mail made in Germany." This initiative is committed to high security standards, with the aim of making e-mail communication in Germany even more secure. Messages are therefore sent encrypted and stored exclusively in German high-security data centers. We also want to make our customers' mobile communications increasingly secure. That is why we improve encryption standards on an ongoing basis, so that we provide not only the best, but also the most secure network.

\* Representative survey of 1,500 Internet users in Germany, October 2013.

# WE ARE THE HEAD OF THE DIGITAL FUTURE.

Telephone calls and data transportation are only one part of a much bigger future. We want to offer our consumers and business customers impressive innovations that go beyond optimum network access, such as intelligent solutions in the energy and health sectors, and for connecting cars with the Internet. We do not intend to develop all these services ourselves. We want to bundle as many products as possible for our customers, and make these accessible around the clock. To achieve this, we seek out partnerships with creative companies whose products make life simpler, more interesting, and more secure. Whether start-ups or established corporations, the important thing for us is that we are an attractive partner.



We now have

**500,000**  
connected cars.

Deutsche Telekom provides more than

**3.6**  
**MILLION**

users in businesses with services from the cloud.

We are building the largest data center in Germany, covering an area of

**150,000 m<sup>2</sup>.**

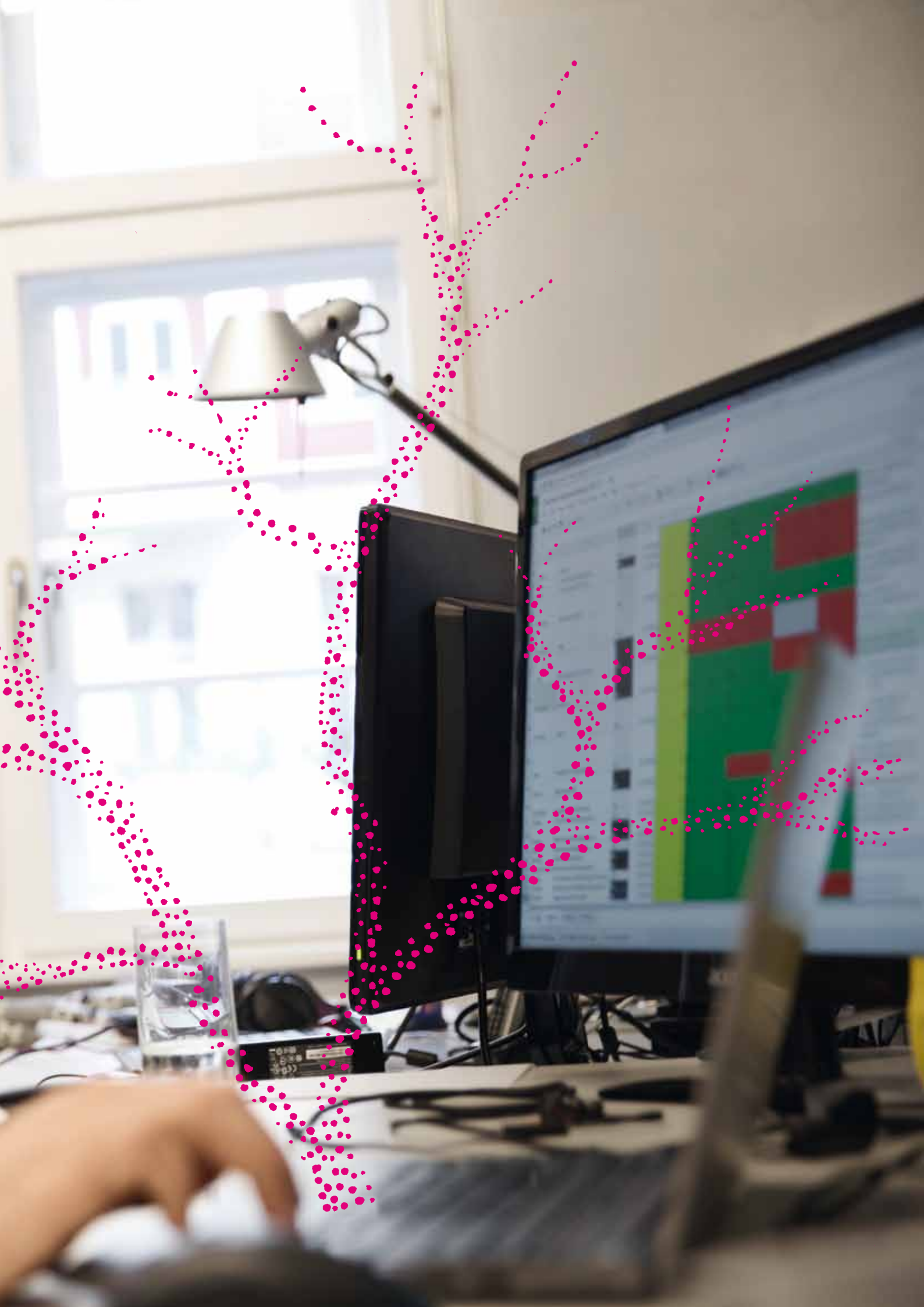
WE ARE THE HEAD OF THE DIGITAL FUTURE.


A photograph of two men in a professional setting, likely a meeting. The man in the foreground is seen in profile, looking towards the right. The man in the background is looking towards the camera with a slight smile. A decorative pink dotted line graphic curves across the right side of the image. The background is a blurred office environment with windows.

**“MY BUSINESS IS ALWAYS  
OPEN TO INNOVATIVE  
IDEAS.”**

Felix Klühr and his start-up – qLearning – benefit from the infrastructure, know-how, and spirit of our hub:raum incubator.

A company's size doesn't matter when it comes to creating good business ideas. Innovation usually starts in small companies, and we want them to inspire us. After all, even a large, established company has to constantly reinvent itself. We aim to learn from all enterprises that have a powerful vision for the digital future. One way that we do this is by specifically supporting start-ups and investing in innovative business ideas, so that we remain able to offer our customers the best products and services all the time.





Business customers test our solutions  
together with researchers at our

## **INNOVATION CENTER.**

### **NETWORKED HEALTHCARE FOR THE FUTURE**

Hospital services from the cloud.

# 400

analysts, research scientists and young  
entrepreneurs work together in the  
T-Labs creating fresh ideas.



**WE ARE THE HEAD OF THE DIGITAL FUTURE.**

# **SHARING GOOD IDEAS MAKES THEM GROW.**

Innovation will become even more important to us in the future. To support our own developments, we also build select partnerships with established major players as well as young start-up firms. This creates a win-win situation. Our customers gain new, attractive products. Our partners benefit from our network, our strong brand, and our unique production environment. And we become even fitter for the future.

# SPACE FOR IDEAS – INNOVATION AT DEUTSCHE TELEKOM.

We have a clearly formulated goal: we want to become more innovative, step by step. And we want our customers and business partners to view us as an innovative company. A company that picks up new ideas enthusiastically. That's why we build partnerships with small and large businesses and invest in innovative start-ups. Our venture capital company T-Venture now manages a portfolio of around 100 companies, while our incubator hub:raum is currently helping eight start-ups on their way to success. Practical apps such as Mytaxi are the result of this dedicated support.

## **DEUTSCHE TELEKOM PARTNERSHIPS – INNOVATING BETTER, TOGETHER.**

Teamwork is our key to success – this applies to our work in Germany as well as our cooperations in Silicon Valley, Krakow or Israel.

We already offer a variety of partnership services including Spotify for music streaming, Groupon for coupons, Jawbone for portable technologies, and Lookout for smartphone security solutions. And in December 2013 we formed a strategic partnership with short messaging service, Twitter. In future, the start screens of Deutsche Telekom devices will display Twitter news messages – known as tweets – on subjects ranging from business and politics to sports and celebrities, to make sure our customers are always up to date. And Twitter benefits from the partnership since a larger number of people will get to know about the short messaging service. And the partnership gives us an early insight into new Twitter services, plus we are a preferred partner when it comes to joint marketing, advertising and customer service activities.





## INNOVATION HAS A NEW HOME.

Berlin has become a center of the German start-up scene. Since November 2013, we have grouped together our innovation activities at one location in Berlin that unites the past and future of telecommunications. The historical Fernamt 1 was the most modern telecommunications building in the world when it opened in 1929. It is now home to the Telekom Innovation Arena, providing around 8,000 square meters of space for new ideas. The Berlin team for our hub:raum incubator has also moved here, as have their colleagues from T-Labs, the Creation Center, design department and Group Business Development. Three of the eight start-ups supported by hub:raum have also relocated to the Telekom Innovation Arena.

- 1 The qLearning start-up is developing an app that helps students prepare for specific exams on the move.
- 2 A good climate: we identify potential areas for customers to save money by reducing energy consumption and offer ways of making homes more energy efficient.



The transition to renewable energies is one of the most ambitious programs of our time. We help with the intelligent management of power grids thanks to our telecommunications network, high-performance data centers, and extensive teams of service engineers.

To find out more, visit:  
[www.telekom.com/innovation/80748](http://www.telekom.com/innovation/80748)

## MAKING BETTER AND MORE EFFICIENT USE OF ENERGY.

We want to play our part in making energy consumption as efficient as possible. We start by optimizing energy distribution over existing power grids (smart grid). For energy consumption in the home, we can also identify potential savings – e.g. with intelligent meters, which we developed in collaboration with energy services provider, ista. Heat, water, gas, and electricity usage data is automatically sent to ista's servers via our mobile network, negating the need for manual meter readings. Additionally, consumers can use apps to track and control their energy consumption.

Energy optimization and managing your home while on the move are becoming increasingly important in a mobile society. Through our Smart Home brand, we offer practical app-based solutions for controlling and checking lighting, heating, and smoke detectors, for example. Together with well-known partner companies, we developed the QIVICON platform, which encompasses a wide spectrum of offerings for a comfortable, secure, and energy-efficient home.

# A FINGER ON THE PULSE – SOLUTIONS FOR EVERYDAY USE.

## IMPROVING HEALTH, ENHANCING QUALITY OF LIFE.

With demographic change, rising healthcare costs, and a shortage of medical doctors, the medical and health industry is facing significant challenges in many countries. This calls for solutions that support patients and family members, reduce doctors' workloads, and assist preventive healthcare so that people don't require medical treatment in the first place.

Increasing numbers of people want to have digital information on measurable aspects of their own health. Smartphones already provide their owners with many ways of collecting health-related data, such as distances covered. A new solution we have developed in collaboration with preventive healthcare specialist medisana adds to these possibilities. Metria is a credit card-sized wearable sensor that records 20 different vital signs, 24 hours a day, for up to 7 consecutive days. Information about body temperature, sleep patterns, and physical activity can then be downloaded to a mobile device or secure data portal on the Internet. An advanced version of Metria can even record a seven-day electrocardiogram (ECG).

And finally, we help to optimize processes in the healthcare system. For example, we launched an electronic health card in two test regions, Bavaria and Saxony. T-Systems is responsible for equipping 500 doctors, dentists, and psychotherapists plus five hospitals with all the equipment they need to use the health card system efficiently.



## DRIVING A CAR IS MORE THAN JUST GETTING THERE.

We are homing in on the huge potential offered by the connected car. Intelligent technology based on machine-to-machine solutions (M2M) makes motoring a safer and more enjoyable experience. Our solutions allow a wider range of practical, car-related services – such as the Connected Drive service package, which we offer in partnership with BMW. Here, the vehicle communicates independently with the manufacturer. This enables a “thinking” maintenance log book as well as extended traffic information and the eCall automatic emergency call system, which will be mandatory in all new vehicles in the EU from 2015.

We have installed 1,900 HotSpots in the Sixt car rental fleet to enable an in-car broadband Internet connection for up to eight devices. And, thanks to our solutions, the car-sharing provider car2go knows the location, mileage, and fuel level of its vehicles at all times.

With our partner DriveFactor, we offer a solution that records acceleration, braking, and steering data in a moving vehicle and sends it to DriveFactor's servers.



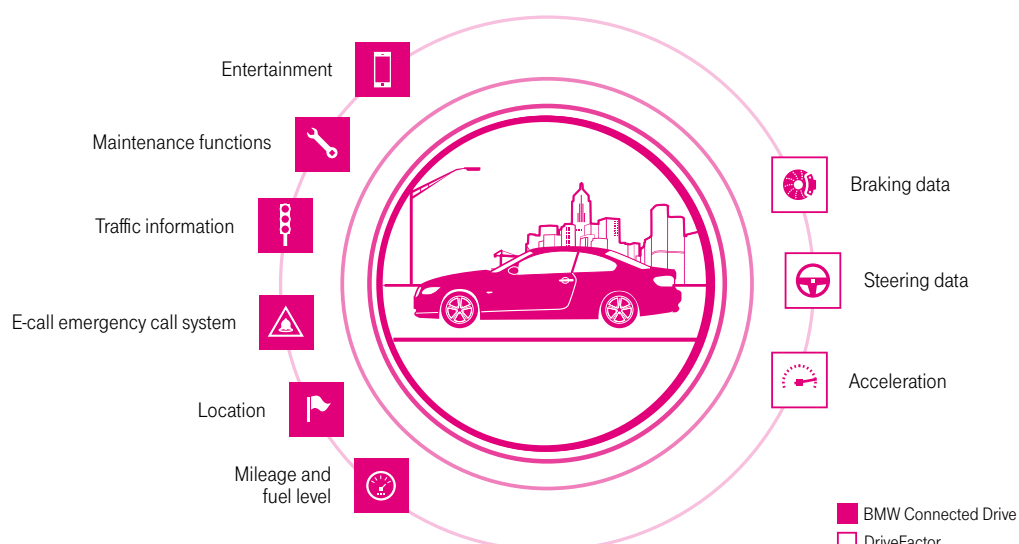
Our healthcare and mobility innovations are also a response to the demographic shift.



Rising costs and an aging population are the source of major challenges for the healthcare sector. The system must become more efficient or it will become impossible to finance. Our innovative solutions help to make a big difference.

To find out more, visit:  
[www.telekom.com/innovation/80578](http://www.telekom.com/innovation/80578)

## TRANSMITTABLE VEHICLE DATA



ANATOMY OF THE DIGITAL FUTURE.

# WE ARE THE BACKBONE OF THE DIGITAL FUTURE.

We already offer our customers excellent networking capabilities. In Germany, we are not only the largest (V)DSL provider, but we also supply the 100 biggest cities with the new LTE mobile communications standard. Our outstanding network quality is repeatedly confirmed by independent tests. But we're not going to stop there. Our ambitious network expansion program provides the basis for continued growth of the digital society.

# LTE+

offers speeds of up to 300 Mbit/s for super-fast surfing on the go.

## OUR MODERN OPTICAL FIBER NETWORK

already enables download speeds of up to 200 Mbit/s and upload speeds of up to 100 Mbit/s at home.

# 40,000

HotSpots for surfing in Germany.



WE ARE THE BACKBONE OF THE DIGITAL FUTURE




**“SO THAT I CAN STAY IN  
TOUCH WITH MY GRAND-  
CHILDREN, EVEN WHEN  
I’M NOT VISITING.”**

There's no stopping Gian when visiting grandma Dietlind Steinhoff in the countryside. And the rest of the time? The fastest network keeps them connected, of course.

Families stand by each other, whether all generations live under one roof, or in different cities. Our networks help people stay in touch – no matter how far apart they are. Conversations and feelings are already shared over 300,000 km of fiber-optic cables. We plan to extend society's digital arteries even further in the future, so that everyone can stay connected.







Faster Internet access by 2016  
for up to

**24 MILLION  
HOUSEHOLDS.**

8 devices can use WiFi simultaneously – turning your

**CAR INTO  
A HOTSPOT.**

We are investing

**EUR 6 BILLION**

to upgrade broadband technology.



**WE ARE THE BACKBONE OF THE DIGITAL FUTURE.**

# **MAKING THE BEST NETWORK EVEN BETTER HELPS THE DIGITAL SOCIETY GROW.**

We have set out a firm timetable for network expansion. We will invest extensively to make the best network even faster and more powerful. By 2015, we want 60 percent of the German population to be able to access the Internet with speeds of up to 300 Mbit/s via their smartphone. Our next target, by 2016, is to provide 24 million households in Germany with particularly high-speed fixed-network lines. Compared to our competitors, we have the highest bandwidths and best network coverage so we can reach even more people with even more innovative products. We want to make the networks faster in all of our European markets by 2018, and standardize different network structures. By doing this, we are helping to reach broadband targets at national and European level.

# ENABLING EVER INCREASING COMMUNICATION DATA VOLUMES.

People are sending and receiving more and more data. In 2015, a city of 50,000 people will generate the same data traffic in one month as the entire Internet did in a whole year back in 1997. In addition, usage habits are changing dramatically. Already 43 percent of all Internet users listen to music via streaming services such as Spotify. And the Internet will continue to link up with other technologies: In 2016, it is predicted that 80 percent of all new cars sold will have an Internet connection. An excellent network is essential so that constantly rising data volumes can be used at ever increasing speeds and ideally from anywhere. We want our networks to be able to keep pace with growing demands in future. So to provide our customers with the best services wherever they are, whatever device they use, we are building out our mobile and fixed networks both in urban and rural areas.



1



2



Open up your own WiFi connection to others in return for free access to 8 million HotSpots in 100 countries: that's the idea of WLAN TO GO. Our WiFi network is undergoing massive expansion.



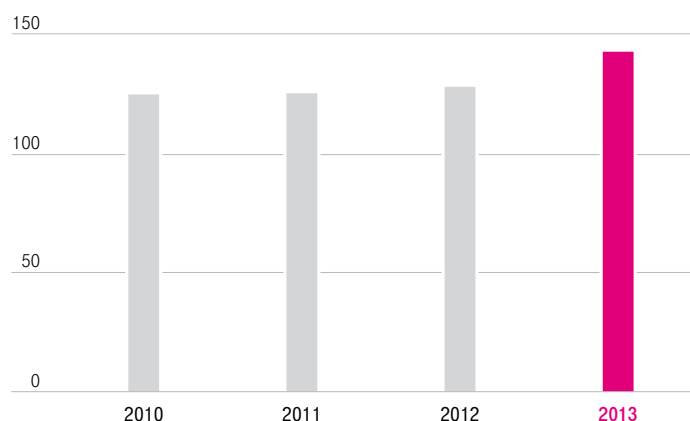
- 1 Special moments want to be shared right away, no matter where our customers are.
- 2 We now offer public WiFi access at more than 40,000 HotSpots across Germany.

### ALWAYS MOBILE IN THE BEST NETWORK.

The number of mobile devices is constantly growing, and for many people accessing data-intensive services at any time on the move is now routine. So we offer WiFi access at more than 40,000 public HotSpots across Germany. The new mobile communications standard LTE+ (Long Term Evolution), with speeds of up to 300 Mbit/s, is being rolled out to more and more areas. Because we want as many people as possible to benefit from these developments, in 2015 we aim to provide 60 percent of the German population with access to these bandwidths.

### GROUP'S MOBILE CUSTOMERS.

millions



**LTE.** (Long Term Evolution) is a fourth-generation mobile standard that enables much higher transmission speeds than the earlier UMTS technology. Our aim is to make the best network available to everyone in Germany – more efficiently, faster, more easily, cheaper, and nationwide.

To find out more, visit:  
[www.telekom.com/networks](http://www.telekom.com/networks)



- 1 Fiber-optic technology means our customers currently benefit from transmission speeds of up to 200 Mbit/s.
- 2 Work on network build-out continues. State-of-the-art fiber-optic cables are being laid to every home.



#### INNOVATION ABOVE AND BELOW GROUND.

Optical fiber is the fastest transmission channel there is, since information is carried at light speed. To offer our customers the best access to the Internet and our services, we are therefore focusing on innovative fiber-optic solutions that also make optimum use of the existing copper cable network. Fiber to the curb (FTTC) means that we are replacing copper cables with fiber-optic cables from the local switching center to our roadside distribution boxes. From there, the existing copper cables still run into our end customers' homes. The distribution boxes themselves are being upgraded to transmit more data than before over the copper cables – the keyword here is vectoring. Over the next few years, we will invest heavily in fiber-optic roll-out and modernizing distribution boxes. In roll-out areas – depending on the volume of pre-orders – we are installing fiber to the home (FTTH), which makes the advantages of fiber optics even more apparent. Download speeds of up to 200 Mbit/s and upload speeds of up to 100 Mbit/s are possible in these households.

Network expansion is a complex and challenging project – technically, financially and politically. So that everyone can benefit from the new technology as soon as possible, we also believe in a fair regulatory framework that gives us the necessary flexibility when developing our networks. We allow our competitors to profit from our technological innovations, and in return we expect appropriate compensation for our high levels of investment.

**FTTH:** Fiber to the home. A fiber-optic cable runs to the customer's home. Fastest possible transmission path for digital information.

**FTTC:** Fiber to the curb. A fiber-optic cable runs to the distribution box. From there, data is carried to the customer's home via the existing copper cables.

**Vectoring:** Method of increasing transmission rates in copper cables between the distribution box and home. Vectoring minimizes electromagnetic interference between individual copper cables, enabling significantly higher transmission bandwidths of up to 100 Mbit/s for download and up to 40 Mbit/s for upload at present.



# FASTER. EASIER. MORE SECURE. WE ARE BUILDING OUT THE BEST NETWORK WITH OPTICAL FIBER.

## INNOVATION IN OUR DATA CENTERS.

Optical fiber technology is also used in our data centers, where it facilitates cloud services of the highest quality. Significantly, T-Systems will in future operate all cloud solutions on a single platform. This offers our customers limitless scalability, better service and convenience, and constant availability without interruptions for updates

or maintenance. Data back-ups in a second data center make sure that no information is lost. In close cooperation with network equipment vendor Cisco, we have established an integrated concept that offers maximum flexibility. For example, our customers can decide themselves whether they want to process their data exclusively in data centers located inside the EU or within Germany.







## **SUPERVISORY BOARD'S REPORT TO THE 2014 SHAREHOLDERS' MEETING.**

For Deutsche Telekom AG, the 2013 financial year was marked by the strategic further development of business planning and the positive development of business in the United States, the persistently challenging macroeconomic environment in Southern and Eastern Europe, and ongoing high competitive and regulatory pressure. Despite these ongoing challenges, the Group generated good results in the 2013 financial year and fulfilled 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 2013 FINANCIAL YEAR.

The Supervisory Board continually monitored the Board of Management's activities to manage the business and the Group as a whole. Specifically, its 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. In particular, the Board of Management regularly reported to the Supervisory Board 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 significant subsidiaries and associates. The Supervisory Board regularly reviewed the situation of the Company on the basis of the Board of Management's written and oral reports each time the Supervisory Board or one of its committees met. The business trends were discussed at each meeting of the Supervisory Board. The Board of Management fulfilled its duties to inform the Supervisory Board 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 the Supervisory Board with regard to both content and scope. In addition to the reports, the Supervisory Board requested and received supplementary information. The Supervisory Board reviewed, critically analyzed, and verified the plausibility of these reports, and other information.

A document prepared by the Supervisory Board lists all types of transactions and measures of fundamental importance for which the Board of Management has to obtain approval from the Supervisory Board. This document is an integral part of the Rules of Procedure of the Supervisory Board and the Board of Management. The Supervisory Board met with the Board of Management for discussion and thorough review of all the transactions and measures that require the Supervisory Board's approval. The Supervisory Board approved the transactions and measures submitted for resolution. The Audit Committee regularly met to examine a variety of issues, including the quarterly reports, discuss these with the external auditor, and approve them.



Between meetings, the Chairman of the Supervisory Board regularly met with the Board of Management and especially with its Chairman 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 was informed of the general business situation and significant events.

Besides the statutory regular reports, the Supervisory Board and its committees also discussed and reviewed the following issues in greater depth:

- The development of business and the business strategy in the United States (in particular the conclusion of the acquisition of MetroPCS, acquisition of spectrum)
- The migration to all-IP in Germany and Europe
- The sale and acquisition of companies (e.g., Scout24 Holding and GTS Central Europe Group)
- The further development of the Group strategy
- The monitoring of innovation and technical developments (e.g., the cloud)
- The monitoring of intra-Group restructuring measures (e.g., T-Systems)
- The development of the regulatory and competitive environment and implications for Group strategy and planning
- The development of the Group's portfolio of shareholdings
- The acquisition of spectrum by national companies in the Europe operating segment
- The Group's budget and medium-term planning as well as the finance strategy and shareholder remuneration policy
- The development of staffing requirements, headcount, and qualitative personnel planning
- The Group's risk and compliance situation
- Results of the impairment tests that must be carried out at regular intervals under International Financial Reporting Standards (IFRS), and review of accounting methods used for intangible assets in accordance with German GAAP
- Corporate governance, with special emphasis given to new recommendations of the German Corporate Governance Code on Board of Management compensation
- The annual financial statements, the consolidated financial statements for the 2013 financial year
- The share dividend
- The motions for resolution to the 2013 ordinary shareholders' meeting, in particular the Supervisory Board's recommendation to the shareholders' meeting concerning the appointment of external auditors and the Supervisory Board's recommendation to the shareholders' meeting concerning the appointment of members of the Supervisory Board as shareholders' representatives
- The efficiency and adequate independence of the Supervisory Board
- Long-term succession planning for the Board of Management
- The structuring of the succession process for the position of Chairman of the Board of Management and the appointment of the Chief Financial Officer

The Supervisory Board and the Audit Committee in particular verified that the Board of Management acted lawfully and ensured compliance with legal provisions and internal standards and policies. For example, a Group-wide compliance organization was set up. The Supervisory Board also regularly met with the Board of Management to discuss the Group-wide risk management and controlling systems that had been introduced. Having conducted its own reviews and discussed the matter with the external auditors, the Supervisory Board came to the conclusion that both the internal control and risk management system and Group-wide risk controlling are effective.

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

To increase the efficiency of its work, and in consideration of the specific requirements it has to fulfill, the Supervisory Board of Deutsche Telekom AG has set up the following committees, all of which have an equal number of shareholders' and employees' representatives, with the exception of the Nomination Committee:

The **General Committee** is responsible for preparing the meetings and major decisions of the Supervisory Board, as well as for preparing matters relating to the individual members of the Board of Management. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hans Bernhard Beus (until February 5, 2014), Johannes Geismann (since February 6, 2014), Waltraud Litzenberger, Lothar Schröder.

The **Finance Committee** mainly deals with complex financial and business management topics within the Company. Members: Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann (member and Chairman until July 2, 2013), Dr. Ulrich Schröder (Chairman since August 15, 2013), Josef Bednarski (since December 12, 2013), Dr. Wulf H. Bernotat, Monika Brandl, Sylvia Hauke (since January 1, 2013), Lothar Holzwarth (until November 26, 2013), Karl-Heinz Streibich (since November 15, 2013).

The **Audit Committee's** area of responsibility is defined by German legislation and the German Corporate Governance Code. These include, in particular, monitoring the accounting process, the effectiveness of the internal control system, risk management and the internal auditing system, compliance, and data privacy. The committee also handles matters relating to the audit of the Company's financial statements, verifies the independence of the external auditors, and monitors any additional services provided by the external auditors, 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 the Supervisory Board about the external auditors to be nominated by the 2014 shareholders' meeting.

Dr. h. c. Bernhard Walter, Chairman 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)). He is also particularly knowledgeable and experienced in the application of accounting standards and internal control procedures. The other committee members: Dr. Hans Bernhard Beus (from November 15, 2013 to February 5, 2014), Johannes Geismann (since February 6, 2014), Lawrence H. Guffey (until September 30, 2013), Hans Jürgen Kallmeier, Dagmar P. Kollmann, Petra Steffi Kreusel (since January 1, 2013), Waltraud Litzenberger.



In the 2013 financial year, the Audit Committee again held its annual extraordinary meeting on fundamental issues in addition to its regular meetings. The 2013 extraordinary meeting mainly dealt with the effectiveness of risk management, compliance, accounting, data privacy and data security, financial statement audits, the responsibilities of the Audit Committee, and new developments in the fields of legislation and accounting.

The **Staff Committee** deals with personnel matters at Deutsche Telekom AG, in particular the Company's staff structure and human resources development and planning. In particular, the Staff Committee discussed matters relating to headcounts and staffing requirement planning for the purpose of preparing Supervisory Board resolutions on budgets and medium-term planning. Members: Lothar Schröder (Chairman), Dagmar P. Kollmann, Prof. Dr. Ulrich Lehner, Waltraud Litzenberger.

The **Nomination Committee** is responsible for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election. In accordance with the recommendation outlined in the German Corporate Governance Code, this committee consists exclusively of shareholder representatives. Members: Prof. Dr. Ulrich Lehner, Dr. Hans Bernhard Beus, (until February 5, 2014), Johannes Geismann (since February 6, 2014), Dagmar P. Kollmann (since May 15, 2013).

The responsibilities of the **Mediation Committee**, formed pursuant to § 27 (3) of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG), are determined by law. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Hubertus von Grünberg, Waltraud Litzenberger, Lothar Schröder.

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. Members: Dr. Hubertus von Grünberg (Chairman), Sari Baldauf (since January 1, 2013), Lars Hinrichs (since November 15, 2013), Hans-Jürgen Kallmeier, Lothar Schröder, Michael Sommer (since May 15, 2013).

The **Special Committee for business in the United States** was dissolved in September 2013 as the tasks it performed were no longer necessary following the merger with MetroPCS. Members: Prof. Dr. Ulrich Lehner (Chairman), Dr. Wulf H. Bernotat, Monika Brandl, Lothar Holzwarth, Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann (until July 2, 2013), Lothar Schröder.

The committees' chairpersons regularly informed the Supervisory Board at its meetings of the content and results of committee meetings.

## MEETINGS OF THE SUPERVISORY BOARD.

In the 2013 financial year, the Supervisory Board held four regular meetings and four extraordinary meetings. The Supervisory Board also met for an in-depth conference to discuss issues of strategic relevance. The General Committee of the Supervisory Board met eight times during the reporting year (including one joint meeting with the Finance Committee). The Audit Committee held five meetings, the Finance Committee met three times (including one joint meeting with the General Committee) in the 2013 financial year. The Staff Committee of the Supervisory Board held four meetings, the Nomination Committee met twice, and the Technology and Innovation Committee met three times. The Special Committee for business in the United States met once. There was no need for a meeting of the Mediation Committee in the reporting year. With regard to the frequency of the Board members' participation in Supervisory Board meetings in the 2013 financial year, there were no events that would have to be reported pursuant to the recommendations of the German Corporate Governance Code.

## CONFLICTS OF INTEREST.


Dr. Hans Bernhard Beus was a member of the Supervisory Board of Deutsche Telekom AG and, at the same time, State Secretary at the Federal Ministry of Finance. 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 Board of Managing Directors at Kreditanstalt für Wiederaufbau (KfW). The Supervisory Board is 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.

Lawrence Guffey and Lars Hinrichs each disclosed a conflict of interest to the Supervisory Board in connection with the sale of shares in Scout24 Holding GmbH and Laurence Guffey disclosed a further conflict in connection with EverythingEverywhere (Deutsche Telekom AG joint venture). Lars Hinrichs was acting as a consultant for a company that was interested in acquiring Scout24 Holding GmbH. As a consequence of his position as a Senior Managing Director of the Blackstone Group, Lawrence Guffey was not able to rule out the possibility of a conflict of interest. The Supervisory Board members concerned therefore did not take part in deliberations and votes relating to these two companies.



The Company's corporate governance policy is also presented in greater detail in a separate section of the Annual Report (PAGE 45 ET SEQ.).

## 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 in December 2013. 

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

The Supervisory Board resolved on December 20, 2012 to agree to René Obermann's request to terminate his mandate as a member of the Board of Management and his appointment as Chairman of the Board of Management effective December 31, 2013.

Timotheus Höttges was appointed Chairman of the Board of Management effective January 1, 2014 as per a resolution of May 15, 2013.

Thomas Dannenfeldt was appointed as the Board member responsible for Finance as per a resolution of May 15, 2013. He succeeded Timotheus Höttges as Board member responsible for Finance effective January 1, 2014.

The appointment of Niek Jan van Damme as Board member responsible for Germany was extended by five years effective March 1, 2014, as per a resolution of May 15, 2013.

## CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD.

Shareholders' representatives: At the shareholders' meeting on May 16, 2013 Sari Baldauf, who had previously been court-appointed as a member of the Supervisory Board, was elected to the Supervisory Board.

Prof. Ulrich Lehner was elected to the Supervisory Board for a further five years at the 2013 shareholders' meeting and then re-elected as Chairman of the Supervisory Board by the Supervisory Board.

Prof. h. c. (CHN) Dr.-Ing. E. h. Dr. Ulrich Middelmann passed away on July 2, 2013. Lawrence Guffey resigned his mandate effective October 1, 2013.

Lars Hinrichs and Karl-Heinz Streibich were appointed as members of the Supervisory Board as shareholders' representatives by the relevant district court effective October 1, 2013 until the end of the 2014 shareholders' meeting.

Dr. Hans Bernhard Beus resigned his mandate effective midnight on February 5, 2014. The relevant district court appointed Johannes Geismann as a member of the Supervisory Board as a shareholders' representative effective February 6, 2014 until the end of the 2014 shareholders' meeting.

Employees' representatives: Petra Steffi Kreusel was appointed as a member of the Supervisory Board as an employees' representative by the relevant district court effective January 1, 2013 until the end of the 2013 shareholders' meeting. Effective the end of the 2013 shareholders' meeting, eight employees' representatives, who had previously already been members of the Supervisory Board, were court-appointed as members of the Supervisory Board until the end of the delegates' assembly to elect employees' representatives on November 26, 2013. Lothar Holzwarth did not stand for reelection at the delegates' assembly and therefore stood down from the Supervisory Board. Josef Bednarski was elected to the Supervisory Board as a new employees' representative. All other existing employees' representatives were reelected to the Supervisory Board by the delegates' assembly.

The Supervisory Board would like to thank the former members for their valuable service in the interests of the Company.

## REVIEW OF ANNUAL FINANCIAL STATEMENTS OF THE PARENT COMPANY AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2013 FINANCIAL YEAR.

The Board of Management submitted the annual financial statements and the management report, which was combined with the Group 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 the Supervisory Board 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 2013 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, 2013, 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, 2013, 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 the Supervisory Board of the outcome of this review before the Supervisory Board prepared its resolution to propose to the shareholders' meeting to appoint said external auditor.

The external auditor also confirmed to the Audit Committee and the Supervisory Board in their financial statement review meetings on March 4/5, 2013 that there are no circumstances that may give rise to doubts about the external auditor's impartiality. In this context, the external auditor also reported on any services performed in addition to auditing services. In the Supervisory Board meeting on March 5, 2014, the Audit Committee informed the Supervisory Board about its monitoring of the external auditor's independence while taking account of the non-audit services provided and about its conclusion that the external 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 the Supervisory Board. 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.

The Supervisory Board conducted its own review of the documents submitted by the Board of Management and the external auditor's audit reports.

Prior to the review and resolution by the Supervisory Board, the Audit Committee 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 March 4, 2014. 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, the risk management system, or 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, it satisfied itself that the audit report, and the audit conducted by the external 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. The Audit Committee recommended to the Supervisory Board to 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, to approve the annual financial statements and the consolidated financial statements, as well as the combined management report and Group management report, and to support the Board of Management's proposal for the appropriation of net income.

The Supervisory Board 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 March 5, 2014, 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 the questions from the Supervisory Board. 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 the questions raised by the Supervisory Board, 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, the Supervisory Board satisfied itself that the audit and the audit report were compliant. The Supervisory Board followed the Audit Committee's recommendation and approved the result of the external auditor's audit.

Based on the final outcome of the Supervisory Board's own 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. The Supervisory Board 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 the Board of Management and the Supervisory Board approved the Company's medium-term financial planning for the next three years on December 12, 2013, the Supervisory Board conducted an in-depth examination of the medium-term 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 March 4, 2014 and by the Supervisory Board on March 5, 2014. The external auditor was present at both meetings. The Supervisory Board followed the Audit Committee's recommendation to approve and support the Board of Management's proposal to pay out shareholder remuneration of around EUR 2,215.1 million and to carry forward around EUR 661.5 million to unappropriated net income.

### REVIEW OF THE DEPENDENT COMPANY REPORT.

The Board of Management presented its dependent company report for the 2013 financial year to the Supervisory Board 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 the Supervisory Board. The dependent company report and the associated audit report were made available to all members of the Supervisory Board in good time.

The Supervisory Board 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 March 4, 2014, 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, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Audit Committee recommended to the Supervisory Board to 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, to pass a corresponding resolution.

The Supervisory Board performed the final review at its meeting on March 5, 2012, 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 questions from the Supervisory Board. 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 the questions raised by the Supervisory Board, 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, the Supervisory Board satisfied itself that the audit of the dependent company report and the audit report were compliant. In particular, it satisfied itself that the audit report, and the audit conducted by the external auditor, met the legal requirements. The Supervisory Board examined the dependent company report in particular for completeness and accuracy. In doing so, it also satisfied itself 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. The review revealed no reason to raise objections to the dependent company report. The Supervisory Board 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 the Supervisory Board's own review of the dependent company report, the Supervisory Board has no objections to the Board of Management's declaration on the dependent company report.

The Supervisory Board 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 2013 financial year.

Bonn, March 5, 2014  
The Supervisory Board

Prof. 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 in conjunction 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 AG with its numerous subsidiaries and associated companies. The Company complies with national provisions such as the recommendations of the Government Commission for a 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 2013 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 released an unqualified Declaration of Conformity with the German Corporate Governance Code on December 30, 2013:

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

- I. The Supervisory Board and Board of Management of Deutsche Telekom AG hereby declare that, in the period since submission of the most recent Declaration of Conformity pursuant to § 161 AktG on December 30, 2012, 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 on June 15, 2012 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 in the official section of the Federal Gazette (Bundesanzeiger) on June 10, 2013, without exception.

The Declaration of Conformity can be found on the Deutsche Telekom website. □ 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 2013 there were also four extraordinary meetings and one in-depth conference on the strategic alignment of the Company. The Board of Management keeps the Supervisory Board fully and regularly informed in good time in particular 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 significant subsidiaries and associates. The Board of Management regularly submits written and oral reports. The reporting obligations of the Board of Management have been specified by the Supervisory Board and go beyond statutory requirements. 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 exchange information regularly. □

**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 authorized to manage the spheres of responsibility allocated to him/her. 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).

**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 for individual members at the last shareholders' meeting on May 16, 2013. The five-year terms of office of the individual Supervisory Board members representing the shareholders end on different dates. This ensures continuity in terms of the Supervisory Board's composition. The Supervisory Board members representing employees were most recently elected by the employees at the delegates' assembly on November 26, 2013, according to the



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For details about cooperation between the Board of Management and Supervisory Board, please refer to the section "Supervisory Board's report to the shareholders' meeting," **PAGE 38 ET SEQ.** of the Annual Report.




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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 38 ET SEQ.** of the Annual Report.

provisions of the German Codetermination Act (Mitbestimmungsgesetz – MitbestG) and appointments to the committees of the Supervisory Board made accordingly. 

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

- The Supervisory Board hereby sets itself the goal, while taking into account the Company's specific situation, to take into consideration in the recommendations it makes to the competent election bodies concerning future appointments to the Supervisory Board not only the requisite expertise of a candidate, but also the aspect of diversity.
- 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. It aims 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 should be given appropriate consideration in future appointments to the Supervisory Board.
- Conflicts of interest are to be avoided in appointments to the Supervisory Board.
- Supervisory Board members should not be older than 67 at the time of their appointment (standard age limit).
- The Supervisory Board must 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 must be independent.

Regarding the achievement level of the Supervisory Board membership target:

The proportion of women on the Supervisory Board is currently 35 percent, meaning the target of increasing the proportion to 30 percent by the end of 2015 was already exceeded in 2013.

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 some of them have an international background. The avoidance of conflicts of interest and compliance with the standard age limit were taken into consideration in the appointments to the Supervisory Board.

The Supervisory Board is convinced that – in accordance with a recommendation of the German Corporate Governance Code – it has a sufficient number of independent members to provide impartial advice to and to 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 governance 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 the Rules of Procedure. To clarify the reporting requirements 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 assesses the efficiency of its work on a regularly basis. The last self-assessment was carried out in 2013. The next will be performed in 2015 based on a comprehensive questionnaire and intense discussion within the Supervisory Board.

In order to perform its tasks more effectively, the Supervisory Board has seven 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 personnel questions 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, risk management and the internal auditing system, 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 shareholder representatives. The Nomination Committee is responsible for proposing to the Supervisory Board suitable candidates for the latter to subsequently recommend to the shareholders' meeting for election as well as for appointment to committees and committee chairs. Finally, the Mediation Committee, which was formed in accordance with § 27 (3) of the Codetermination Act. The temporary committee for business in the United States was dissolved on September 4, 2013 following a resolution by the Supervisory Board as the tasks it performed were no longer necessary following the merger with MetroPCS. 


The committees' chairpersons report to the Supervisory Board on a regular basis on the work of the committees. The Chairman of the Audit Committee, Dr. h.c. Bernhard Walter, is particularly knowledgeable and experienced in the fields of accounting, auditing, and internal control procedures. Dr. Walter has never served on the Board of Management of the Company. He fulfills the requirements of § 100 (5) AktG.

To the extent permitted by law, the Supervisory Board makes use of modern communication media to expedite its work in the interests of the Company.

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 advises 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. Please refer to the Supervisory Board's report for details of conflicts of interest that have arisen. 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 management of opportunities and risks arising in connection with the Company's business activities is of fundamental importance to the Board of Management and the Supervisory Board 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 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 2012 Corporate Responsibility Report ). There is also a Compliance Committee, which 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, data privacy, and human resources. The Chief Compliance Officer, appointed by the Board of Management, is the chairman of 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 details about the composition, tasks, and working methods of the committees, please refer to the Supervisory Board's report to the shareholders' meeting on **PAGE 38 ET SEQ.** of the Annual Report.



For more information, please refer to the section entitled "Risk and opportunity management" on **PAGE 137 ET SEQ.** of the Annual Report.





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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 250 ET SEQ.** of the Annual Report.



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company/at-a-glance/  
compliance/64470](http://www.telekom.com/company/at-a-glance/compliance/64470)

Deutsche Telekom AG has implemented a comprehensive compliance management system. A compliance program is set once a year based on a structured risk evaluation process performed throughout the Group. For more information about the compliance program, please refer to Deutsche Telekom's website.  The compliance program 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 Code of Conduct and the Code of Ethics are published on Deutsche Telekom AG's website. 

**Internal controls over financial reporting.** Deutsche Telekom AG has implemented a process to systematically assess the effectiveness of its internal controls over financial reporting. Evidence of its effectiveness throughout the Group has again been provided for the 2013 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 and therefore fulfills the requirements of the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG). 



For a description of the main features of the accounting-related internal control system, please refer to the "Group organization" section in the Group management report on **PAGE 62 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 with the German Corporate Governance Code submitted by the Board of Management and Supervisory Board. The Audit Committee assesses the independence of the external auditor.

**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, March 05, 2014

The Supervisory Board and the Board of Management



# THE T-SHARE.

T 009

## T-Share information.

		2013	2012
<b>XETRA CLOSING PRICES</b>			
Share price on the last trading day	€	12.43	8.60
Year high	€	12.60	10.04
Year low	€	8.01	7.71
<b>TRADING VOLUME</b>			
German exchanges	billions of shares	3.7	3.9
Market capitalization on the last trading day	billions of €	55.3	37.2
<b>WEIGHTING OF THE T-SHARE IN MAJOR STOCK INDEXES ON THE LAST TRADING DAY</b>			
DAX 30	%	4.6	3.8
Dow Jones Euro STOXX 50®	%	1.2	0.9
<b>T-SHARE – KEY FIGURES</b>			
Earnings per share (basic and diluted)	€	0.21	(1.24)
Proposed dividend	€	0.50	0.70
Number of shares issued	millions, at year-end	4,451.18	4,321.32

## CAPITAL MARKETS ENVIRONMENT.

The development of the global economy continued to deteriorate overall in 2013. However, trends varied widely. The United States and western and central Europe saw a slight recovery in economic development, whereas the trend in the emerging economies in particular had a dampening effect on the overall picture.

Nevertheless, the stock markets recorded strong growth in 2013. Expansive monetary policies around the world and persistently low interest rates, that continue to make investments in fixed-interest securities seem less attractive, drove strong demand for securities on the stock exchanges.

## DEVELOPMENT OF INTERNATIONAL INDEXES.

As in 2012, the DAX climbed substantially over the course of the year. Ultimately it rose by 22 percent, closing the year at 9,522 points. It reached an annual high of 9,589 points on December 27, 2013. The low of 7,460 points was reached on September 14, 2013.

The Dow Jones Euro STOXX 50® also performed well. The index increased by 22 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 3,109 points. The year high of 3,111 points was reached on December 27, 2013, the year low of 2,512 points on June 24, 2013.

Japan's Nikkei recorded a much stronger upwards trend, ending the year at plus 53 percent. Its closing price of 16,291 points as of year-end 2013 also marked the annual high. The low of 10,487 points was recorded on January 23, 2013.

In the United States, the Dow Jones also improved sharply compared with 2012, growing by 24 percent in 2013, compared with just 6 percent in 2012. It ended the year at a closing price of 16,577 points. The index reached its low for the year on August 1, at 13,329 points.

After a rather restrained start in the first half of 2013, the European stock exchanges ended the year with a very positive overall result: across the board, all observed indexes further increased the gains made in 2012.

## T-SHARE PERFORMANCE.

For shareholders in the European telecommunications sector, 2013 was ultimately a good year. The sector index Dow Jones STOXX Telecommunications® increased by 39 percent on a total return basis in 2013, much faster than the DAX or the Dow Jones Euro STOXX 50®. The expectation that the regulatory framework will be focused more strongly on increasing investment and the emerging consolidation in the European telecommunications sector boosted the share price performance.

Our T-Share ended the year at a closing price of EUR 12.43, or plus 42 percent.

On a total return basis (share price performance plus reinvested dividend, i.e., similar to the DAX), our share recorded growth of 56 percent, thereby substantially outperforming the sector index and the DAX.

The T-Share got off to rather a weak start to the year – the low for the year of EUR 8.01 was recorded on February 21 – due to opposition to the merger with MetroPCS and calls made for an improved offer, as well as fears about the growing intensity of competition within the German market. In the second quarter, however, its course took a turn

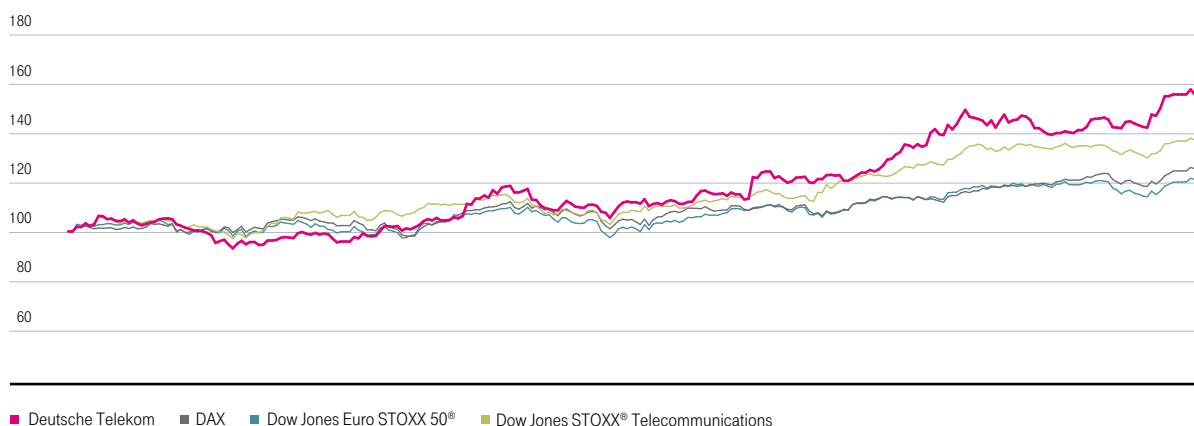
for the better. In addition to a fillip from the telecommunications sector as a whole, additional momentum was provided by the sound business figures for the quarters, the trend reversal in the United States and the upwards revision in the forecast for expected customer additions in the United States. And this momentum lasted into the fourth quarter. Our share reached the year high of EUR 12.60 on December 27, 2013.

By granting shareholders the option of drawing their dividend in the form of shares instead of cash, Deutsche Telekom entered new territory in the DAX 30. The acceptance rate of almost 38 percent exceeded our own expectations. The exercising of the option resulted in an increase in the number of shares issued by 129.9 million.

#### G 01

##### T-Share as compared to DAX, Dow Jones Euro STOXX 50®, and Dow Jones STOXX® Telecommunications.

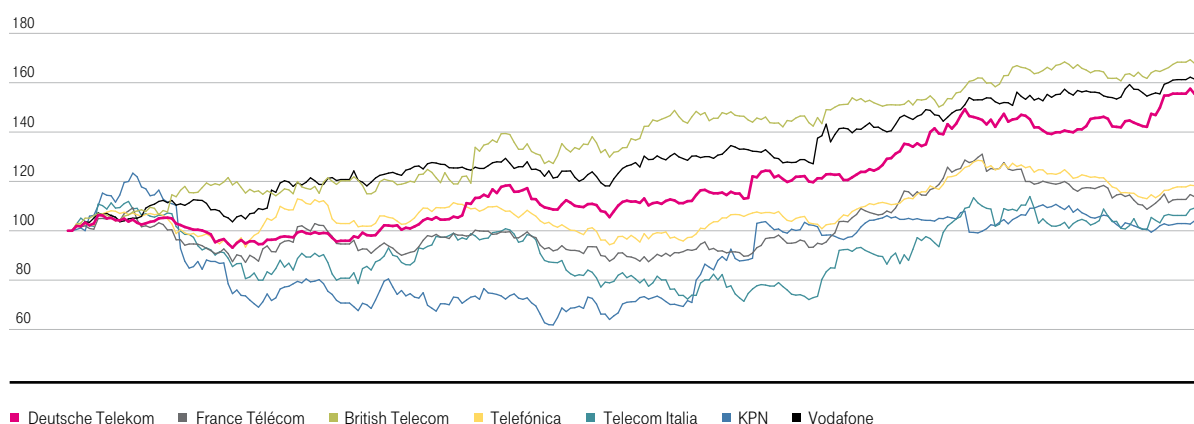
January 1 to December 31, 2013 (based on total shareholder return<sup>a</sup>)



#### G 02

##### T-Share as compared to other European telecommunications companies.

January 1 to December 31, 2013 (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.

## SHARE OWNERSHIP BY MEMBERS OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD.

Members of the Deutsche Telekom AG Board of Management and Supervisory Board bought a total of 643,927 Deutsche Telekom shares in 2013. 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 15, 2014, the payout of a dividend of EUR 0.50 per dividend-carrying share.

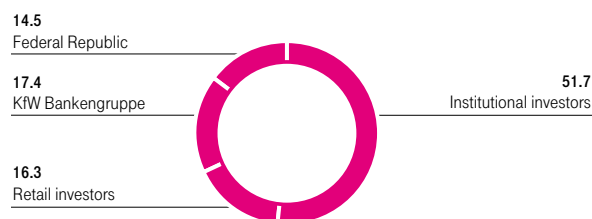
## SHAREHOLDER STRUCTURE.

The Federal Republic's shareholding including that of KfW (Kreditanstalt für Wiederaufbau) stands at approximately 32 percent. The proportion of institutional investors decreased slightly to 52 percent of share capital, while the share of retail investors increased to around 16 percent. As a result, the percentage of shares in free float remains at 68 percent.

G 03

### Shareholder structure.

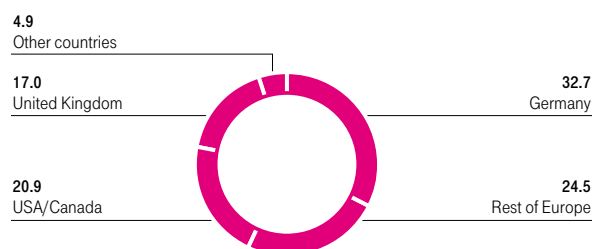
% (as of December 31, 2013)



G 04

### Geographical distribution of free float.

% (as of December 31, 2013)



## INVESTOR RELATIONS.

In the 2013 financial year, Deutsche Telekom continued its intensive dialog with institutional investors, retail investors and financial analysts. In individual and group discussions during its roadshows in Europe, Asia and North America, top management presented the Group strategy and the Company's financial position along with annual and quarterly results.

Direct contact with the capital markets was also maintained at several international investors' conferences held at various locations including Frankfurt, Barcelona, London, Paris, and New York. The analysts were presented with the annual and quarterly figures during conference calls.

In 2013, two "webinars" were held for the first time, offering our investors the opportunity to delve deeper into individual subject areas specific to Deutsche Telekom. They were presented by managers who are directly involved in and responsible for those areas, and included an opportunity to ask questions at the end. In 2013, the topics of our webinars were all-IP migration in Europe and vectoring technology.

The IR team provides retail investors with a direct point of contact on +49 (0) 228 181 88880 (fax +49 (0) 228 181 88899) or via e-mail ([investor.relations@telekom.de](mailto:investor.relations@telekom.de)) for questions relating to Deutsche Telekom or the T-Share.

We actively exploit the opportunities of social networks. On Twitter, the number of subscribers to our @DT\_IR, launched in 2012, increased further in 2013: 700 users now follow this service, tailored specifically to the interests of investors. All the live recordings of our quarterly presentations and investor events can be viewed conveniently on YouTube and on mobile devices using apps. As a basis for all online communication activities, we have continuously optimized our website based on user feedback and substantially improved our placement in relevant rankings.

In a large-scale investor relations study, Deutsche Telekom's top management topped the tables. Tim Höttges was named best Chief Financial Officer in the European telecommunications industry. Cross-industry, Höttges took second place in Europe. For Chief Executive Officers, René Obermann was ranked third out of all the companies. Obermann and Höttges topped the rankings of the best CEOs and CFOs in Germany. Stephan Eger, Head of Investor Relations, was second out of all the IR professionals in Europe, and was named number one in the European telecommunications industry. The study was conducted by Thomson Reuters Extel Survey. Each year, around 15,000 investors and analysts are surveyed. They rate various aspects of IR work and explain what they consider to be best practice.

They are available at:  
[www.telekom.com/  
 investor-relations/publications/  
 Webinars/196082](http://www.telekom.com/investor-relations/publications/Webinars/196082)

# COMBINED MANAGEMENT REPORT.

Our mid-term finance strategy is in place. We want to ensure unrestricted access to the capital markets and maintain our good ratings. We are offering our shareholders a reliable dividend. Over the next few years, we are planning a significant increase in overall investment, focused on broadband infrastructure build-out. Group-wide value management helps us to achieve our strategic goals.

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## OVERVIEW OF THE 2013 FINANCIAL YEAR.

### NET REVENUE.

- Net revenue increased by 3.4 percent.
- The United States operating segment in particular contributed to this revenue trend as a result of the inclusion of MetroPCS since May 1, 2013 and continued strong customer additions.
- Revenue in the Europe operating segment continues to be negatively affected by a persistently difficult economic environment, significant regulation-induced price adjustments and high competitive pressure.
- Adjusted for changes in the composition of the Group and negative exchange rate effects, net revenue increased by EUR 0.3 billion year-on-year.

### ADJUSTED EBITDA.<sup>a</sup>

- Adjusted EBITDA decreased by 3.1 percent.
- Positive impact: the focus on high-value revenue in connection with TV services and mobile data revenues.
- Negative impact: negative exchange rate effects of EUR 0.2 billion, higher market investments in the United States, fixed-network lines lost to competitors, price changes imposed by regulatory authorities, special levies, and national austerity programs. The negative effects were only partially offset by our comprehensive cost management.

### NET PROFIT/LOSS.<sup>a</sup>

- Net profit increased by EUR 6.3 billion.
- Net profit was increased by lower depreciation, amortization and impairment losses, attributable in particular to the impairment loss of around EUR 7.4 billion after taxes recognized on goodwill, other intangible assets and property, plant and equipment at T-Mobile USA in the third quarter of 2012 and lower depreciation due to the expiry of the economic useful life of parts of the outside plant in the Germany operating segment.
- Adjusted net profit increased from EUR 2.5 billion to EUR 2.8 billion.

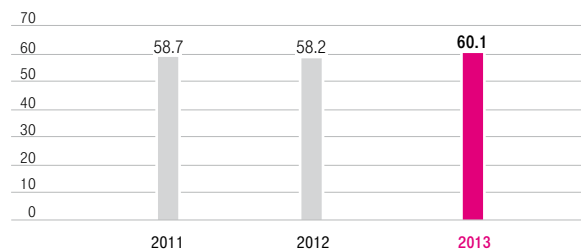
### EQUITY RATIO.<sup>a</sup>

- Total assets increased by 9.5 percent, in particular due to the first-time inclusion of MetroPCS.
- Shareholders' equity increased by 5.0 percent to EUR 32.1 billion. This increase was primarily attributable to the first-time inclusion of MetroPCS (EUR 2.0 billion), net profit (EUR 0.9 billion) and the capital increase (EUR 1.1 billion) carried out to grant shareholders the possibility of exchanging their dividend entitlements for shares (dividend in kind). Dividend payments for the 2012 financial year to Deutsche Telekom AG shareholders (EUR 3.0 billion), in particular, had an offsetting effect.
- The equity ratio decreased to 27.1 percent, thus remaining within our target range of 25 to 35 percent.

G 05

#### Net revenue.<sup>a</sup>

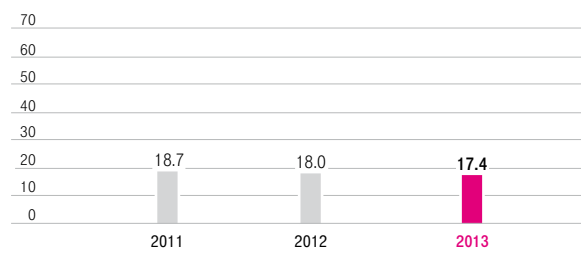
billions of €



G 06

#### Adjusted EBITDA.<sup>a</sup>

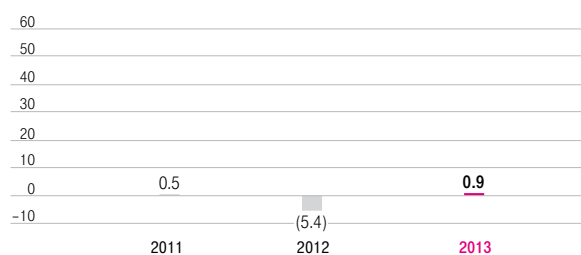
billions of €



G 07

#### Net profit/loss.<sup>a</sup>

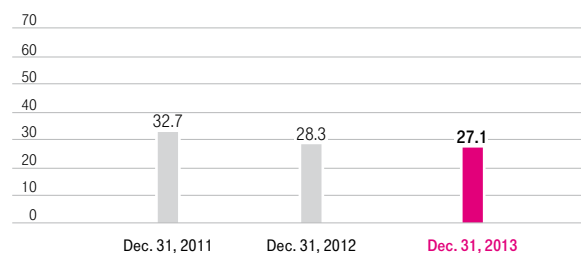
billions of €



G 08

#### Equity ratio.<sup>a</sup>

%

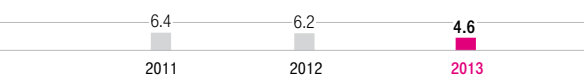


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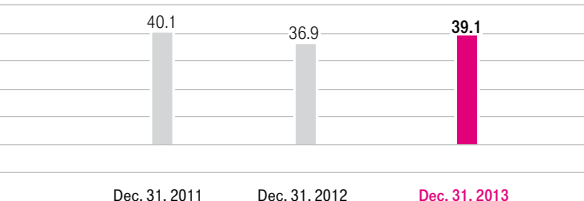
## G 09

**Cash capex.**  
billions of €

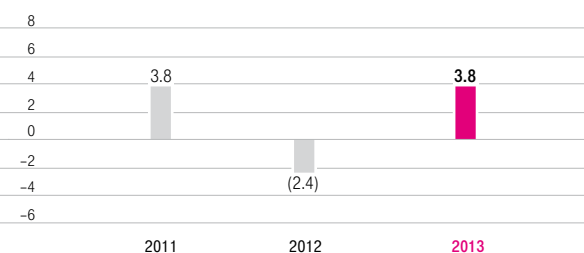
## G 10

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

## G 11

**Net debt.**  
billions of €

## G 12

**ROCE.<sup>a</sup>**  
%**CASH CAPEX.**

- Cash capex increased by 31.3 percent and mainly related to further rolling out broadband and expanding capacities in existing networks.
- The increase was due to capital expenditure for the LTE roll-out in our United States and Europe operating segments. In our home market of Germany, our investments focused on "networks of the future," like optical fiber and LTE infrastructure.
- We acquired mobile spectrum for EUR 2.2 billion, primarily in the Netherlands, Austria, and the United States.

**FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS, SPECTRUM INVESTMENT).<sup>b</sup>**

- Free cash flow decreased by 26.2 percent.
- This is mainly a consequence of our strategy of investing more in the build-out and modernization of our network infrastructure and, as a result, of higher cash capex.
- Net cash from operating activities decreased by EUR 0.6 billion. The dividends received from the EE joint venture, which were down EUR 0.2 billion year-on-year, and a EUR 0.2 billion increase in severance payments, among other factors, had a negative impact.

**NET DEBT.**

- Net debt increased by 6.1 percent.
- This increase is mainly attributable to the first-time inclusion of MetroPCS (EUR 3.4 billion), dividend payments – including to non-controlling interests – (EUR 2.2 billion), the acquisition of spectrum (EUR 2.2 billion), and payments to external pension funds (allocation under CTA; EUR 0.3 billion).
- Net debt was reduced by free cash flow (EUR 4.6 billion), the capital increase at T-Mobile US (EUR 1.3 billion), the sale of the stakes in Globul and Germanos (EUR 0.7 billion), and the sale of the stake in Hellas Sat (EUR 0.2 billion).

**ROCE.<sup>a</sup>**

- At 3.8 percent, ROCE substantially recovered from the negative value in the prior year.
- Both the improvement in the operating result, due in particular to the non-recurrence of the impairment loss recognized on goodwill, other intangible assets and property, plant and equipment at T-Mobile USA in the prior year, and the reduction in the average level of tied up assets over the course of the year contributed to this recovery.

<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013. ROCE was only adjusted for 2012.

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



For a more detailed explanation, please refer to the section "Development of business in the Group," PAGE 78 ET SEQ.



### DEUTSCHE TELEKOM AT A GLANCE.

In 2013, we were once again in line with all of our key financial targets, with adjusted EBITDA at EUR 17.4 billion and free cash flow even slightly over target at EUR 4.6 billion. Net revenue increased by 3.4 percent to EUR 60.1 billion, largely due to encouragingly strong revenue growth in the United States. While revenue in Germany decreased only slightly, the sustained difficult economic environment, intense competition, and massive regulatory intervention had a negative impact on revenue at our European subsidiaries. As expected, adjusted EBITDA declined by 3.1 percent. Although we recorded slight growth in adjusted EBITDA in the United States and only a moderate decline in Germany, cost-cutting measures only partially offset the decline in revenues in the Europe operating segment.

Following the net loss of EUR 5.4 billion we recorded in 2012 due mainly to the impairment loss recognized in our United States operating segment, we generated net profit of EUR 0.9 billion in the reporting year. Net profit adjusted for special factors also increased from EUR 2.5 billion to EUR 2.8 billion as a result of lower depreciation, amortization and impairment losses, which more than offset the decline in adjusted EBITDA.

The business combination of T-Mobile USA and MetroPCS in May 2013 had a lasting impact on the development of earnings, contributing as much as EUR 2.5 billion to the Group's net revenue in the reporting year. By contrast, sales of companies such as Globul and Germanos in Bulgaria and Hellas Sat in Greece had a negative effect of around EUR 0.25 billion on the development of revenue. The impact of these transactions on net profit was only minor, however.

Net debt increased over the course of the year from EUR 36.9 billion to EUR 39.1 billion. Free cash flow (EUR 4.6 billion), proceeds from the sale of stakes (EUR 0.9 billion), and the capital increase at T-Mobile US (EUR 1.3 billion) in particular had a positive impact. This was offset primarily by an effect of EUR 3.4 billion from the first-time inclusion of MetroPCS, the payment of dividends, including to non-controlling interests, totaling EUR 2.2 billion, and the acquisition of mobile spectrum for a total amount of EUR 2.2 billion, mainly in the Netherlands (EUR 0.9 billion), Austria (EUR 0.7 billion) and the United States (EUR 0.3 billion).

Cash capex (before spectrum investments) totaled EUR 8.9 billion in the reporting year and mainly related to further rolling out broadband and expanding capacities in existing networks. In mobile communications, we invested in LTE, increased network coverage, and upgraded capacity to meet increasing demand for data volumes. In the fixed-network area, priority was given to expanding the fiber-optic infrastructure, to IPTV, and to the continued migration of the existing telephone network to an IP-based network. Investments in our home market in Germany remained at a consistently high level. In the United States operating segment, our investment activities continued to focus on modernizing the mobile communications network, and capital expenditure increased overall as a result of acquiring MetroPCS in 2013. Cash capex in our Europe operating segment increased slightly as a result of the intensified LTE roll-out. Capital expenditure in our Systems Solutions operating segment focused on the Group's internal IT systems as well as on investments in connection with customer orders and the continued roll-out of new multi-purpose platforms, e.g., for cloud services, De-Mail, and intelligent networks.

At 3.8 percent, our key performance indicator "return on capital employed" (ROCE) substantially recovered in 2013 from the negative value in the prior year. The improvement in the operating result after depreciation, amortization and impairment losses and tax (net operating profit after taxes, or NOPAT) and the reduction in the average value of assets tied up in the course of the year (net operating assets, or NOA) contributed to this development. Examples of measures we have implemented to date to improve our ROCE include network partnerships, our "contingent" model, joint ventures we have entered into, the changes we have made to our portfolio, cell tower sales in the United States, and the realignment of our central management and service functions.

2013 was also a good year for our shareholders: They benefited not only from the dividend of EUR 0.70 per share paid out for the 2012 financial year, but also from an increase of 42 percent in our share price.



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

TABLE 010 below summarizes the results in 2012, the results expected for the reporting year, and the actual results achieved in 2013.

T 010

### Comparison of the Group's expectations with actual figures.

		Results in 2012 <sup>a</sup>	Expectations for 2013	Results in 2013
ROCE	%	(2.4)	target for 2015: around 5.5	3.8
Revenue (excluding MetroPCS)	billions of €	58.2	slight decrease	
Revenue (including MetroPCS)	billions of €		slight decrease	60.1
EBITDA (adjusted for special factors) (excluding MetroPCS)	billions of €	18.0	approx. 17.4	
EBITDA (adjusted for special factors) (including MetroPCS)	billions of €		approx. 17.5	17.4
Free cash flow (before dividend payments, spectrum investment) <sup>b</sup>	billions of €	6.2	approx. 4.5	4.6
Cash capex (excluding MetroPCS) <sup>c</sup>	billions of €	8.0	approx. 8.6	
Cash capex (including MetroPCS) <sup>c</sup>	billions of €		approx. 9.8 <sup>d</sup>	8.9
Rating (Standard & Poor's, Fitch)		BBB+	A-/BBB	BBB+
Rating (Moody's)		Baa1	Baa1	Baa1

<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013.

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

<sup>c</sup> Before spectrum investments.

<sup>d</sup> Based on the assumption of the inclusion of MetroPCS for twelve months.



Glossary,  
PAGE 257 ET SEQ.

## COMPARISON OF OUR STAKEHOLDERS' EXPECTATIONS WITH ACTUAL FIGURES.

The following measures and achieved targets serve to ensure that the different expectations which the four groups of stakeholders (shareholders, providers of debt capital, employees, and the "entrepreneurs within the enterprise") have of the Group are fulfilled.

G 13

### Results and comparison of our stakeholders' expectations with actual figures.

Shareholders			Providers of debt capital		
	2013 guidance	2013 delivery		2013 guidance	2013 delivery
Shareholder remuneration policy <sup>a</sup>	Dividend for the 2013 financial year: € 0.50 per share	Proposed dividend for the 2013 financial year of € 0.50 per share (€ 2.2 billion); cash dividend or, as an option, dividend converted into shares	Rating	A-/BBB	BBB+
	Option to have the dividend entitlement fulfilled in the form of shares		Relative debt	2 to 2.5 x	2.2 x
			Equity ratio	25 to 35 %	27.1 %
			Liquidity ratio	covers maturities of the next 24 months	covers maturities > 24 months

<b>AMBITION LEVEL FOR 2015</b> Around 5.5 %		<b>ROCE</b> Return on capital employed	<b>ROCE LEVEL</b> 2013: 3.8 % (2012: - 2.4 %, 2011: 3.8 %, 2010: 3.5 %)	
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<b>Staff restructuring and staff reduction</b>		<b>Before spectrum</b>	<b>For spectrum</b>
Expenses arising from staff restructuring in 2013	€ 1.5 billion	€ 8.9 billion	€ 2.2 billion

<b>Employees</b>		<b>"Entrepreneurs within the enterprise"</b>	
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For further explanations and details on our finance strategy, please refer to the section "Management of the Group," PAGE 69 ET SEQ.

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

## HIGHLIGHTS IN THE 2013 FINANCIAL YEAR.

### DEVELOPMENTS AT SENIOR MANAGEMENT LEVEL.

On May 15, 2013, the Supervisory Board appointed **Timotheus Höttges** as René Obermann's successor as Chairman of our Group's Board of Management effective January 1, 2014. The decision was also made to appoint **Thomas Dannenfeldt** as Chief Financial Officer. He succeeded Timotheus Höttges effective January 1, 2014. The Supervisory Board also extended the contract of **Niek Jan van Damme** as member of the Board of Management for Germany for another five years.

### EMPLOYEES.

**Right to return for part-time employees.** Since January 2014, we have been one of the first German companies to grant employees who sign a new part-time contract the right to end their part-time employment early and return to their original weekly working hours.

**Early retirement program for civil servants extended.** Our Board of Management resolved to extend the early retirement program for civil servants to 2013. This incurred expenses of EUR 0.5 billion in 2013.

**Severance and early-retirement program for Telekom Deutschland.** In the first half of 2013, Telekom Deutschland introduced a special severance and early retirement program for staff working in steering and centralized functions. This program made it possible to restructure the workforce in a responsible and socially considerate manner, with the aim of making a substantial contribution to implementing our integrated network strategy by systematically lowering our personnel costs in non-operational units.

**OTE severance program.** In November 2013, OTE finalized a new socially considerate severance program that was launched in the fourth quarter of 2013. Participation in the program, which was mainly directed at employees approaching retirement age, is voluntary. The successful completion of the exit scheme allows OTE to proceed with its transformation plans, to enhance its competitiveness, to significantly reduce its operational expenses, and, at the same time, to create new employment possibilities for young people. Around 1,800 employees accepted the program. OTE estimates the annual cost savings from staff restructuring to be around EUR 94 million. It should be noted that the voluntary exit scheme entails no burden for Greek state pension funds, as OTE bears the entire cost.

### TRANSACTIONS AT T-MOBILE US.

**Business combination of T-Mobile USA and MetroPCS.** The business combination of T-Mobile USA and MetroPCS was closed on May 1, 2013. At the shareholders' meeting on April 24, 2013, the shareholders of MetroPCS approved the business combination, after we had submitted an improved offer on April 10, 2013. The core elements of this offer were a reduction in the shareholder loan from Deutsche Telekom to T-Mobile USA by USD 3.8 billion in total, a lowering of the interest rates for the remaining shareholder loans by 0.5 percentage points, and the extension of the lock-up period for shares in the combined company to 18 months from the closing of the transaction for selling shares on the stock exchange. The responsible U.S. authorities approved the business combination in the first quarter of 2013.

Upon closing of the transaction, we received a 74.29 percent stake (as of May 1, 2013) in the new company. The remaining stake of 25.71 percent is held by the previous shareholders of MetroPCS, who also received a one-time cash payment in the form of a special dividend of USD 1.5 billion. Since May 1, 2013, we have recognized the company in our consolidated financial statements as a fully-consolidated company. It operates under the name T-Mobile US, Inc. and has been traded on the New York Stock Exchange (NYSE) since May 1, 2013. The combined company's improved position in terms of mobile spectrum and the expanded customer base mean that we are able to compete more aggressively with the other national mobile carriers in the United States.

Since the business combination, T-Mobile US has achieved significant integration milestones incorporating the MetroPCS business. T-Mobile US has launched HSPA+/LTE devices in multiple historical MetroPCS markets and combined 4G LTE spectrum in Las Vegas. In addition, T-Mobile US has extended the geographic presence of the MetroPCS distribution to 30 additional markets and launched more than 1,700 distribution points in these new markets by year-end.

**Sale of T-Mobile US bonds.** On October 16, 2013, we sold T-Mobile US bonds worth USD 5.6 billion from our portfolio. This related to five bonds with interest rates of between 6.464 and 6.836 percent and maturities ranging from 2019 to 2023. We are using the funds released by the sale for general corporate financing. The transaction did not increase our net debt. With the completion of the transaction, we still hold T-Mobile US bonds worth USD 5.6 billion.



Sustainability at  
Deutsche Telekom



For more information,  
please refer to the  
section "Employees,"  
PAGE 121 ET SEQ.



For more information on  
this transaction, please refer  
to the section "Changes  
in the composition of the  
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section "Employees,"  
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**New debt and equity issuance at T-Mobile US.** On November 20, 2013, T-Mobile US completed a public offering of 72,765,000 shares of common stock, including 6,615,000 shares issued pursuant to the underwriters' option to purchase additional shares, at a price of USD 25.00 per share. The capital increase diluted Deutsche Telekom's stake in T-Mobile US to 67.62 percent. In August 2013, T-Mobile US issued a bond totaling USD 500 million. The notes have a coupon for 5.250 percent and fall due in 2018. On November 21, 2013, a T-Mobile US wholly-owned affiliate issued USD 2 billion in aggregate principal amount of 6.125 percent senior notes due 2022 and 6.500 percent senior notes due 2024. The proceeds from the capital transactions will be used for general corporate purposes, including capital investments, enhancing its financial flexibility, and acquiring additional spectrum.

As a result of exercised options, as part of the MetroPCS stock option plans transferred, Deutsche Telekom's equity interest in T-Mobile US was diluted by 0.87 percent. Our equity interest in T-Mobile US as of December 31, 2013 thus totaled 66.75 percent.

#### FURTHER CORPORATE TRANSACTIONS.

In the first quarter of 2013, OTE, which is part of our Europe operating segment, sold all of its shares in its subsidiary **Hellas Sat**. The sale price was EUR 0.2 billion. Income from divestiture amounted to EUR 0.1 billion (before taxes).

In addition, on July 31, 2013, OTE sold its shares in **Cosmo Bulgaria Mobile (Globul)** and **Germanos Telecom Bulgaria (Germanos)** to the Norwegian telecommunications provider Telenor, which acquired 100 percent of the shares. All relevant authorities had approved the transaction. The adjusted sale price was EUR 0.6 billion. Income from divestiture amounted to EUR 0.1 billion (before taxes).

Effective September 1, 2013, **DIGI Slovakia** was included in our Europe operating segment as a wholly-owned subsidiary of Slovak Telekom. Following successful negotiations, the purchase agreement was concluded on May 14, 2013. The competition authorities agreed to the acquisition on July 31, 2013. The purchase price was EUR 0.1 billion. The purchase of DIGI Slovakia expands Slovak Telekom's TV portfolio.

#### AGREED CORPORATE TRANSACTIONS.

In early November 2013, we concluded an agreement with a consortium of international private equity companies for the takeover of **GTS Central Europe group (GTS)** for a total of EUR 0.5 billion. GTS is a leading infrastructure-based provider of telecommunications services in Central and Eastern Europe and owns an extensive optical fiber network. Our aim is to create an even better basis from which to offer innovative telecommunications solutions and integrated products in our key European markets in the future. The responsible authorities still have to approve the takeover.

Also in November 2013, we agreed the sale of a 70-percent stake in **Scout24 Holding GmbH** to Hellman & Friedman LLC (H&F). We will continue to hold a share of 30 percent in Scout24 in the future and, as such, will go on profiting from the group's future value accretion.

#### DIVIDEND.

For the first time, Deutsche Telekom AG's shareholders had the option of having their dividend entitlement for the 2012 financial year converted into shares instead of having it paid out in cash (dividend in kind). The option of the dividend in kind was well received by our shareholders: This option was chosen for around 1.62 billion shares. As a result, around 130 million new shares were issued. This corresponds to a capital increase of 3 percent. The cash dividend paid out to our shareholders who did not choose this option totaled EUR 1.9 billion. We are considering offering our shareholders this choice again for the 2013 financial year.

#### PARTNERSHIPS.

Partnerships are key to the success of our Group. In 2013, we entered into and expanded a large number of partnerships. We would like to present some of them in detail:

- In early 2013, we signed an agreement with **Sky Deutschland** on an extensive partnership. The program packages from Sky Deutschland for our **Entertain** IPTV customers came just in time for the start of the 2013/2014 Bundesliga season. Entertain customers can choose from the full range of Sky packages: Sky Welt, Sky Fussball Bundesliga, Sky Sport, and Sky Film, as well as the wide-ranging Sky HD offering.
- In order to give a further boost to digital reading, we are joining forces with the leading German booksellers – including Thalia and Club Bertelsmann – and pooling our competencies in the areas of technology and trade. Together with these partners and their comprehensive e-book offerings, we are promoting the new **tolino** brand. The toline shine e-reader has been available from all members of the partnership since March 2013.
- In December 2013, we entered into a strategic partnership with **Twitter**, one of the most popular social media companies. The details of this partnership are yet to be finalized. As a result, our customers will benefit from an improved user experience: on the start screen of their device, for example, Twitter will give a direct overview of events from politics, business and sports. From 2014, this service will be offered for selected **Android smartphones**, initially in Germany and later in the Netherlands, Greece, Romania, and Croatia.



For further information, please refer to the section "Significant events after the reporting period," **PAGE 127**.



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- We have further expanded our strategic partnership with Microsoft in the course of 2013. The expanded offer of Office 365 packages gives our customers access to the latest Office applications, any-time and anywhere, enabling them to create documents and take advantage of cloud-based IT services that include e-mail, calendars, and web conferences.
- Since November 2013, we have been cooperating with the world's leading energy services provider, **ista International**, on the remote reading of consumption data via mobile communications: "ista" uses our mobile network to transmit the recorded values to its servers. This partnership is an important step toward further expanding our proposition in the area of machine communication (M2M).

#### NEW WHOLESALE AGREEMENTS.

- In early May 2013, we signed an agreement with **Telefónica Deutschland** on increased usage of our **VDSL** and vectoring wholesale products. This partnership is to start in 2014 and be gradually expanded until 2019. In this way, we can share investment risks and step up our efforts to push ahead with the network build-out. In its draft ruling, the Federal Network Agency approved the partnership at the end of December. We expect a final decision in the first half of 2014.
- In addition, we concluded a partnership agreement for a cooperation with **Vodafone** as part of what is known as the contingent model: Vodafone will make greater use of our networks in the future and use both VDSL lines and the new vectoring lines.
- The aim of our strategic partnership with Deutsche Annington is to provide the majority of the real estate group's apartments with TV services and to supply some with optical fiber. We also entered into other partnerships in the **housing sector** in 2013, with Landes-Bau-Genossenschaft Württemberg, FLÜWO Bauen und Wohnen, Bau- und Heimstättenverein in Stuttgart, and Howoge Wohnungsbaugesellschaft in Berlin. Technical implementation will largely be carried out in 2014. We were able to further extend our partnership with Antec Servicepool GmbH in 2013. So far a total of 68 thousand apartments have been connected to our network.

#### REGULATORY DECISIONS.

**Vectoring green-lighted.** With its publication of the regulatory order on unbundled local loop lines (**ULLs**) on August 29, 2013, the Federal Network Agency essentially gave the green light for using vectoring transmission technology in Germany. However, in further proceedings known as the standard offer proceedings, details on wholesale products and services must still be set out. The Federal Network Agency's decision is expected in the first quarter of 2014, allowing vectoring to be used in Germany from this point on.

#### INVESTMENTS IN NETWORKS AND NEW SPECTRUM.

In order to be equipped for the rising data demand, we are already building the network of the future and investing heavily in **Germany**:

- Speeds of up to **150 Mbit/s** are now possible in our mobile network in Germany with **LTE+**. The new technology is available in all cities, towns and urban centers which previously had access to transmission rates of up to 100 Mbit/s. This will make **LTE+** available in well over 150 towns and cities. At the end of 2013, over 40 percent of the German population were able to use **LTE+**. We plan to raise this figure to 60 percent by 2015.
- Thanks to our network upgrade initiative, the first ten German local networks were connected to the new VDSL network in November 2013. We set up around 500 new multi-function street cabinets and connected them with **optical fiber**. Overall, almost 300 kilometers of optical fiber were laid. Previously, VDSL only reached around 15 percent of local networks. This figure is now well over 90 percent. From the second half of 2014, our new **vectoring technology** will again double the current maximum transmission rate of 50 Mbit/s. The next 45 local networks will gradually be switched on by May 2014. A million households will profit from our roll-out.
- We also made significant progress in 2013 in the Germany-wide migration of fixed-network lines to an **IP basis**: By the end of 2013, we had already completed the IP migration of more than two million lines in Germany.
- At the end of 2013, we were by far the largest **HotSpot operator** in Germany, with some 17,000 public HotSpots. Together with the existing **WLAN TO GO** HotSpots, we provide **WiFi Internet** access at almost 30,000 HotSpots. We are working with Deutsche Bahn to expand our **WiFi network**: Wireless Internet is now available at more than a hundred German train stations. WiFi Internet access is currently also available on 160 ICE high-speed trains on routes covering 5,200 kilometers.


In our other operating segments, we also stepped up investment in our networks and worked intensively on rolling out our infrastructure:

- The **LTE network roll-out** is also making progress in the **United States**: T-Mobile US has initially rolled out the 4G/LTE network in seven major U.S. metropolitan areas. At the end of 2013, the 4G/LTE network covered more than 273 metropolitan areas in the United States, and now reaches 209 million people.
- **T-Mobile US spectrum purchase.** In October 2013, T-Mobile US purchased 10 MHz of Advance Wireless Services spectrum from U.S. Cellular for USD 308 million. The spectrum covers a total of 32 million people in 29 markets. The transaction further enhances the portfolio of nationwide broadband spectrum in the United States and enables the expansion of LTE coverage to new markets.



For details on regulatory decisions in 2013, please refer to the section "The economic environment," **PAGES 76 and 77**. Further developments in the area of regulation which we are not yet able to assess are discussed in the section "Risk and opportunity management," **PAGE 143 ET SEQ.**


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- The **LTE network roll-out** is also making good progress in **Europe**. We have launched this technology in almost all of our European markets: In Austria, T-Mobile Austria further expanded its LTE network. In Romania, we have been offering mobile Internet services based on 4G/LTE mobile technology since April 2013, which is now available in Bucharest and several other cities. In the Czech Republic, we have been offering LTE in Prague among other places since the start of October 2013. In November 2013, we started commercial operation of the 4G/LTE network in five Slovak cities. We also launched our 4G/LTE network in the Netherlands in November. It is now available in major cities such as Amsterdam. In Montenegro and the F.Y.R.O. Macedonia we had covered a number of cities and regions with 4G/LTE technology as of the end of the year.
- In **Europe**, we successfully participated in **license auctions** in Austria, the Czech Republic, Poland, the United Kingdom, Hungary, and Slovakia. 
- The **IP migration** was launched in all integrated countries of our **Europe** operating segment. In Slovakia, Croatia and Hungary, the majority of our customers were already migrated to the IP technology in 2013. In the F.Y.R.O. Macedonia, the migration was successfully completed as of January 15, 2014.

## NEW PRODUCTS.

Our innovative power should benefit our customers first and foremost. For this reason, we again launched new products and services on the market in 2013, some of which are presented below:

- At the end of 2013, we were the first network operator in Germany to introduce the **A5/3 encryption standard** for voice transmission in our mobile network. As a result, calls are better protected against eavesdropping, even in the **GSM** network. Mobile calls are automatically encrypted in the transmission between cell phone and basic network. Similar encryptions are already used in the **UMTS** and **LTE** network. Additionally, the technology has already been implemented in the F.Y.R.O. Macedonia, Montenegro, Poland and the Czech Republic; other countries will follow.
- Since December 2013, our Entertain customers have been able to use new social TV functions: Using the **Remote Control app**, they can chat interactively on their mobile devices about current programs, using Twitter or Facebook. This makes it especially easy and straightforward to read, write and share messages about a current program. T-Labs in Berlin designed and developed these new functions.
- The new **"Entertain to go"** app gives Entertain customers access to around 40 TV stations from their home WiFi network or, on the move, to the online video store. Following the successful launch of "Entertain to go" on PC, laptop and iPad, the app has been available for the iPhone since November 2013 and for Android smartphones and tablets since December 2013.

- On April 12, 2013 the iPhone 5 went on sale at T-Mobile US – since then, our customers in the United States have also been able to buy **Apple products**.
- In July 2013, T-Mobile US announced phase 2.0 of its Un-carrier value proposition, **Just Upgrade My Phone program (JUMP!)** under which qualifying customers who finance their initial handset purchase using the Equipment Installment Plan (EIP) and enroll in the JUMP! program can upgrade their handset up to twice a year, following completion of an initial six-month enrollment period, and receive a credit for their outstanding EIP balance provided they trade in their eligible used handset in good working condition to offset the purchase of a new handset from T-Mobile US. In October 2013, T-Mobile US unveiled phase 3.0 of its Un-carrier value proposition, which provides customers with reduced United States-to-International calling rates and roaming fees, and free data roaming while traveling abroad in over 100 countries.
- In November 2013, T-Mobile US began to offer the Apple **iPad Air** and **iPad mini** with Retina display. In addition, every T-Mobile US tablet user will receive 200 MB of free 4G LTE data every month for as long as they own their tablet, even if they are not yet a T-Mobile customer. 

## NEW CORPORATE CUSTOMER AGREEMENTS.

Since the end of November 2013, T-Systems has operated all of its cloud solutions from a single platform. For our corporate customers, the advantage of this standardized platform, which first went live in Munich, is that its scalability is unlimited and hence it can meet growing capacity requirements without any problems. Our customers can also profit from improved service levels, since required maintenance work and updates no longer entail interruptions.

The cloud was a key driver of business in the reporting year, but we also successfully concluded and extended a number of deals in other areas. Examples of new corporate customer contracts:

- Energy provider **RWE** outsources its European workstation management to T-Systems for the next five years. In future, we will manage around 40,000 workstations.
- In early June 2013, we were awarded the internationally tendered contract with the Finnish elevator and escalator company **KONE** for the outsourcing of its IT services to T-Systems. KONE will outsource, among other activities, the operation of its data center, the SAP landscape and customer service for its workstation systems around the world to our subsidiary. In the future, the systems will be provided as a cloud application.
- The **European Commission** signed a three-year framework agreement with T-Systems for the construction of a communication infrastructure for the electronic exchange of data between the bodies of the European Union and the member states.



For further information on the allocation of mobile spectrum, please refer to the section "The economic environment," **PAGE 77.**



For more information on our new products and innovative services, please refer to the section "Innovation and product development," **PAGE 116 ET SEQ.**



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- **Deutsche Rentenversicherung** has commissioned us to provide all services for the secure operation of its communication networks for the next four years. T-Systems will upgrade the existing infrastructure of the voice, data and mobile networks.
- The **Swiss National Railways** have extended their agreements with T-Systems and will continue to procure their central computing and infrastructure services through us.
- **Rhineland Palatinate** is the first German federal state to conclude a two-year agreement on a strategic partnership with T-Systems for cloud services. In addition to much more flexibility, these cloud services offer a high degree of data privacy and data security.
- Building on a long-standing partnership, T-Systems and **Microsoft** are planning to pool their expertise in the area of **cloud computing**. In future, corporate customers will be able to use Microsoft's cost effective infrastructure to move data seamlessly from the public cloud to T-Systems' highly secure private cloud.


#### AWARDS.

We receive regular recognition for our excellent network and our customer service. In particular, our state-of-the-art networks topped the tables in all the major network tests in our home market Germany. We also scored well in the national companies of our Europe operating segment. Selection of the awards we received in 2013:

- In early December 2013, we won the extensive mobile network test of "**connect**" magazine for the third time in a row, beating our competitors by a substantial margin. Our score was particularly high in the tests for voice quality, network coverage, and high-speed mobile data communication. In May 2013, the readers of "**connect**" also voted us the "Mobile communications network operator of the year" in Germany for the fourteenth time in a row.
- Our fixed network also took first place in the major "**connect**" network test for 2013: The new IP-based lines were given top marks for reliability and voice quality in telephony. We also received very good marks for data transmission and for our stable high-level performance across the board.
- The trade journal **Computer Bild** also gave top marks to our modern LTE mobile network. The test measured the average **download** speeds in 50 major cities in which we verifiably offer the fastest network.
- For the fourth time in a row, our mobile network in Germany has taken the award for the best network of the year in the **CHIP Online** portal's national network test. In addition, we received the title "Best LTE network" for the first time.

- According to the **Futurezone** technology portal, our subsidiary T-Mobile Austria has the "Best network in Austria." The independent test conducted in May 2013 highlighted our excellent voice telephony in particular. We were also once again given the rating of "very good" for our network quality in the "**connect**" network test.
- In the latest **QUDAL** survey, our Croatian subsidiary Hrvatski Telekom (HT) received the highest scores as "Best Mobile Operator on the Market" and "Best Provider of Services for Business Customers." In addition, the survey participants rated us the best telecommunications provider in as many as eleven out of 16 categories. The results are based on a survey of 1,200 users and business people.
- Magyar Telekom won the **Customer Service Award** in the telephone customer service (call center) enterprise category and was given the grade "Excellence." We thus proved to be Hungary's best in call center services among enterprises.
- We took first place in customer satisfaction in this year's **Kundenmonitor Deutschland** survey, conducted by the research institute ServiceBarometer – thanks to our network coverage and availability. Our second brand "congstar" also scored highest among the discounters.
- In a detailed test, **TÜV Rheinland** examined the satisfaction of our customers and gave us the overall score of "good." Our hotline, our Telekom shops and our Technical Service were tested. We were the only provider in Germany to receive the score "good" for the seventh time in a row. 

#### LITIGATION.

We concluded the following proceedings in the reporting year: "Eutelsat arbitration proceedings," "Shareholder litigation" (shareholders' meeting for 2010 financial year), "Year-end bonus for civil servants," and "Mobile communications patent litigation." 

## GROUP ORGANIZATION.

#### BUSINESS ACTIVITIES AND ORGANIZATION.

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



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For information on awards received for our HR activities, please refer to the section "Employees," PAGE 123.



For more information, please refer to the section "Risk and opportunities management," PAGE 148 ET SEQ.



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A “gigabit society” is growing up around us, in which high-speed Internet is taken for granted both at home and on the move. The digital age is fundamentally changing the way we communicate. Internet applications have long been an indispensable part of our lives. The utopias of the past are the realities of the present. We can download films from the Web, watch soccer games on our mobile phones, and send photographs and videos from our smartphones, or share them with our friends via a social network.

In technical terms, this means that increasingly large volumes of data need to be transported at increasingly fast speeds. We at Deutsche Telekom want to make this possible. In addition, we aim to offer our customers fixed network, mobile communications, Internet and IPTV from a single source, ensuring they have secure access to all private data – no matter where they are and what device they are using. The “gigabit society” requires increasingly high-performance 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, such as energy, healthcare or the automotive industries.

But there's more to it than that. Over the next years, many areas will see agenda-setting developments for society, and Deutsche Telekom wants to be part of these. This requires us to have an understanding of responsible corporate governance. We believe that economic, social and ecological aspects can be reconciled, and place sustainability at the heart of all we do. Just two examples: We were the first DAX 30 company to introduce a women's quota in management, and have adopted a Group-wide binding climate protection target. In other words: We want to be a company that delights its customers, creates value for its investors, and in which employees enjoy their work.

**Business activities: leading integrated telecommunications provider.** With around 143 million mobile customers, 31 million fixed-network and over 17 million broadband lines, we are one of the leading integrated telecommunications companies worldwide. We provide fixed-network/broadband, mobile, Internet, and IPTV products and services for consumers, and information and communication technology (ICT) solutions for business and corporate customers. We have an international focus and are represented in around 50 countries. In the 2013 financial year, we generated over half of net revenue, i.e., EUR 34.7 billion outside Germany. Overall, we employ around 228,600 people (December 31, 2013).

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.

The 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 communications services to resellers and to companies that buy network services and market them independently to third parties (mobile virtual network operator, or MVNOs).

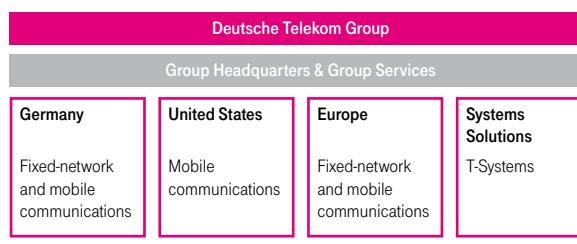
Drawing on a global infrastructure of data centers and networks, T-Systems, our corporate customer arm, operates information and communication technology (ICT) systems for multinational corporations and public sector institutions. On this basis, T-Systems provides integrated solutions for the future of a connected business world and society, focusing increasingly on dynamic platforms – such as cloud computing.

**Organization: four operating segments.** Our financial reporting conforms with our Group strategy and is based on the following organizational structure. The 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.



Sustainability at Deutsche Telekom

Our **Germany** operating segment comprises all fixed-network and mobile activity 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, as well as the EE joint venture in the United Kingdom. We sold our national companies in Bulgaria, discontinuing our mobile business activities in the country effective July 31, 2013.

In addition, individual national companies also offer their business customers information and communication technology solutions. The Europe operating segment also includes the International Carrier Sales & Solutions unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. The tasks and functions of Group Technology, including the Global Network Factory, were previously part of the Group Headquarters & Group Services segment; they have been reported in the Europe operating segment since January 1, 2013. Group Technology ensures efficient, customer-oriented provision of technologies, platforms, and services for mobile and fixed-network communications. Global Network Factory designs and operates a global network for providing wholesale




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customers with voice and data communication. Reporting was changed to improve the way in which these units can be managed. Comparative figures have been adjusted retrospectively.

Our **Systems Solutions** operating segment bundles business with ICT products and solutions for large multinational corporations under the T-Systems brand and public institutions. T-Systems offers its customers information and communication technology from a single source and develops and operates infrastructure and industry solutions. The products and services it offers range from standard products and IP-based high-performance networks through to complete ICT solutions. Our Systems Solutions operating segment comprises two business areas: Market Unit and Telekom IT. The Market Unit is responsible for business with external customers as well as telecommunications services within the Group and international IT services that do not fall within the remit of Telekom IT. Telekom IT bundles all of the Group's internal national IT projects.

We have realigned our central management and service functions. January 1, 2013 saw the launch of our new Group Headquarters and the newly formed Group Services. As part of this reorganization, the segment previously known as Group Headquarters & Shared Services was renamed **Group Headquarters & Group Services**. It comprises all Group units that cannot be allocated directly to one of the operating segments. Group Headquarters sets the course and provides impetus. It defines strategic aims for the Group, ensures they are met, and becomes directly involved in selected Group projects. The Group Services provide services to the entire Group. In addition to typical services such as financial accounting, human resources services, and operational procurement, Group Services also includes Viento, which, among other tasks, is responsible for providing employees with new employment opportunities as part of the workforce restructuring program. Further units are Group Real Estate Management and MobilitySolutions, full-service providers for fleet management and mobility services. The tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO have been pooled within the Digital Business Unit under Group Headquarters & Group Services. 

## MANAGEMENT AND SUPERVISION.

The management and supervisory structures, as well as the compensation system for the Board of Management and the Supervisory Board, are oriented toward the long-term performance of the Group and follow the recommendations of the German Corporate Governance Code.

As of December 31, 2013, 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 & Technology
- T-Systems

**Changes in the composition of the Board of Management.** The Supervisory Board resolved on December 20, 2012 to agree to René Obermann's request to terminate his mandate as a member of the Board of Management and his appointment as Chairman of the Board of Management effective December 31, 2013. Timotheus Höttges was appointed Chairman of the Board of Management effective January 1, 2014 as per a resolution of May 15, 2013. Thomas Dannenfeldt was appointed as the Board member responsible for Finance as per a resolution of May 15, 2013. He succeeded Timotheus Höttges as Board member responsible for Finance effective January 1, 2014. The appointment of Niek Jan van Damme as Board member responsible for Germany was extended by five years effective March 1, 2014 as per a resolution of May 15, 2013.

**Changes in the composition of the Supervisory Board (shareholder representatives).** At the shareholders' meeting on May 16, 2013, Sari Baldauf, who had previously been court-appointed as a member of the Supervisory Board, was elected to the Supervisory Board. Prof. Ulrich Lehner was elected to the Supervisory Board for a further five years at the 2013 shareholders' meeting and then reelected as Chairman of the Supervisory Board by the Supervisory Board. Prof. h.c. (CHN) Dr.-Ing. E.h. Dr. Ulrich Middemann passed away on July 2, 2013. Lawrence Guffey resigned his mandate effective October 1, 2013. Lars Hinrichs and Karl-Heinz Streibich were appointed as members of the Supervisory Board as shareholders' representatives by the relevant district court effective October 1, 2013 until the end of the 2014 shareholders' meeting. Dr. Hans Bernhard Beus resigned his mandate effective midnight on February 5, 2014. The relevant district court appointed Johannes Geismann as a member of the Supervisory Board as a shareholders' representative effective February 6, 2014 until the end of the 2014 shareholders' meeting.

**Changes in the composition of the Supervisory Board (employees' representatives).** Petra Steffi Kreusel was appointed as a member of the Supervisory Board as an employees' representative by the relevant district court effective January 1, 2013 until the end of the 2013 shareholders' meeting. Effective as from the end of the 2013 shareholders' meeting, eight employees' representatives, who had previously already been members of the Supervisory Board, were court-appointed as members of the Supervisory Board until the end of the delegates' assembly to elect employees' representatives on November 26, 2013. Lothar Holzwarth did not stand for reelection at the delegates' assembly and therefore stood down from the Supervisory Board. Josef Bednarski was elected to the Supervisory Board as a new employees' representative. All other existing employees' representatives were reelected to the Supervisory Board by the delegates' assembly.



For more information,  
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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 (Aktiengesetz – 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 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
René Obermann (until Dec. 31, 2013)	Chairman of the Board of Management
Timotheus Höttges (from Jan. 1, 2014)	(CEO)
Reinhard Clemens	T-Systems
Niek Jan van Damme	Germany
Timotheus Höttges (until Dec. 31, 2013)	
Thomas Dannenfeldt (from Jan. 1, 2014)	Finance (CFO)
Dr. Thomas Kremer	Data Privacy, Legal Affairs and Compliance
Claudia Nemat	Europe & Technology
Prof. Marion Schick	Human Resources

**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. As at December 31, 2013, all current members of the Board of Management were covered by the new Board of Management compensation 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, a long-term variable remuneration component, 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 fixed 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.

The current version of the German Corporate Governance Code includes a new recommendation for variable compensation elements and an overall cap on compensation of the Board of Management. To comply with this recommendation, the Supervisory Board and the Board of Management have adjusted the existing contracts for Board of Management members by mutual agreement. The variable compensation elements now include clear upper limits, while the amount of compensation was capped overall. Ordinary members of the Board of Management may therefore not receive more than EUR 4.5 million in annual compensation. The compensation of the Chairman of the Board of Management may not exceed EUR 7.5 million per year.

## GROUP STRATEGY.

- Successful strategy implementation in 2013
- Successfully shaping our future with our updated “Leading Telco” strategy

We are one of the world's leading providers of telecommunications and information technology. This is backed by our broad product portfolio for consumers and business customers, more than 170 million customers and investments of over EUR 11 billion.

#### RESULTS OF OUR “TELCO PLUS” GROUP STRATEGY.

In 2010, we formulated the “Telco Plus” Group strategy with which our activities were again aligned in the reporting year. It was the basis for our success in the past years. As **GRAPHIC 15** shows, “Telco Plus” comprised four areas of operation, all customer-oriented. From 2014 we will focus on our new “Leading Telco” strategy.

#### G 15

#### “Telco Plus” corporate strategy.

Seamless connectivity for the Gigabit Society	More innovation by cooperation	Secure cloud solutions	Best-in-class customer experience
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For more information on the compensation of the Board of Management and the disclosures required by § 314 HGB, German Accounting Standard No. 17 (GAS 17), and the disclosures required by the German Corporate Governance Code, please refer to Note 40 “Compensation of the Board of Management and the Supervisory Board” in the notes to the consolidated financial statements, **PAGE 240 ET SEQ.**



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For more information on  
our LTE network and on  
awards, please refer to  
the section "Highlights in  
the 2013 financial year,"  
PAGE 58 ET SEQ.



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For further information on  
our product and innovation  
topics, please refer to the  
section "Innovation and  
product development,"  
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### Seamless connectivity for the Gigabit Society.

We rely on our excellent network quality. Our goal is to always offer our customers the best and fastest possible connection wherever they are. We are building out our networks – both fixed and mobile – in line with demand. We invested EUR 8.9 billion in our networks in 2013 alone (before spectrum investment). In the reporting year we also began to implement our **integrated network strategy** in Germany: We are supporting our customers in becoming part of the information society by building out the broadband network.

One focus is on the high-performance **LTE+ mobile communications standard**, which enables speeds of up to 150 Mbit/s. We intend to increase the current coverage in Germany of over 40 percent to 60 percent by 2015. We regularly win awards for our excellent network. We won the extensive mobile network test of "**connect**" magazine for the third time in a row, beating our competitors by a substantial margin.

In the German fixed-network, we increased the number of households that could have a **VDSL** line to 13.4 million as of the end of 2013. In August 2013, the Federal Network Agency approved our application for rolling out the innovative **VDSL vectoring technology**. This technology allows us to push ahead with the network build-out in an even more efficient way by laying optical fiber up to the nearest street cabinet, and from there using the **VDSL vectoring technology** on existing copper lines to realize download bandwidths of up to 100 Mbit/s and upload bandwidths of up to 40 Mbit/s. Our aim is to provide coverage with **VDSL vectoring** lines for around 65 percent of German households by 2016. In addition, we are also working intensively on launching a **hybrid router** that will support high bandwidths – for both download and upload.

### More innovation by cooperation.

As an innovative telecommunications provider, we do not just focus on our own innovation, but also integrate new external solutions successfully: For us, innovation should be based on a **three-pronged approach: in-house developments, partnerships, and equity investments**. One example of a successful in-house development in the reporting year was "Entertain to go": Our TV service in Germany is now also available on laptops, tablets and smartphones. We have entered into an extensive partnership with Twitter, which offers our mobile customers an optimized user experience on selected Android devices in five countries at present. Our hub:raum incubator welcomed six start-ups in 2013 and opened up new offices in Krakow and Tel Aviv following the Berlin base.

### Secure cloud solutions.

We want to enable constant access to data and services for all of our customers – at all times, from anywhere and on any device, with the full range of services and maximum security. That's why we offer an extensive range of attractive **cloud solutions** for both business customers and consumers. Small and medium-sized business customers can access more than 40 applications on our cloud software platform known as the Business Marketplace, provided by our partners (as of the end of 2013). Our consumers are also offered secure cloud

solutions, such as the TelekomCloud. We also made the traditional e-mail service significantly more secure this year – together with our partners United Internet and "freenet" we cover approx. two thirds of all German e-mail accounts. We guarantee that e-mails are encrypted when they are transferred via data centers within Germany. T-Systems offers multinational corporations comprehensive cloud solutions. In 2013, for example, we started operation of a dynamic cloud platform, which provides our customers with flexible scaling of all cloud services in line with their requirements.

### Best-in-class customer experience.

We do not just want our customers to be satisfied, we want to delight them. Providing the best customer experience is at the heart of our actions – wherever the customers come into contact with our Group. The fact that this is anchored in our organizational structure underscores how important the topic is to us. For example, management compensation is to a certain extent tied to the development of **customer retention/satisfaction** – measured using the globally recognized TRI\*M method. This performance indicator also serves to optimize our customer relations processes and improve our products and services. In these surveys, we ascertain the loyalty of our customers compared to other companies, derived entirely from the answers to the following questions: "How our customers rate our performance," "Whether they intend to remain with us and would recommend us to others," "What is our cutting edge over the competition," and "How satisfied are our customers." The results are presented as a performance indicator, the TRI\*M index, ranging between – 66 and 134. In 2013, the figure was 64.9: T-Systems, in particular, developed very positively and the Germany and Europe operating segments showed positive developments with a slightly positive trend in the course of the year.

We were also able to demonstrate further measurable success. For example, we achieved the best satisfaction score of all network operators for German mobile consumer business according to Kundenmonitor Deutschland. Our "congstar" brand won first place among the mobile discounters. Our corporate customer arm T-Systems achieved its best TRI\*M customer satisfaction score to date in 2013.

In the United States, T-Mobile US has successfully set itself apart from the competition since merging with MetroPCS. T-Mobile US has re-designed its entire rate plans under the Un-carrier strategy, making them more customer-friendly. Customers now regard their pricing as particularly attractive and transparent. For example, T-Mobile US is the first U.S. mobile provider to offer free data **roaming** in over 100 countries. The numbers speak for themselves: In 2013, we recorded net customer additions of 4.4 million, excluding customers gained in connection with the acquisition of MetroPCS, and increased our customer figure in the United States operating segment to a total of 46.7 million.

T-Systems was also able to gain or retain well-known customers in the business customer segment in 2013. For example, in September we concluded a contract with energy provider RWE, which is outsourcing its 40,000 or so workstations across Europe to T-Systems over the next five years. Our **zero distance** approach to fully focus on customer needs sees us on the right track.




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The four areas of operation as part of the "Telco Plus" Group strategy have helped us make significant progress over the past four years.

- We have built out our networks in line with demand. Customers who surf, phone or watch television with us enjoy state-of-the-art high-performance technology. We are leaders in quality.
- We are an innovative company. We set trends.
- We have established ourselves as one of the top cloud providers and offer consumers and business customers of any size the right solution from a single source.
- We are again the first choice for our customers. And an increasing number of customers are delighted by our service.

### GROWTH AREAS.

We want to increase revenue in our five growth areas from EUR 15 billion in 2009 to EUR 27 billion in 2015. In the reporting year, we have made considerable progress in the individual growth areas:

- **Mobile Internet** includes all revenue that we generate with mobile data services. In 2013, revenue in this area totaled EUR 8.3 billion. We are therefore well on our way to achieving or even exceeding our ambition level of EUR 10 billion in revenue in 2015.
- In our **connected home** growth area we have bundled all revenue that we generate with our double- and triple-play packages, i.e., our fixed network-based voice, data, and TV services. This also includes innovative products such as our home management platform QIVICON, which was launched successfully in 2013. Despite the difficult environment in our European sales markets, we remain optimistic that we will achieve our revenue goal of EUR 7 billion in 2015.
- **Internet services** generated revenue of EUR 1.0 billion in 2013. As a result of the sale in November 2013 of a 70-percent stake in the Scout24 group, we are unlikely to realize our ambition level of EUR 2 billion.
- **T-Systems** generated **external revenue** of EUR 6.2 billion, i.e., from all activities bundled in the Market Unit, including, in particular, business with innovative cloud services. We expect the revenue target of EUR 7 billion to be difficult to achieve in light of the continuing strong competitive pressure in business with corporate customers and as a consequence of the transformation of our business model toward sustainable, profitable growth.
- In the **intelligent network solutions** growth area we expect a significant revenue increase, clearly outperforming the market. These solutions contribute to positive development of our Company in the long run and help our customers to reduce their energy consumption and carbon emissions, conserve resources, and ultimately reduce costs. 

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### Growth areas of Deutsche Telekom.

billions of €

Revenue	2013	Ambition level for 2015 <sup>a</sup>
Mobile Internet	8.3	≈ 10
Connected home	6.3	≈ 7
Internet services	1.0	≈ 2
T-Systems (external revenue) <sup>b</sup>	6.2	≈ 7
Intelligent network solutions (energy, healthcare, connected car)	0.2	≈ 1

<sup>a</sup> Ambition level for 2015 communicated at the 2012 Capital Markets Day.

<sup>b</sup> Excluding revenue from intelligent network solutions.

### FURTHER DEVELOPMENT OF OUR "LEADING TELCO" GROUP STRATEGY.

We developed our Group strategy further in the reporting year. From 2014, we will base our action on the updated "Leading Telco" strategy. The revised strategy will again feature four customer-centric strategic areas of operation, accompanied by three supporting areas of operation. GRAPHIC 16 provides an overview of the "Leading Telco" strategy and the associated areas of operation.

G 16

### "Leading Telco" corporate strategy.




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### STRATEGIC AREAS OF OPERATION.

#### Integrated IP networks.

Our core business is and remains operating and selling networks and lines. An integrated pan-European all-IP network will allow us to offer our customers the best and fastest possible connection at all times.

Step by step we will migrate our entire fixed network to the **Internet protocol** (IP) for all customer segments. Uniform IP networks allow us to react to changing customer wishes quickly, flexibly and economically.  Migration to modern IP networks has already begun in all of our integrated national companies and we intend to complete this by 2018. The F.Y.R.O. Macedonia, Slovakia, and Croatia are pioneers in this respect. In the F.Y.R.O. Macedonia, we successfully completed the migration of our customers to IP-based lines on January 15, 2014. In the other two countries, we have already migrated between 42 and 59 percent of **fixed-network lines** to the IP standard. We aim to complete migration in these countries by the end of 2014 or 2015. We had already migrated more than two million lines in Germany to IP by the end of 2013.



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In mobile communications, we intend to further **roll out our LTE networks**. We plan to cover around 85 percent of the population in Germany with LTE by 2016. Our European national companies have various roll-out targets, ranging between 50 and 85 percent population coverage with LTE by 2017. We will also continue our modernization program in the United States in 2014 and expect to make LTE access available for around 225 million people towards the end of the year.

Fixed and mobile networks are becoming increasingly intertwined, which is why we will significantly expand our **fixed-mobile convergence (FMC)** portfolio. Based on our nationwide mobile and fixed-network infrastructure, we want to offer our customers a seamless – in other words, uniform and technology-independent – telecommunications experience. One first example of the FMC focus introduced to our rate plan portfolio is the “Familien-Vorteil” (family advantage) rate plan which has been available in Germany since November 2013. In the medium term, we are working on offering consumers fully-converged products, consisting of voice, Internet access and television, both in fixed and mobile networks. We will also bring bundled products, including attractive cloud services, to market for our business customers.

In Germany, our range of roll-out programs come together in an **integrated network strategy**. We are aiming to provide optimum broadband coverage, thus improving our market position vis-à-vis cable network operators, as well as stabilize the development of our revenue. Our integrated network strategy rests on four key measures:

- Accelerated LTE roll-out will consolidate our leading position on the mobile communications market.
- Accelerated roll-out of the **FTTC** optical fiber access technology will bring optical fiber closer to our customers.
- The combination of FTTC roll-out and the use of the new vectoring technology will allow us to optimize the capacity of our existing copper lines.
- We will develop “hybrid” products that combine the strengths of fixed-network and mobile communications, in other words, capacity and speed. IP transformation provides the basis for the successful implementation of the integrated network strategy – and thus for all our future products and services. In our network, we will offer vectoring and hybrid products – based on IP, for example.

#### Best customer experience.

We want to offer our customers the best experience – simple, honest, specifically surprising and different. In order to serve our customers with excellent quality whilst also remaining efficient, we are constantly improving our **processes and IT systems**. We are investing in communication with our customers – across all channels. In this way, by 2018 we plan to offer our customers even better support in solving smaller problems quickly and easily themselves.

Our customers' satisfaction is one of our most important goals. That is why we are dedicated to continuing our programs “Kunde zuerst” (customer first) in Germany and Customer Experience in Europe.

We will delight consumers and business customers with **service innovations**. For example, in 2013, we had very good experience with modern communication channels such as Facebook and Twitter, which allow customers to contact us and receive an uncomplicated answer or assistance.

In 2013, it became apparent that **data privacy and security** have the public's attention like never before and are a key customer requirement. It has been a long-standing objective of ours to offer our customers the best possible protection for their data and networks. In order to come to terms with the growing challenges, we make ongoing investments in data privacy and security and sell relevant security solutions. As an example, we improved the eavesdropping protection of our GSM networks in 2013 by introducing the A5/3 encryption standard in additional national companies.

#### Win with partners.

In addition to our strong brand, we at Deutsche Telekom offer modern infrastructure, mass market-ready processes and professional marketing and sales structures. Together with attractive partners, we deliver the digital products our customers want. We want to focus 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.

We will establish a **technical and commercial platform** to which we can connect partners and their products quickly, flexibly and at low cost. We want to be the preferred telecommunications provider when it comes to innovative partners selling their products. We will delight our customers with products and product bundles that offer real added value. One example of our success in this respect is our partnership with the music streaming provider Spotify in Germany: Customers who choose the music streaming option can use the Spotify app on the go on their smartphone and tablet without using up the data volume included in their mobile rate plan. Our business customers will benefit from our Business Marketplace.

We want to grow our **TV business** further. We will expand our range to include attractive content – also building on partnerships such as that with Sky. We will make this content accessible to our customers across all screens – television, smartphone, tablet, etc.

#### Lead in business.

We want to be the preferred provider of telecommunications and IT services for business customers. The fact that we have dedicated a separate area of operation in our “Leading Telco” strategy to the business customer segment underlines how important this customer group is to us.

We want to strengthen our **business with small and medium-sized enterprises (SMEs)**. That is why we are expanding our product portfolio in line with demand, focusing increasingly on customer needs. We see great potential in particular in IT services for SMEs and aim to significantly increase our revenue in this area by 2017. To this end, we will also expand our partner sales activities.



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T-Systems serves our largest business customers and will continue to position itself as the expert telecommunications and IT partner for multinational corporate customers. The aim is and remains **profitable and sustainable growth**. This also involves further standardizing and optimizing our internal IT landscape.


The goal in our European sales markets is to transform our revenue mix from business customers towards a higher proportion of revenue from ICT solutions and mobile data. To do so, we are focusing increasingly on **bundled offers consisting of fixed network, mobile communications and cloud services** along with converged services.


#### SUPPORTING AREAS OF OPERATION.

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

**Transform the portfolio.** We will continue to develop our **portfolio of shareholdings**. The sale of 70 percent of our shares in the Scout24 group agreed in November 2013 shows that we are successfully increasing the value of our non-core business. The proceeds from the sale allows us to further strengthen our core business, particularly in our integrated national companies. With the acquisition of the GTS Central Europe group, one of the leading infrastructure-based providers of telecommunications services in Central and Eastern Europe, we are strengthening our position in the business customer segment and creating an even better starting position for offering pan-European telecommunications services and integrated products. The focus for our U.S. business in the short to medium term will be to leverage the synergies from the MetroPCS transaction.

**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 will continue to pursue our strict cost discipline.

**Encourage leadership & performance development.**  Our employees are key to the success of our Group. We will implement our **HR strategy** in four directions: First we will establish Group-wide leadership principles, developing our performance and development instruments accordingly. Second, we want to foster the employability of our workforce through consistent employee training and diversity management. We stand by increasing the women's quota and are working on the internationalization of our staff. We see the demographic change as an opportunity which we will take advantage of using integrated demographics management. The third direction involves increasing Deutsche Telekom's effectiveness, for example, by using innovative ways of working, new learning formats, and flexible work environments. The fourth direction is to restructure our total workforce in a business-driven manner in response to changing requirements profiles. Our general principle when filling positions is "internal before external."

We want to ensure sustainable business practices and assume social and ecological responsibility in all that we do. 

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

#### The leading European telecommunications provider.

- We have a **leading market position**, because high-performance networks and the best service make us the first choice 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 for 2013 consistently implemented**
- **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 four **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 to 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.

We presented our finance strategy for 2013 to 2015 at our Capital Markets Day in Bonn in December 2012. We consistently implemented this strategy in 2013. This also involved achieving our financial ratios



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For more information, please refer to the section "Corporate responsibility,"

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Please refer to the section "Group strategy,"  
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– relative debt (ratio of net debt to adjusted EBITDA) and equity ratio – along with a liquidity reserve that covers our capital market maturities for the next 24 months at least. With these clear statements we intend to maintain the A-/BBB rating and safeguard unrestricted access to the capital market. A dividend statement for the 2013 and 2014 financial years for shareholders has been drawn up and is subject to approval by the relevant bodies and to other statutory requirements. We intend to decide again on the dividend policy for the 2015 financial year after the planned phase of increased investments for broadband networks and products. For the first time, our shareholders had the option to choose between having their dividend entitlement for 2012 paid out in cash or converted into shares of Deutsche Telekom AG (dividend in kind). 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. The scale on which this option was taken up was encouraging. We consider offering our shareholders this option again for the 2013 financial year. Total capital expenditure is also to increase significantly in the next two years. The higher investment volume is to be used to roll out our broadband infrastructure in Germany and the United States in particular. In mobile communications, it will focus on latest LTE standard, and in the fixed network, on optical fiber and vectoring. The dividend for financial years 2013 and 2014 was adjusted in favor of our planned investments in future growth; we plan to pay a dividend of EUR 0.50 per share for each year respectively. Our dividend plans offer our shareholders both an attractive return and planning reliability.

The finance strategy supports our "Leading Telco" Group strategy in transforming our Group. In order to generate a sustainable increase in value, we intend to earn our cost of capital in the medium term. We aim to achieve this goal in part by optimizing the utilization of our non-current assets. We launched further network partnerships in the reporting year, such as in the Netherlands and the Czech Republic. Our new "contingent" models, which are intended to improve the utilization of our networks, are also an important part of this strategy.

We also intend to achieve our target of earning our cost of capital through strict cost discipline. We plan to introduce the target costing method throughout the Group with this goal in mind, the aim being 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 will also focus our steering more clearly on our unadjusted EBIT. Taking investment costs into account, EBIT is closer to the ROCE concept (please refer to the explanations later in this section for a 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.

Last year we reviewed all opportunities to modify our portfolio, for instance with regard to our EE joint venture or the Scout24 group. In November 2013, Deutsche Telekom agreed to sell 70 percent of the shares in Scout24 Holding GmbH. The transaction itself was closed on February 12, 2014. After a thorough review of our EE joint venture together with our partner Orange, we agreed to maintain the existing ownership structure for the time being and to continue to collaborate successfully on the UK market.

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#### Our finance strategy for 2014 through 2015.

Equity	"Leading Telco" strategy				Debt
<b>Reliable shareholder remuneration policy</b>  <b>Dividend<sup>a</sup></b> 2013 financial year: € 0.50 per share 2014 financial year: € 0.50 per share 2015 financial year: re-visit Attractive option: choice of converting dividend entitlements into shares (dividend in kind)	Integrated IP networks	Best customer experience	Win with partners	Lead in business	<b>Unrestricted access to debt capital markets</b>  <b>Rating:</b> A-/BBB <b>Net debt/adjusted EBITDA:</b> 2 to 2.5 x <b>Equity ratio:</b> 25 to 35 % <b>Liquidity reserve:</b> covering maturities of the coming 24 months
	Value creation				
	<ol style="list-style-type: none"> <li><b>Efficiency management</b> Reduce costs by means of target costing and increase ROCE above cost of capital</li> <li><b>Portfolio management</b> Deliver on preferred business model (integrated +B2C/B2B) and value generation</li> <li><b>Risk management</b> Maintain a low-risk portfolio of countries</li> <li><b>Fast transformation</b> Support fast IP migration and transform network infrastructure</li> </ol>				

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

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## 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. TABLE 013 and TABLE 014 provide an overview of our key financial and non-financial performance indicators.

### 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, or NOPAT) to the average value of the assets tied up for this purpose in the course of the year (net operating assets, or 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.

We are implementing measures in all relevant areas at the same time to make a sustainable improvement to our ROCE. Cost-cutting programs and specific restructuring measures are intended to increase our NOPAT, the focus being on the continuous reduction of our indirect costs. A committee was set up with the specific task of ensuring Group-wide efficient capital allocation and utilization of the capital already tied up. A key element in this respect is the pre-marketing of products to make our investments pay off faster. Further examples of measures we have implemented to date to improve our ROCE include network partnerships, our "contingent" model, joint ventures we have entered into, the changes we have made to our portfolio, tower sales in the United States, and the realignment of our central management and service functions.

For operational management, we use the KPIs described in the following. 

### REVENUE AND EARNINGS.

The development of our **revenue** is an essential indicator for measuring the Company's success.

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



For the development of the KPIs, please refer to TABLE 013 below and TABLE 014, PAGE 72, and the section "Development of business in the Group," PAGE 78 ET SEQ.

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#### Financial performance indicators.

		2013	2012 <sup>a</sup>	2011 <sup>a</sup>	2010	2009
ROCE	%	3.8	(2.4)	3.8	3.5	3.9
Net revenue	billions of €	60.1	58.2	58.7	62.4	64.6
Profit (loss) from operations (EBIT)	billions of €	4.9	(4.0)	5.6	5.5	6.0
EBITDA (adjusted for special factors)	billions of €	17.4	18.0	18.7	19.5	20.7
Free cash flow (before dividend payment, spectrum investment) <sup>b</sup>	billions of €	4.6	6.2	6.4	6.5	7.0
Cash capex	billions of €	(11.1)	(8.4)	(8.4)	(9.9)	(9.2)
Rating (Standard & Poor's, Fitch)		BBB+	BBB+	BBB+	BBB+	BBB+
Rating (Moody's)		Baa1	Baa1	Baa1	Baa1	Baa1


<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013. ROCE was only adjusted for 2012.

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

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 For the reconciliation  
of EBITDA, EBIT, and net  
profit/loss to the respective  
figures adjusted for special  
factors, please refer to  
TABLE 018, PAGE 81.

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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. 

### 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 2013, the focus was on optimizing receivables management throughout the Group, especially in our United States, Europe, and Systems Solutions operating segments; this also involved factoring measures. We intend to continue to work on improving working capital over the coming years. To this end, we will focus on the following areas: further improvements on the basis of the payment policy and reverse factoring programs, receivables and inventories management at T-Mobile US and in Europe, and working capital management at the OTE group.

**Cash capex** (before spectrum investments) 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 with more than 170 million customers, 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

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### Non-financial performance indicators.

		2013	2012	2011	2010	2009
Customer satisfaction (TRI*M index)		64.9	-	-	-	-
Employee satisfaction (commitment index) <sup>a</sup>		n. a.	4.0	-	-	-
<b>FIXED-NETWORK AND MOBILE CUSTOMERS</b>						
Mobile customers <sup>b</sup>	millions	142.5	127.8	125.1	124.6	130.6
Fixed-network lines	millions	31.0	32.4	34.7	36.0	38.5
Broadband lines <sup>c</sup>	millions	17.4	17.2	16.9	16.4	15.4
<b>SYSTEMS SOLUTIONS</b>						
Order entry	millions of €	8,259	8,737	7,396	9,281	9,305


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



<sup>b</sup> The customers of our companies in Bulgaria have no longer been included in the Europe operating segment since August 1, 2013 following the sale of the shares held in the companies.

They have been eliminated from historical customer figures to improve comparability.

<sup>c</sup> Excluding wholesale.

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major significance of customer retention/satisfaction for our operations, since 2010 we have made this key indicator one of four parameters for the newly defined long-term variable remuneration (Variable II) for our executives. 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. 

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 Group's most important feedback instruments 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). Since 2010, employee feedback has been part of Variable II as one of four relevant parameters. 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 development in our core countries improved
- Pressure for consolidation in telecommunications market increased

### GLOBAL ECONOMIC DEVELOPMENT.

In 2013, the global economy showed only cautious growth: In its current forecast from January 2014, the International Monetary Fund expects the global economy to have grown by 3.0 percent in 2013; growth in the previous year was 3.1 percent. Some contrasting developments could be observed in individual national economies in 2013: While growth rates in the United States, Western and Central Europe increased from the middle of the year, they decreased slightly in emerging markets.

The economic situation in our core markets improved slightly over the course of the year. Gross domestic product (GDP) grew by 0.5 percent in Germany – a greater increase than in other Western European countries. In the United States, the economic situation of private households continued to improve, while the real estate market also recovered further. Overall, the U.S. economy grew by 1.9 percent in the reporting period. However, austerity measures prevented stronger economic growth. Almost all national economies in our Europe operating segment recorded an improvement in economic development in the second half of the year. The decline in Greece's economic performance was significantly tempered for the first time by the end of the year. However, at the end of 2013, Greece remained in a recession with a growth rate of minus 3.5 percent. The Czech Republic, the Netherlands, and Croatia also recorded negative growth rates for the full year 2013. By contrast, growth was seen in the Romanian, UK, Polish, Hungarian, Slovakian, and Austrian economies.

TABLE 015 shows the GDP growth rate trends in 2013 in our most important markets.



For more information on customer satisfaction, please refer to the section "Group strategy," PAGE 65 ET SEQ.



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For more information on employee satisfaction, please refer to the section "Employees," PAGE 121 ET SEQ.

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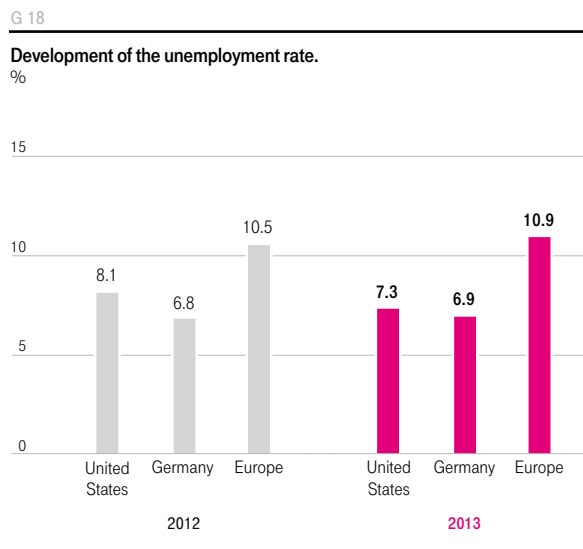
#### GNP growth rates.

	Q1 2013 compared with Q1 2012	Q2 2013 compared with Q2 2012	Q3 2013 compared with Q3 2012	Q4 2013 compared with Q4 2012	Estimate for full year 2013
Germany	(0.3)	0.5	0.6	1.3	0.5
United States	1.3	1.6	2.0	2.8	1.9
Greece	(5.5)	(3.7)	(3.0)	(1.8)	(3.5)
Poland	0.8	1.2	1.7	2.1	1.4
Hungary	(0.3)	0.5	1.6	2.8	1.2
Czech Republic	(2.4)	(1.5)	(1.3)	(0.4)	(1.5)
Croatia	(1.0)	(0.7)	(0.6)	(0.3)	(0.7)
Netherlands	(1.4)	(1.9)	(0.6)	0.0	(1.0)
Slovakia	0.7	0.7	0.7	1.1	0.8
Austria	0.3	0.1	0.2	0.6	0.3
Romania	2.3	1.6	4.1	2.4	2.6
United Kingdom	0.7	2.0	1.9	2.8	1.9

Source: Oxford Economics, January 2014.

Development in national labor markets varied in our core countries in 2013. These markets remained stable in Germany and Austria. The economic recovery in the United States also revived the local labor market. As a result, unemployment rates fell from 8.1 percent in the previous year to 7.3 percent in 2013. The harsh recession in recent years in Greece has weakened the labor market to a great extent. Recessions in Croatia, the Netherlands and the Czech Republic had a negative impact on the local labor markets. High structural unemployment rates, particularly among the older workforce, were evident in Poland, Slovakia, Hungary, and Croatia. Structural unemployment led to reduced purchasing power among those affected and impacted on their willingness to spend. We observed that some of our customers have adjusted their consumption habits, and feel the effects of high unemployment rates, especially in Greece, Hungary, Croatia, and Slovakia.

GRAPHIC 18 provides an overview of the development of unemployment rates.



Source: Oxford Economics, January 2014.

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 telecommunication services. In some countries, the intense pressure to consolidate state finance led to special taxes being maintained for telecommunications companies, as was the case in Hungary, for example. In the Systems Solutions operating segment's market environment, poor growth on a global economic scale in 2013 resulted in continued cost pressure, delayed investments, and increasing intensity of competition.

#### TELECOMMUNICATIONS MARKET.

Development of the information and communication technology (ICT) markets varied greatly across regions and segments. The European Information Technology Observatory (EITO) published market data on information and communication technology and consumer electronics. According to EITO, the U.S. ICT market grew by 4.8 percent in 2013.

This growth was primarily driven by strong demand for telecommunications equipment as well as mobile devices and services. Up by just 1.2 percent, growth on the European ICT markets was rather weak in 2013, due to increasingly intense competition and regulatory intervention which brought about further price erosion. Development among ICT market segments was also varied. While the market segments for software, telecommunications equipment and mobile data services recorded growth, revenue from IT equipment and voice telephony decreased.

Pressure for consolidation in the European telecommunications industry grew in light of decreasing revenues and, at the same time, high demand for investment in network build-out. This development is also reflected in the acquisition of Kabel Deutschland by Vodafone, approved by the EU antitrust authorities in September 2013.

The low stock market valuation of many European telecommunications companies in comparison to international competitors, ultimately again attributable to excessive network access and price regulation, has awakened the interest of strategic investors in purchasing or expanding equity interests in European telecommunications companies. América Móvil is the largest mobile communications provider in Latin America. The Mexican company has held a stake in the Dutch KPN since 2010 and in Telekom Austria since 2012. In 2013, they attempted to take over KPN entirely. América Móvil retracted the takeover bid in October 2013, however, after this met with great resistance. In January 2013, Hutchison 3G Austria completed the takeover of Orange Austria following approval from anti-trust authorities. The U.S. telecommunications corporation AT&T also showed interest in entering the European market. In September 2013, the sale of Vodafone's shares in Verizon Wireless for USD 130 billion was announced; the transaction is to be completed in early 2014. This could also influence the further development of the European telecommunications industry.

#### EUROPEAN REGULATORY ENVIRONMENT.

On September 11, 2013, the European Commission submitted proposals to the European Parliament and the Council for an EU regulation on the further development of the single market for electronic communications. In addition to positive proposals on frequency policy and regulatory principles, the draft also provides for regulatory cuts in roaming fees and international call rates within Europe. At the same time, customer protection regulations are to be further harmonized, which could create additional burdens for providers of telecommunications services. The draft also includes Net neutrality regulations. The current legislative processes in the EU Parliament and the Council are expected to bring significant changes to the proposals. We expect the regulation to be adopted in fall 2014 at the earliest, although this could be pushed back to the first half of 2015.

#### GERMANY.

The German telecommunications market was once again heavily impacted by regulatory intervention and further revenue declines in 2013, particularly those caused by substitution technologies such as



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messaging applications (apps) like Joyn and WhatsApp. As a result of the growing popularity of smartphones and changing user habits, text messaging is expected to be replaced by messaging apps and e-mails.


In addition, the mobile communications and fixed network sectors saw many take-overs, business combinations and significant investments in optical fiber and LTE. Furthermore, new contract models in the fixed-network wholesale market (generally referred to as the contingent model) had a lasting effect on the market environment. 2013 was characterized in particular by the planned merger of Telefónica and E-Plus on the mobile market and the takeover of Kabel Deutschland by Vodafone. Internet giants like Facebook stormed the telecommunications market with products and services, such as Facebook Messenger.

According to the Federal Network Agency, the volume of the German telecommunications market shrank from EUR 58.0 billion in 2012 to EUR 57.1 billion in 2013. The market saw a slight decline in particular in the traditional fixed network, while combined products containing telephony and broadband Internet access continued to grow, primarily to the benefit of broadband cable operators. The Federal Network Agency estimates that the number of broadband lines in Germany increased to 28.4 million. This is equivalent to a penetration rate of over 34 percent of the population (the EU average is currently 28.8 percent), or around 70 percent of households. Germany is thus well above average compared to other EU states. In particular the sale of high-bandwidth lines of between 30 and 100 Mbits/s increased. In light of the Federal Government's highly ambitious goal of achieving nationwide coverage with 50 Mbit/s based on the build-out of high-performance networks by 2018, implementing the right mix of technology and strategy will be key. Important industry trends in this respect are the different varieties of the ongoing roll-out of optical fiber (FTTx: Fiber to the Curb, Building or Home) as well as dynamic broadband competition between telecommunications providers using optical fiber and cable network operators using coaxial cable.

In addition to the revenue decline attributable to messaging apps, the growing intensity of competition through subsidized mobile handsets and the decreasing price level due to combined products, along with regulatory intervention, have resulted in a further decrease in revenue on the mobile market. By contrast, mobile data volumes are currently undergoing dynamic growth and have more than doubled in just two years to an estimated 200 million gigabit. This increase in mobile data traffic requires high-performance networks, which is why investments, particularly in LTE technology, can be observed. As a result, the number of LTE sites grew. According to the Federal Government's broadband atlas, LTE network coverage increased to over 50 percent in 2013. 60 percent of the population will be able to surf with top speeds of up to 150 Mbit/s by 2015.

As in previous years, the proportion of contracts concluded in the telecommunications market that offer combined products consisting of telephone and Internet lines continued to grow. Germany leads Europe in this development. It is a fairly recent trend that apart from

integrated TV services, the combined products are increasingly being supplemented by mobile services. These bundles are much more attractive than traditional individual offers, as they simplify the business relationship for the customer and, at the same, make it easier for the Company to retain customers.

We reacted to the new challenges in the telecommunications market in 2013 and intensified the regulatory and strategic basis for our network upgrade initiative by stepping up investments in broadband networks and new spectrum. 

## UNITED STATES.

Slowing smartphone penetration, coupled with wireless saturation (penetration now above 100 percent) continued to weigh on the growth of the U.S. mobile telecommunications market in 2013. Total market voice revenues continued to decline, but the continued growth in data revenues more than compensated for this in 2013. The market in the United States is still divided between four national mobile providers – AT&T, Verizon Wireless, Sprint-Nextel, and T-Mobile USA – and various regional network operators. There are also a number of mobile virtual network operators, which use the networks of one or more of the four national operators to transport their mobile and data traffic. The two largest national network operators are AT&T and Verizon Wireless. They recorded strong growth and solid margins again in 2013. This was driven by rising data usage, which has helped them increase their postpaid average revenue per user.

The exclusive sale of the Apple iPhone was an important competitive advantage for an operator. Since 2013, however, all four national operators have now been offering the iPhone. In December 2012, we announced a sales partnership between T-Mobile USA and Apple, which resulted in T-Mobile USA launching the iPhone in April 2013. This helped remove the competitive disadvantage T-Mobile USA had in terms of device lineup.

In October 2012, Deutsche Telekom announced the agreed merger with MetroPCS. The merger was completed successfully in the spring of 2013. On May 1, 2013, the newly merged company, T-Mobile US, started trading as a separately listed company under the ticker "TMUS" on the New York Stock Exchange.

T-Mobile US underwent a significant operational turnaround in 2013, and heightened the level of competition in the U.S. mobile market. This is mainly due to improvement in its network, device parity with other operators due to the launch of the iPhone, and its Un-carrier initiatives which contributed successfully to customer satisfaction. As a result, T-Mobile US has now been leading the U.S. wireless industry in terms of postpaid phone net additions since the second quarter of 2013.



For further information on the network upgrade initiative, please refer to the sections "Highlights in the 2013 financial year," **PAGE 58 ET SEQ.**, "Development of business in the operating segments," **PAGE 90 ET SEQ.**, and "Expectations for the operating segments," **PAGE 133 ET SEQ.**



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## EUROPE.

The national companies in the countries of our Europe operating segment continued to experience intense competition with other competitors and MVNOs in 2013. We continue to see increasing substitution effects from providers of Internet-based (over-the-top) services, such as messaging (e.g., WhatsApp) and Internet television (e.g., Watchever). Most markets were also heavily impacted by regulatory interventions.

The large number of existing and new market players increased price pressure for our companies, particularly in the Czech Republic and Greece, which led to further decreases in retail prices. Intervention by state authorities continued to weigh heavy on telecommunication revenue, with the national mobile termination rates and roaming fees abroad significantly lowered as a result of regulation. Government austerity programs, such as those in Greece and Hungary, also had a negative impact on the telecommunications industry, for example in the form of infrastructure fees and the continued imposition of special taxes on telecommunications services. Moreover, telecommunications markets, such as those in Greece, the Czech Republic, and Croatia, suffered as a result of weak or restrained private purchasing power. This resulted in telecommunications markets shrinking or stagnating in all countries of our Europe operating segment.

Similar to the previous year, there were two main trends in fixed-network business: Growing demand for broadband and a greater focus on consumers resulted in increasing combined products comprising broadband and television. This underscores the growing importance of integrated telecommunications companies. Optical fiber in particular plays a key role in increasing high-speed broadband coverage. In order to realize a range of innovative products and services, such as a variety of TV services, we are upgrading our networks and systematically migrating to the Internet protocol (IP). Ultimately, this will significantly increase network efficiency, for example due to lower energy consumption. Migration of fixed-network lines to IP has started in all our integrated subsidiaries and has been completed in the F.Y.R.O. Macedonia as of January 15, 2014. The TeraStream technology is currently being tested successfully in a pilot project in Croatia to further modernize the network infrastructure. ICT business continues to be a key growth driver. The expansion in this area has allowed us to strengthen our position in the business customer segment in particular.

The need for faster data transmission has also grown rapidly on the mobile market. Mobile networks in our countries are thus continually modernized and upgraded, for example to comply with the LTE standard. Seven of our subsidiaries have already acquired LTE spectrum, while the LTE roll-out is being pushed forward in all countries of the operating segment with the exception of Albania.

As a result of price pressure, caused particularly by the decline in revenue, and due to high investments in spectrum and network build-out, we have entered into partnerships with other mobile carriers. We launched further network partnerships in 2013, such as in the Netherlands and the Czech Republic.

## SYSTEMS SOLUTIONS.

2013 saw further change in overall demand in our Systems Solutions operating segment: Growth and innovation topics such as cloud services, big data (storage, preparation, processing and analysis of large volumes of data), ICT security, embedded systems, and intelligent networks in particular are increasingly gaining in importance.

Global economic recovery only had a limited effect on the ICT market for our Systems Solutions operating segment. There was substantial variation in the development of the individual segments of the ICT market.

- The overall economic trend had a comparatively small effect on the telecommunications market segment. As in previous years, the market was dominated by continued price erosion in telecommunications services and intense competition.
- Growth in the IT services market was significantly higher in 2013 than in the prior year. Further recovery has been especially tangible in the area of computing & desktop services. This can be traced back to the positive development of traditional outsourcing business and the growing success of cloud services. The IT project business largely depended on the economy. After relatively weak development in 2012 compared to the two previous years, growth gained momentum in the reporting year. Standard project business in the following areas contributed significantly to this momentum: ERP (Enterprise Resource Planning), CRM (Customer Relationship Management) and SCM (Supply Chain Management). By contrast, industry-specific system integration business grew only slightly.

## 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 2013.

This primarily involved the regulation of wholesale services – in particular broadband wholesale services and investments in new networks and infrastructure (next-generation network & next-generation access; NGN & NGA) – and the corresponding rates, along with the allocation of mobile spectrum.

### REGULATION OF WHOLESALE BROADBAND SERVICES AND INVESTMENTS IN NEW NETWORKS AND INFRASTRUCTURE (NGN, NGA).

**Vectoring green-lighted.** The Federal Network Agency published the new regulatory order for unbundled local loop lines (ULL) on August 29, 2013. The decision was preceded by an application submitted by Telekom Deutschland GmbH on December 19, 2012 for an amendment to the regulatory framework, and two public hearings on the introduction of VDSL vectoring by the Federal Network Agency on January 24, 2013 and April 24, 2013. With its decision, the Federal Network Agency essentially gives the green light to the use of vectoring transmission technology in Germany. The Agency's decision does not yet give us final legal certainty, however, as several rules are subject to the provisions of a certain wholesale offer (bitstream access). This offer must



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be defined by the Federal Network Agency in a further administrative procedure. In addition, the decision is designed in such a way as to substantially reduce the incentives for Deutsche Telekom to invest in rural areas. The standard offer proceedings for the detailed design of the wholesale products and services is expected to take until the start of 2014, so that vectoring can be used in Germany from this time.

## RATE REGULATION.

**Increase of rates for unbundled local loop lines in Germany.** On June 26, 2013, the Federal Network Agency published its final decision on the monthly charges for unbundled local loop lines (ULLs) under which the charge for the most important ULL product will increase by 11 eurocents to EUR 10.19. The charge for the (shorter) connection from the cable distribution box (sub-loop unbundling) will be reduced by 38 eurocents to EUR 6.79. The rates apply for three years from July 1, 2013.

**Regulation of mobile and fixed-network termination rates in Germany.** On March 1 and April 8, 2013, the European Commission expressed "serious doubts" about the Federal Network Agency's draft proposals on the regulatory orders and rate decisions for mobile termination and fixed-network termination (interconnection – IC). On June 27, 2013, the Commission recommended to the Federal Network Agency with regard to mobile termination rates (MTR) that the draft decisions on MTR be rescinded or amended. However, the Commission has no right to veto these decisions made by the Federal Network Agency. The Federal Network Agency published the final MTR decisions on July 19, 2013. The rates are identical with those set as of December 1, 2012 as part of a preliminary rate approval (1.85 eurocents/min with retroactive effect from December 1, 2012 and 1.79 eurocents/min from December 1, 2013). The rate cuts reduced our mobile revenue by EUR 118 million in the 2013 financial year. The final decision on the fixed-network termination rates was published on August 30, 2013. Here too, the rates were set at the same amount that had already been given provisional approval since December 1, 2012.

**Retroactive rate approval for unbundled local loop lines.** On June 24, 2013, the Federal Network Agency redefined the ULL one-time rates for the period from July 1, 2005 to June 30, 2007 with retroactive effect for individual competitors on the basis of rulings of the Cologne Administrative Court. Compared with the originally approved rates the different rate items decreased by between 3.6 and 13.9 percent. The Federal Network Agency set new one-time ULL retroactive rates for the period July 1, 2004 through June 30, 2005 on September 23, 2013. Here too, the original approval of the rates by the ruling of the Cologne Administrative Court in favor of the complainant was revoked. Compared with the original approval of rates from 2004, the rates are lower in the overall effect, although certain charge items also increased.

**Rate reductions at subsidiaries.** In Greece, the regulatory authorities reduced the wholesale prices for VDSL. With the coming into effect of the new cost standard for termination rates as a result of the corresponding EU recommendation, regulated mobile termination rates have been substantially reduced since January 1, 2013 in all subsidiaries and associates, apart from Romania, in the range of 23 to 65 percent compared with the rates from December 2012.

## ALLOCATION OF MOBILE SPECTRUM.

The following significant spectrum auctions took place in our international subsidiaries in 2013:

- In **Austria**, the regulatory authority RTR started to auction spectrum in the 0.8 GHz, 0.9 GHz and 1.8 GHz ranges on September 9, 2013. Some of the spectrum was GSM frequency spectrum currently held by the three mobile operators and due to expire between 2015 and 2019. A very intransparent auction method was used (combinatorial clock auction). In the 0.8 GHz range, spectrum was reserved for a potential new player. The auction ended on October 21, 2013, with no involvement from any potential new players. The three network operators are to pay a total of over EUR 2 billion for the spectrum. T-Mobile Austria and Hutchison filed an action against the auction result, claiming serious procedural violations.
- In the **Czech Republic**, an auction started on November 11, 2013 for spectrum in the 0.8 GHz, 1.8 GHz and 2.6 GHz ranges. An initial attempt to sell this spectrum had been abandoned in March 2013. The bidding phase ended on November 19, 2013, with all three mobile network operators obtaining spectrum in all three ranges. Two potential new players ended the procedure without acquiring any spectrum.
- In **Poland**, our subsidiary T-Mobile Polska purchased 2x10 MHz of additional spectrum in the 1.8 GHz range. The previous 1.8 GHz spectrum was thus doubled, creating an excellent basis for the LTE network. The spectrum rights run until 2027.
- In the **United Kingdom**, our EE joint venture purchased new spectrum in the 0.8 GHz and 2.6 GHz frequency ranges. EE was thus able to expand its existing frequency resources, particularly for the market-leading LTE network.
- In **Hungary**, Magyar Telekom acquired extensions to the terms of existing frequencies in the 0.9 GHz and 1.8 GHz ranges until 2022.
- The bidding phase of an auction in **Slovakia** with spectrum from the 0.8 GHz, 1.8 GHz and 2.6 GHz ranges, also started on November 11, 2013, ended on December 6, 2013. In addition to the three existing mobile network operators – Slovak Telekom, Orange and Telefónica O<sub>2</sub> – spectrum was reserved in the 1.8 GHz range for potential new players. The Slovakian regulator announced in mid-January 2014 that the three existing mobile network operators had successfully been allocated spectrum. Slovak Telekom obtained frequencies in the 0.8 GHz and 2.6 GHz, which support LTE build-out. SWAN, previously known as a provider of Internet, cable TV and mobile communications services, purchased the reserved 1.8 GHz spectrum. This means that there will now be four network operators on the Slovak mobile communications market. The value of the spectrum purchased by the four companies totaled EUR 163.9 million.



Glossary,  
PAGE 257 ET SEQ.

## DEVELOPMENT OF BUSINESS IN THE GROUP.

- Corporate targets achieved or slightly exceeded
- Adjusted EBITDA of EUR 17.4 billion
- Free cash flow of EUR 4.6 billion

### STATEMENT OF THE BOARD OF MANAGEMENT ON BUSINESS DEVELOPMENT IN 2013.

Bonn, February 18, 2014

We had another successful financial year in 2013. We succeeded in meeting our corporate targets with adjusted EBITDA of EUR 17.4 billion, and with free cash flow of EUR 4.6 billion (before dividend payments and spectrum investment), we even slightly exceeded them. Subject to approval by the relevant bodies and the fulfillment of other legal requirements, we continue to adhere to our shareholder remuneration strategy and will propose to the shareholders' meeting a dividend of EUR 0.50 per share. As we did for the first time in the prior year, we are once again considering offering our shareholders the option of having their dividend entitlement converted into shares of Deutsche Telekom AG, instead of having it paid out in cash.

On May 1, 2013, we completed the merger of T-Mobile USA and MetroPCS and thus the combination of our business activities in the United States. The new company operates under the name T-Mobile US, Inc. and has been traded on the New York Stock Exchange (NYSE) since May 1, 2013. Due to the improved position in terms of mobile spectrum and the expanded customer base, we are now able to compete more aggressively with the other national mobile carriers in the United States.

Following the loss from operations of EUR 4.0 billion recorded in 2012, due mainly to the impairment loss recognized that year in our United States operating segment, we generated a profit from operations of EUR 4.9 billion in the reporting year. This also had an impact on net profit. While in the prior year, we recorded a net loss of EUR 5.4 billion, we generated a net profit of EUR 0.9 billion in the reporting year.

Our net debt increased from EUR 36.9 billion to EUR 39.1 billion. We achieved a very good result, despite the first-time inclusion of MetroPCS, dividend payments, and the acquisition of spectrum. Factors having a reducing effect included free cash flow, the sale of stakes, and capital transactions at T-Mobile US.

Negative trends in the telecommunications industry such as saturated markets, rising competition, continued severe regulatory intervention, and the resulting continued price erosion impacted negatively on earnings, resulting in a profit decline. Our efforts to respond to these

challenges and ensure the continued viability of our Company included investments (before spectrum) of EUR 8.9 billion, most of which went towards the continued broadband build-out and increasing capacities in existing networks. In the fixed network, the focus was on investments in the fiber-optic roll-out, 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 addition, we acquired spectrum for a total EUR 2.2 billion, primarily in the Netherlands, Austria, and the United States.

We developed our Group strategy further in the reporting year. From 2014, we will focus on this updated "Leading Telco" strategy, which is summed up in our goal of being the **leading European telecommunications provider** in our markets.

## RESULTS OF OPERATIONS OF THE GROUP.

### NET REVENUE.

We increased net revenue by 3.4 percent compared with the prior year to EUR 60.1 billion in the 2013 reporting year. Our United States operating segment in particular contributed to this revenue trend as a result of the first-time inclusion of MetroPCS as of May 1, 2013 and continued strong customer additions on the back of our Un-carrier strategy. Intense competition, the in some cases substantial price changes imposed by regulatory authorities, and the still strained economic situation in many countries of our Europe operating segment had a negative effect. Our Germany operating segment held its own, particularly in the mobile market, in the prevailing regulatory and competitive environment, but recorded a slight decline in revenue overall, mainly due to lower revenue in the traditional fixed network. The general downward trend in prices for IT and communications services had a negative impact on revenue in our Systems Solutions operating segment.

Adjusted for the effects of changes in the composition of the Group of EUR 2.3 billion in total, as well as negative exchange rate effects of EUR 0.7 billion, especially from the translation of U.S. dollars into euros, revenue increased by EUR 0.3 billion against the prior-year level. ■



For details on the revenue trends in our Germany, United States, Europe and Systems Solutions operating segments as well as in the Group Headquarters & Group Services segment, please refer to the section "Development of business in the operating segments,"

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107	Development of business at Deutsche Telekom AG		

T 016

**Contribution of the segments to net revenue.**

millions of €

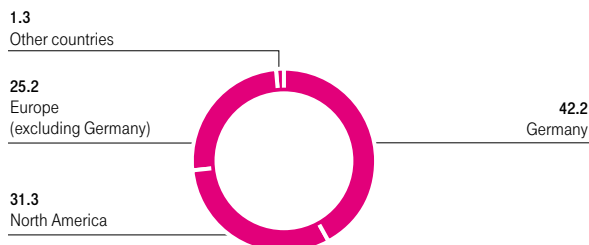
	2013	2012	Change	Change %	2011
<b>NET REVENUE</b>	<b>60,132</b>	<b>58,169</b>	<b>1,963</b>	<b>3.4 %</b>	<b>58,653</b>
Germany	22,435	22,736	(301)	(1.3) %	23,206
United States	18,556	15,371	3,185	20.7 %	14,811
Europe	13,659	14,406	(747)	(5.2) %	15,124
Systems Solutions	9,491	10,016	(525)	(5.2) %	9,953
Group Headquarters & Group Services	2,879	2,835	44	1.6 %	2,822
Intersegment revenue	(6,888)	(7,195)	307	4.3 %	(7,263)

At 35.0 percent, our Germany operating segment again provided the largest contribution to net revenue of the Group. Our United States operating segment increased its share in net revenue of the Group by 4.5 percentage points year-on-year, partly due to the inclusion of MetroPCS, whereas the contribution by our Germany, Europe, and Systems Solutions operating segments shrank. The proportion of net revenue generated internationally continued to increase, up from 55.7 percent in the prior year to 57.8 percent in the reporting period.

G 19

**Breakdown of revenue by region.**

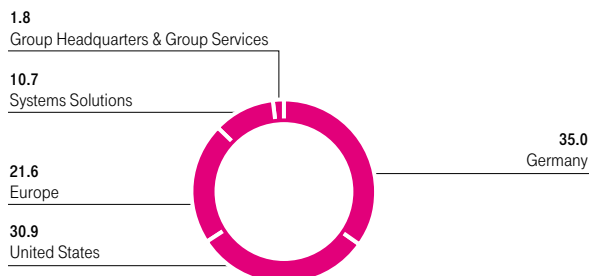
%



G 20

**Contribution of the segments to net revenue.**

%

**EBITDA, ADJUSTED EBITDA.**

Our EBITDA decreased year-on-year by EUR 2.2 billion to EUR 15.8 billion. Higher expenses in connection with special factors compared with the prior year had a particularly negative impact on earnings. Negative special factors totaling EUR 1.6 billion were included in EBITDA in 2013. These special factors mainly comprised expenses incurred in connection with staff-related measures and non-staff-related restructuring expenses, which were EUR 0.2 billion higher than in the prior year. A loss of EUR 0.1 billion was incurred in connection with the disposal of T-Systems Italia and the sale of the Systems Integration business area of T-Systems France. Deconsolidation gains arising from the sale of stakes in Hellas Sat of around EUR 0.1 billion and in Globul and Germanos, also totaling around EUR 0.1 billion, had a contrasting effect. Special factors in the prior year were positively impacted by income amounting to EUR 1.4 billion in connection with the agreement concluded between T-Mobile USA and Crown Castle concerning the sale, lease, and use of cell sites in the United States.

Excluding special factors, **adjusted EBITDA** decreased year-on-year by EUR 0.5 billion to EUR 17.4 billion in the reporting year. Exchange rate effects of EUR 0.2 billion, especially from the translation of U.S. dollars into euros, had a negative effect on the development of adjusted EBITDA.



For an overview of the development of special factors, please refer to TABLE 018, PAGE 81.



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 90 ET SEQ.



T 017

**Contribution of the segments to adjusted Group EBITDA.**


	2013 millions of €	Proportion of adjusted Group EBITDA %	2012 millions of €	Proportion of adjusted Group EBITDA %	Change millions of €	Change %	2011 millions of €
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS) IN THE GROUP</b>	<b>17,424</b>	<b>100.0</b>	<b>17,973</b>	<b>100.0</b>	<b>(549)</b>	<b>(3.1)</b>	<b>18,697</b>
Germany	8,936	51.3	9,166	51.0	(230)	(2.5)	9,553
United States	3,874	22.2	3,840	21.4	34	0.9	3,831
Europe	4,518	25.9	4,936	27.5	(418)	(8.5)	5,276
Systems Solutions	806	4.6	747	4.2	59	7.9	672
Group Headquarters & Group Services	(655)	(3.8)	(715)	(4.0)	60	8.4	(640)
Reconciliation	(55)	(0.2)	(1)	(0.1)	(54)	n. a.	5

**MARKETING EXPENSES.**

In the 2013 financial year, marketing expenses amounted to EUR 2.4 billion and were thus on a par with the prior-year level. They comprise costs from 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 from customer retention programs, market planning and segmentation, and product forecasts.

At Deutsche Telekom, marketing communication mainly takes the form of product and brand campaigns, such as Entertain, TelekomCloud, Mobile Internet – LTE, “Network upgrade initiative – networks of the future,” or campaigns such as “Special stories deserve the best network” with “Bob and Linda.”


**EBIT.**

Group EBIT increased from minus EUR 4.0 billion in the previous year to plus EUR 4.9 billion. This growth is primarily attributable to the year-on-year reduction in depreciation, amortization and impairment losses of EUR 11.1 billion, owing to the impairment loss recognized on goodwill, other intangible assets and property, plant and equipment at T-Mobile USA in the third quarter of the prior year. In addition, depreciation and amortization were down EUR 0.8 billion on the prior-year level. This is attributable to a reduced depreciation and amortization base, mainly as a result of the impairment loss recognized in the prior year in the United States operating segment, and the expiry of the economic useful lives of parts of the outside plant in the Germany operating segment. In the Europe operating segment, impairment losses recognized on goodwill (EUR 0.6 billion), licenses (EUR 0.1 billion), and property, plant and equipment (EUR 0.1 billion) had a negative impact on EBIT in the reporting year. 

**PROFIT/LOSS BEFORE INCOME TAXES.**

Loss before income taxes increased year-on-year by EUR 8.5 billion to a profit of EUR 2.1 billion in 2013 as a result of the aforementioned effects. Loss from financial activities increased by EUR 0.4 billion year-on-year to EUR 2.8 billion. In the first quarter of the prior year, loss from financial activities had included the sale of the shares in Telekom Srbija. At the time, the closing of the transaction resulted in income of EUR 0.2 billion. Finance costs increased only slightly by EUR 0.1 billion, primarily due to the first-time inclusion of MetroPCS and the overall less favorable financing conditions. Deutsche Telekom AG benefited from improved interest rates in the 2013 financial year.

**NET PROFIT/LOSS.**

Net profit increased to EUR 0.9 billion. In the prior year, we recorded a net loss of around EUR 5.4 billion, mainly due to the recognition of an impairment loss in connection with the business combination of T-Mobile USA and MetroPCS. The tax expense for the financial year amounted to EUR 0.9 billion. 


Profit attributable to non-controlling interests decreased to EUR 0.3 billion, primarily as a result of the sale of shares in Telekom Srbija in the prior year. The sale of Globul and Germanos had an offsetting, positive effect of EUR 0.1 billion. 

TABLE 018 presents a reconciliation of EBITDA, EBIT, and net profit/loss to the respective figures adjusted for special factors.



For further information, please refer to Note 25 “Income taxes” in the notes to the consolidated financial statements, **PAGE 213 ET SEQ.**



For further information on the development of earnings, please refer to the disclosures under “Notes to the consolidated income statement” in the notes to the consolidated financial statements, **PAGE 210 ET SEQ.**



For further details, please refer to Note 30 “Depreciation, amortization and impairment losses” in the notes to the consolidated financial statements, **PAGES 218 and 219.**



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T 018

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

millions of €

	EBITDA 2013	EBIT 2013	EBITDA 2012 <sup>a</sup>	EBIT 2012 <sup>a</sup>	EBITDA 2011 <sup>a</sup>	EBIT 2011 <sup>a</sup>
<b>EBITDA/EBIT</b>	<b>15,834</b>	<b>4,930</b>	<b>17,995</b>	<b>(3,962)</b>	<b>19,999</b>	<b>5,563</b>
<b>GERMANY</b>	<b>(535)</b>	<b>(540)</b>	<b>(560)</b>	<b>(560)</b>	<b>(612)</b>	<b>(612)</b>
Staff-related measures	(506)	(506)	(492)	(492)	(495)	(495)
Non-staff-related restructuring	(16)	(16)	0	0	(4)	(4)
Effects on earnings from business combinations and other transactions	(23)	(23)	(8)	(8)	0	0
Other	10	5	(60)	(60)	(113)	(113)
<b>UNITED STATES</b>	<b>(232)</b>	<b>(329)</b>	<b>1,479</b>	<b>(9,110)</b>	<b>(134)</b>	<b>(2,431)</b>
Staff-related measures	(179)	(179)	(69)	(69)	(116)	(116)
Non-staff-related restructuring	(1)	(1)	(28)	(28)	0	0
Effects on earnings from business combinations and other transactions	(52)	(52)	1,558	1,558	0	0
Impairment losses	-	(97)	-	(10,589)	-	(2,297)
Other	0	0	18	18	(18)	(18)
<b>EUROPE</b>	<b>(178)</b>	<b>(792)</b>	<b>(208)</b>	<b>(571)</b>	<b>(246)</b>	<b>(1,286)</b>
Staff-related measures	(328)	(328)	(182)	(182)	(132)	(132)
Non-staff-related restructuring	4	4	(16)	(19)	0	0
Effects on earnings from business combinations and other transactions	183	183	0	0	0	0
Impairment losses	-	(614)	-	(360)	-	(1,040)
Other	(37)	(37)	(10)	(10)	(114)	(114)
<b>SYSTEMS SOLUTIONS</b>	<b>(416)</b>	<b>(431)</b>	<b>(405)</b>	<b>(417)</b>	<b>(398)</b>	<b>(418)</b>
Staff-related measures	(213)	(213)	(238)	(238)	(204)	(204)
Non-staff-related restructuring	(128)	(130)	(166)	(178)	(163)	(175)
Effects on earnings from business combinations and other transactions	(71)	(84)	0	0	0	0
Other	(4)	(4)	(1)	(1)	(31)	(39)
<b>GROUP HEADQUARTERS &amp; GROUP SERVICES</b>	<b>(228)</b>	<b>(228)</b>	<b>(282)</b>	<b>(282)</b>	<b>2,691</b>	<b>2,691</b>
Staff-related measures	(226)	(226)	(243)	(243)	(231)	(231)
Non-staff-related restructuring	(34)	(34)	(13)	(13)	(22)	(22)
Effects on earnings from business combinations and other transactions	40	40	(46)	(46)	(56)	(56)
Compensation from AT&T	-	-	-	-	3,000	3,000
Other	(8)	(8)	20	20	0	0
<b>GROUP RECONCILIATION</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>	<b>1</b>	<b>1</b>
Staff-related measures	1	1	(1)	(1)	0	0
Non-staff-related restructuring	0	0	0	0	0	0
Effects on earnings from business combinations and other transactions	1	1	0	0	0	0
Other	(3)	(3)	(1)	0	1	1
<b>TOTAL SPECIAL FACTORS</b>	<b>(1,590)</b>	<b>(2,321)</b>	<b>22</b>	<b>(10,941)</b>	<b>1,302</b>	<b>(2,055)</b>
<b>EBITDA/EBIT (ADJUSTED FOR SPECIAL FACTORS)</b>	<b>17,424</b>	<b>7,251</b>	<b>17,973</b>	<b>6,979</b>	<b>18,697</b>	<b>7,618</b>
Profit (loss) from financial activities (adjusted for special factors)		(2,772)		(2,546)		(2,607)
<b>PROFIT (LOSS) BEFORE INCOME TAXES (ADJUSTED FOR SPECIAL FACTORS)</b>		<b>4,479</b>		<b>4,433</b>		<b>5,011</b>
Income taxes (adjusted for special factors)		(1,364)		(1,451)		(1,690)
<b>PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS)</b>		<b>3,115</b>		<b>2,982</b>		<b>3,321</b>
<b>PROFIT (LOSS) (ADJUSTED FOR SPECIAL FACTORS) ATTRIBUTABLE TO</b>						
Owners of the parent (net profit (loss)) (adjusted for special factors)		2,755		2,537		2,879
Non-controlling interests (adjusted for special factors)		360		445		442

<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) and the change in segment reporting resulting from the change in disclosure of Group Technology and the Global Network Factory as of January 1, 2013.

## FINANCIAL POSITION OF THE GROUP.

T 019

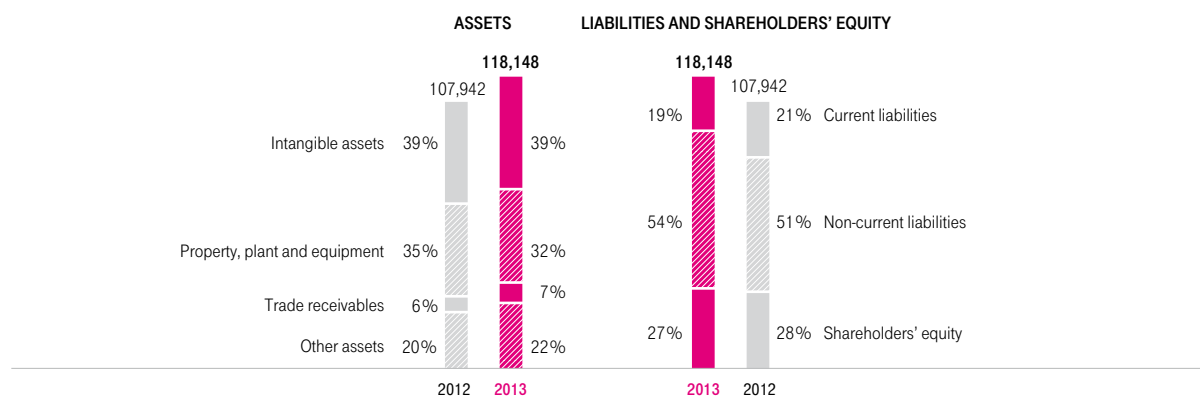
### Condensed consolidated statement of financial position. millions of €

	Dec. 31, 2013	Change	Dec. 31, 2012 <sup>a</sup>	Dec. 31, 2011 <sup>a</sup>	Dec. 31, 2010	Dec. 31, 2009
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>	<b>21,963</b>	<b>6,944</b>	<b>15,019</b>	<b>15,865</b>	<b>15,243</b>	<b>23,012</b>
Cash and cash equivalents	7,970	3,944	4,026	3,749	2,808	5,022
Trade and other receivables	7,712	1,295	6,417	6,557	6,889	6,757
Other current assets	5,248	762	4,486	5,123	5,495	4,706
Non-current assets and disposal groups held for sale	1,033	943	90	436	51	6,527
<b>NON-CURRENT ASSETS</b>	<b>96,185</b>	<b>3,262</b>	<b>92,923</b>	<b>106,631</b>	<b>112,569</b>	<b>104,762</b>
Intangible assets	45,967	4,120	41,847	50,227	53,807	51,705
Property, plant and equipment	37,427	20	37,407	41,797	44,298	45,468
Investments accounted for using the equity method	6,167	(559)	6,726	6,873	7,242	147
Other non-current assets	6,624	(319)	6,943	7,734	7,222	7,442
<b>TOTAL ASSETS</b>	<b>118,148</b>	<b>10,206</b>	<b>107,942</b>	<b>122,496</b>	<b>127,812</b>	<b>127,774</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES</b>	<b>22,496</b>	<b>(499)</b>	<b>22,995</b>	<b>24,215</b>	<b>26,452</b>	<b>24,794</b>
Financial liabilities	7,891	(1,369)	9,260	10,219	11,689	9,391
Trade and other payables	7,259	814	6,445	6,436	6,750	6,304
Current provisions	3,120	235	2,885	3,095	3,193	3,369
Other current liabilities	4,113	(283)	4,396	4,465	4,820	4,307
Liabilities directly associated with non-current assets and disposal groups held for sale	113	104	9	-	-	1,423
<b>NON-CURRENT LIABILITIES</b>	<b>63,589</b>	<b>9,173</b>	<b>54,416</b>	<b>58,249</b>	<b>58,332</b>	<b>61,043</b>
Financial liabilities	43,708	8,354	35,354	38,099	38,857	41,800
Non-current provisions	9,077	(92)	9,169	7,771	8,001	8,340
Other non-current liabilities	10,804	911	9,893	12,379	11,474	10,903
<b>SHAREHOLDERS' EQUITY</b>	<b>32,063</b>	<b>1,532</b>	<b>30,531</b>	<b>40,032</b>	<b>43,028</b>	<b>41,937</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>118,148</b>	<b>10,206</b>	<b>107,942</b>	<b>122,496</b>	<b>127,812</b>	<b>127,774</b>

<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013.

G 21

### Structure of the consolidated statement of financial position. millions of €



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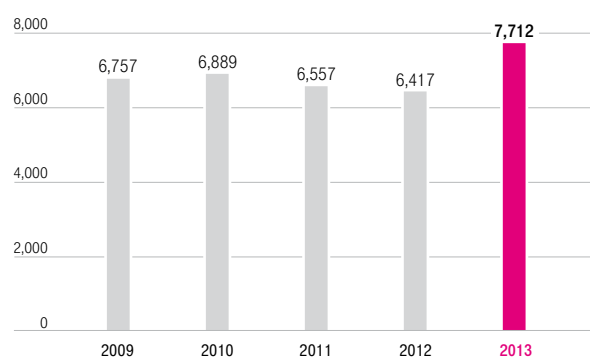
**Total assets** increased by EUR 10.2 billion compared with December 31, 2012, largely due to the acquisition of MetroPCS as of May 1, 2013. Furthermore, our consolidated statement of financial position was mainly influenced by the following factors:

**Cash and cash equivalents** increased by EUR 3.9 billion year-on-year.

## G 22

**Trade and other receivables.**

millions of €



**Trade and other receivables** increased by EUR 1.3 billion to EUR 7.7 billion, due in particular to an increased percentage of terminal equipment sold under installment plans in our United States operating segment. This results from T-Mobile US's strategy to introduce new rate plans under which terminal equipment is no longer sold at a subsidized price, but on the basis of a financing plan.

The net carrying amounts of the **non-current assets and disposal groups held for sale** increased by EUR 0.9 billion, primarily due to

the swap of mobile spectrum licenses at T-Mobile US with Verizon Communications, Inc. to improve mobile network coverage, and the agreed sale of the Scout24 group.

The increase of EUR 4.1 billion in **intangible assets and property, plant and equipment** as of December 31, 2013 was primarily attributable to the increase in the carrying amounts of intangible assets, which were up mainly as a result of capital expenditure of EUR 6.2 billion. Mobile spectrum accounted for EUR 2.2 billion of this increase. Effects of changes in the composition of the Group totaling EUR 4.1 billion from the first-time inclusion of MetroPCS and goodwill of EUR 1.0 billion recognized in this connection also contributed to this increase. Capital expenditure for property, plant and equipment totaled EUR 7.1 billion. Of the additions to assets, 68 percent related to investments intended to increase operating capacities. Apart from investments in new products and technologies, these were primarily measures to increase capacities and improve quality in existing products and technologies.

The increase was offset by depreciation and amortization of EUR 10.1 billion and impairment losses of EUR 0.8 billion. The impairment losses were primarily attributable to the year-end impairment test. As a result, we recorded total impairment losses of EUR 0.6 billion in our Europe operating segment. Exchange rate effects of EUR 1.5 billion – mainly from the translation from U.S. dollars into euros – also reduced the carrying amounts, as did reclassifications to non-current assets and disposal groups held for sale totaling EUR 0.9 billion resulting from the agreed spectrum swap in the United States operating segment and the agreed sale of the Scout24 group.

**Investments accounted for using the equity method** decreased by EUR 0.6 billion, mainly due to the EE joint venture. Dividend payments received reduced the carrying amount of the investment by EUR 0.3 billion; exchange rate effects reduced the carrying amount of the investment by a further EUR 0.1 billion.



For detailed information, please refer to the section "Changes in the composition of the Group and transactions with owners" in the notes to the consolidated financial statements, **PAGE 182 ET SEQ.**

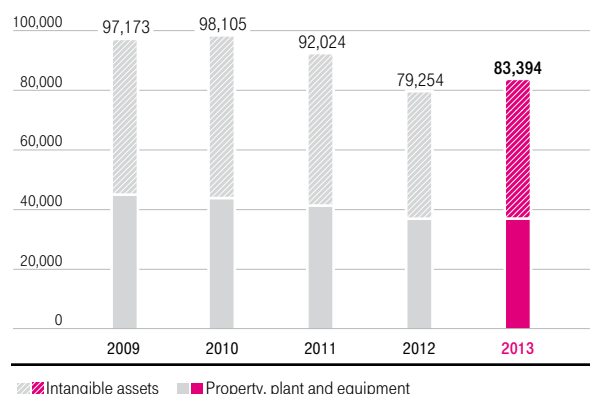


For detailed information on this change, please refer to the consolidated statement of cash flows, **PAGES 166 and 167**, and Note 31 "Notes to the consolidated statement of cash flows" in the notes to the consolidated financial statements, **PAGES 219 and 220.**

## G 23

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

millions of €

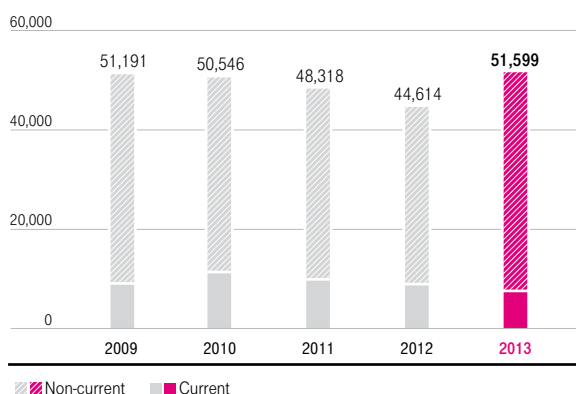


Intangible assets    Property, plant and equipment

## G 24

**Financial liabilities.**

millions of €



Non-current    Current

Our current and non-current **financial liabilities** increased by EUR 7.0 billion compared with the prior year to EUR 51.6 billion in total. The first-time inclusion of MetroPCS alone gave rise to an increase of EUR 5.1 billion. Significant effects on financial liabilities are set out in the following tables and the accompanying explanations.

**Trade and other payables** increased by EUR 0.8 billion compared with the end of 2012 due to intensified network modernization measures and increased stock levels of terminal equipment (in particular smartphones).

**Provisions** (current and non-current) increased by EUR 0.1 billion overall, partly as a consequence of restructuring programs initiated by OTE. The increase in plan assets of EUR 0.3 billion (allocation under contractual trust agreement), however, had an offsetting effect on pension provisions.

The increase in **other liabilities** (current and non-current) of EUR 0.6 billion is primarily attributable to the increase in deferred tax liabilities arising from the first-time inclusion of MetroPCS.

**Shareholders' equity** increased by EUR 1.5 billion compared with December 31, 2012, due to the first-time inclusion of MetroPCS accounting for EUR 2.0 billion, a capital increase at T-Mobile US of EUR 1.3 billion, and profit of EUR 1.2 billion, EUR 0.3 billion of which was attributable to non-controlling interests. Dividend payments of EUR 3.0 billion to Deutsche Telekom AG shareholders for the 2012 financial year reduced shareholders' equity. 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. Currency translation effects of EUR 0.9 billion (including non-controlling interests) recognized directly in equity and dividend payments to non-controlling interests of EUR 0.4 billion also reduced shareholders' equity.

T 020

#### Financial liabilities.

millions of €

Dec. 31, 2013				
	Total	Due ≤ 1 year	Due >1 year ≤ 5 years	Due > 5 years
Bonds and other securitized liabilities				
Non-convertible bonds	28,211	545	9,531	18,135
Commercial paper, medium-term notes and similar liabilities	12,324	2,770	4,145	5,409
Liabilities to banks	4,105	1,721	2,185	199
	<b>44,640</b>	<b>5,036</b>	<b>15,861</b>	<b>23,743</b>
Finance lease liabilities	1,446	162	550	734
Liabilities to non-banks from promissory notes	1,072	127	529	416
Other interest-bearing liabilities	891	577	210	104
Other non-interest-bearing liabilities	1,967	1,855	109	3
Derivative financial liabilities	1,583	134	594	855
	<b>6,959</b>	<b>2,855</b>	<b>1,992</b>	<b>2,112</b>
<b>FINANCIAL LIABILITIES</b>	<b>51,599</b>	<b>7,891</b>	<b>17,853</b>	<b>25,855</b>

**Cost of debt.** At the end of the financial year, the average interest rate for financial liabilities was 5.6 percent (2012: 5.2 percent).

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T 021

**Net debt.**

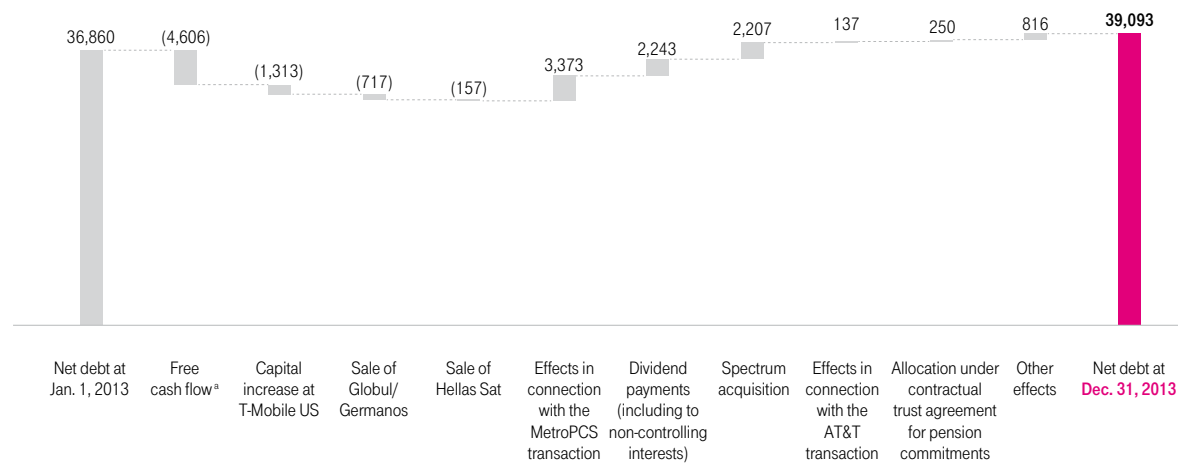
millions of €

	Dec. 31, 2013	Change	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009
Financial liabilities (current)	7,891	(1,369)	9,260	10,219	11,689	9,391
Financial liabilities (non-current)	43,708	8,354	35,354	38,099	38,857	41,800
<b>FINANCIAL LIABILITIES</b>	<b>51,599</b>	<b>6,985</b>	<b>44,614</b>	<b>48,318</b>	<b>50,546</b>	<b>51,191</b>
Accrued interest	(1,091)	(188)	(903)	(966)	(1,195)	(1,175)
Liabilities from corporate transactions	-	-	-	-	(1,566)	(1,455)
Other	(881)	(127)	(754)	(615)	(467)	(444)
<b>GROSS DEBT</b>	<b>49,627</b>	<b>6,670</b>	<b>42,957</b>	<b>46,737</b>	<b>47,318</b>	<b>48,117</b>
Cash and cash equivalents	7,970	3,944	4,026	3,749	2,808	5,022
Available-for-sale/held-for-trading financial assets	310	283	27	402	75	162
Derivative financial assets	771	(516)	1,287	1,533	835	1,048
Other financial assets	1,483	726	757	932	1,331	974
<b>NET DEBT</b>	<b>39,093</b>	<b>2,233</b>	<b>36,860</b>	<b>40,121</b>	<b>42,269</b>	<b>40,911</b>

G 25

**Changes in net debt.**

millions of €


<sup>a</sup> Before dividend payments, spectrum investment, and effects in connection with the AT&T transaction.

Our net debt increased by EUR 2.2 billion year-on-year to EUR 39.1 billion. The factors responsible for this are shown in GRAPHIC 25.

Net debt increased by EUR 3.4 billion due to the first-time inclusion of MetroPCS at the date of acquisition. Financial liabilities also increased by EUR 5.1 billion as a result of this transaction; at the same time, we took over cash and cash equivalents as well as other assets with a total value of EUR 1.7 billion.



For more information, please refer to the explanations in Note 34 "Leases," **PAGES 226 and 227**, and Note 35 "Other financial obligations," **PAGE 228**, in the notes to the consolidated financial statements.

**Off-balance sheet assets and financial instruments.** 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, 2013 amounted to EUR 1.5 billion (December 31, 2012: EUR 1.3 billion).

Furthermore, in the 2013 financial year, we chose financing options totaling EUR 0.4 billion, which extended the period of payment for trade accounts payable by involving banks in the process.

**Finance management.** Deutsche Telekom's finance management ensures the 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, 2009	BBB+	Baa1	BBB+
Dec. 31, 2010	BBB+	Baa1	BBB+
Dec. 31, 2011	BBB+	Baa1	BBB+
Dec. 31, 2012	BBB+	Baa1	BBB+
<b>Dec. 31, 2013</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.

	2013	2012	2011	2010	2009
<b>RELATIVE DEBT</b>					
Net debt EBITDA (adjusted for for special factors)	2.2	2.1	2.1	2.2	2.0
<b>EQUITY RATIO</b> %	27.1	28.3	32.7	33.7	32.8

To ensure financial flexibility, we essentially used the KPI relative debt in 2013. One component of this KPI is net debt, which the Group uses as an important indicator for investors, analysts, and rating agencies.



Glossary,  
**PAGE 257 ET SEQ.**

T 024

#### Condensed consolidated statement of cash flows. millions of €

	2013	2012	2011
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>13,017</b>	<b>13,577</b>	<b>16,214</b>
Effects from the AT&T transaction	137	470	(2,289)
Cash outflow as part of the PTC transaction	-	-	400
Compensation payments for MetroPCS employees	60	-	-
<b>NET CASH FROM OPERATING ACTIVITIES<sup>a</sup></b>	<b>13,214</b>	<b>14,047</b>	<b>14,325</b>
Cash outflow for investments in intangible assets (excluding goodwill and before spectrum investment) and property, plant and equipment ( <b>CASH CAPEX</b> )	(8,861)	(8,021)	(8,260)
Proceeds from disposal of intangible assets (excluding goodwill) and property, plant and equipment	253	213	356
<b>FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)<sup>a</sup></b>	<b>4,606</b>	<b>6,239</b>	<b>6,421</b>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(9,896)</b>	<b>(6,671)</b>	<b>(9,275)</b>
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>1,022</b>	<b>(6,601)</b>	<b>(5,958)</b>
Effect of exchange rate changes on cash and cash equivalents	(167)	(28)	(40)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale	(32)	-	-
Net increase (decrease) in cash and cash equivalents	3,944	277	941
<b>CASH AND CASH EQUIVALENTS</b>	<b>7,970</b>	<b>4,026</b>	<b>3,749</b>

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

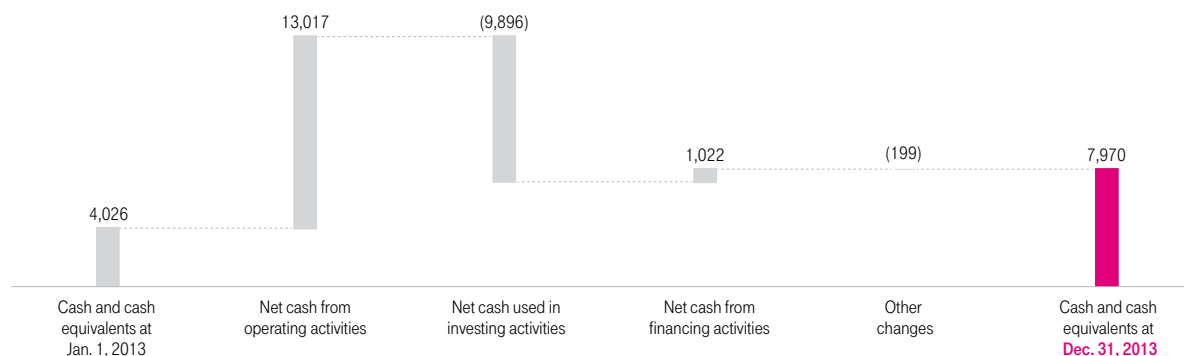


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**Changes in cash and cash equivalents.**

millions of €



**Free cash flow.** Free cash flow of the Group before dividend payments and spectrum investment amounted to EUR 4.6 billion, EUR 1.6 billion less than in the prior year. This was due to the decrease in net cash from operating activities as well as the increase in cash capex. The latter is a consequence of our strategy to focus investments on the improvement of network quality and coverage and the continued modernization of our “networks of the future.”

**Net cash from operating activities** decreased by EUR 0.6 billion year-on-year to EUR 13.0 billion.

This development was primarily influenced by effects for T-Mobile USA in connection with the AT&T transaction relating to the termination of the agreement for the sale: These effects accounted for cash outflows of EUR 0.1 billion in the reporting year and of EUR 0.5 billion in 2012. In 2013, the effects also included compensation payments for employees of MetroPCS of EUR 0.1 billion as a result of the business combination with T-Mobile USA. The dividends received from the EE joint venture, which were down EUR 0.2 billion year-on-year, and a EUR 0.2 billion increase in severance payments also had a negative impact. Net cash from operating activities in the 2013 financial year was also impacted by higher market investments in the United States operating segment. Whereas in the prior year, this item had included cash inflows of EUR 0.1 billion from the agreement on the leasing and use of cell sites in the United States, no corresponding cash inflows were recorded in 2013. EUR 0.2 billion higher cash inflows from canceling interest rate derivatives and EUR 0.1 billion lower net interest payments had a positive effect compared with the prior year. 



For information on net cash used in investing activities and net cash from/used in financing activities, please refer to Note 31 “Notes to the consolidated statement of cash flows” in the notes to the consolidated financial statements, **PAGES 219 and 220.**

T 025

**Reconciliation for the change in disclosure of key performance indicators in 2013.**

millions of €

	Total revenue		Profit (loss) from operations (EBIT)	
	2012	2011	2012	2011
<b>PRESENTATION AS REPORTED (BEFORE ADJUSTMENTS)</b>				
Germany	22,736	23,206	4,345	4,520
United States	15,371	14,811	(7,547)	(710)
Europe	14,408	15,124	1,484	780
Systems Solutions	10,016	9,953	(299)	(290)
Group Headquarters & Group Services	2,978	2,977	(1,786)	1,274
<b>TOTAL</b>	<b>65,509</b>	<b>66,071</b>	<b>(3,803)</b>	<b>5,574</b>
Reconciliation	(7,340)	(7,418)	(7)	12
<b>GROUP</b>	<b>58,169</b>	<b>58,653</b>	<b>(3,810)</b>	<b>5,586</b>
<b>+/- CHANGE IN DISCLOSURE OF GROUP TECHNOLOGY AND GLOBAL NETWORK FACTORY AS OF JANUARY 1, 2013</b>				
Germany	-	-	-	-
United States	-	-	-	-
Europe	(2)	-	(42)	(32)
Systems Solutions	-	-	-	-
Group Headquarters & Group Services	(143)	(155)	42	32
<b>TOTAL</b>	<b>(145)</b>	<b>(155)</b>	<b>-</b>	<b>-</b>
Reconciliation	145	155	-	-
<b>GROUP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>+/- CHANGE IN DISCLOSURE DUE TO IAS 19 (AMENDED) AS OF JANUARY 1, 2013</b>				
Germany	-	-	(132)	77
United States	-	-	-	-
Europe	-	-	(5)	12
Systems Solutions	-	-	(8)	(105)
Group Headquarters & Group Services	-	-	(6)	(7)
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>(151)</b>	<b>(23)</b>
Reconciliation	-	-	(1)	-
<b>GROUP</b>	<b>-</b>	<b>-</b>	<b>(152)</b>	<b>(23)</b>
<b>= PRESENTATION AS OF DECEMBER 31, 2013</b>				
Germany	22,736	23,206	4,213	4,597
United States	15,371	14,811	(7,547)	(710)
Europe	14,406	15,124	1,437	760
Systems Solutions	10,016	9,953	(307)	(395)
Group Headquarters & Group Services	2,835	2,822	(1,750)	1,299
<b>TOTAL</b>	<b>65,364</b>	<b>65,916</b>	<b>(3,954)</b>	<b>5,551</b>
Reconciliation	(7,195)	(7,263)	(8)	12
<b>GROUP</b>	<b>58,169</b>	<b>58,653</b>	<b>(3,962)</b>	<b>5,563</b>

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EBITDA		Adjusted EBITDA		Depreciation and amortization		Impairment losses		Segment assets	
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
8,738	8,864	9,165	9,553	(4,389)	(4,340)	(4)	(4)	31,224	32,578
5,319	3,697	3,840	3,831	(2,265)	(2,110)	(10,601)	(2,297)	27,436	38,075
4,717	4,995	4,921	5,241	(2,845)	(3,159)	(388)	(1,056)	36,348	37,815
350	379	747	672	(632)	(654)	(17)	(15)	9,044	9,308
(975)	2,081	(695)	(617)	(711)	(722)	(100)	(85)	95,360	100,168
<b>18,149</b>	<b>20,016</b>	<b>17,978</b>	<b>18,680</b>	<b>(10,842)</b>	<b>(10,985)</b>	<b>(11,110)</b>	<b>(3,457)</b>	<b>199,412</b>	<b>217,944</b>
(2)	6	-	5	(6)	-	1	6	(91,470)	(95,402)
<b>18,147</b>	<b>20,022</b>	<b>17,978</b>	<b>18,685</b>	<b>(10,848)</b>	<b>(10,985)</b>	<b>(11,109)</b>	<b>(3,451)</b>	<b>107,942</b>	<b>122,542</b>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
15	23	19	23	(58)	(55)	-	-	224	221
-	-	-	-	-	-	-	-	-	-
(15)	(23)	(19)	(23)	57	54	1	1	(219)	(218)
-	-	-	-	(1)	(1)	1	1	5	3
-	-	-	-	1	1	(1)	(1)	(5)	(3)
-	-	-	-	-	-	-	-	-	-
(132)	77	1	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
(4)	12	(4)	12	-	-	-	-	7	5
(8)	(105)	-	-	-	-	-	-	1	-
(7)	(7)	(1)	-	-	-	-	-	41	(3)
<b>(151)</b>	<b>(23)</b>	<b>(4)</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49</b>	<b>2</b>
(1)	-	(1)	-	-	-	-	-	(49)	(48)
<b>(152)</b>	<b>(23)</b>	<b>(5)</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(46)</b>
8,606	8,941	9,166	9,553	(4,389)	(4,340)	(4)	(4)	31,224	32,578
5,319	3,697	3,840	3,831	(2,265)	(2,110)	(10,601)	(2,297)	27,436	38,075
4,728	5,030	4,936	5,276	(2,903)	(3,214)	(388)	(1,056)	36,579	38,041
342	274	747	672	(632)	(654)	(17)	(15)	9,045	9,308
(997)	2,051	(715)	(640)	(654)	(668)	(99)	(84)	95,182	99,947
<b>17,998</b>	<b>19,993</b>	<b>17,974</b>	<b>18,692</b>	<b>(10,843)</b>	<b>(10,986)</b>	<b>(11,109)</b>	<b>(3,456)</b>	<b>199,466</b>	<b>217,949</b>
(3)	6	(1)	5	(5)	1	-	5	(91,524)	(95,453)
<b>17,995</b>	<b>19,999</b>	<b>17,973</b>	<b>18,697</b>	<b>(10,848)</b>	<b>(10,985)</b>	<b>(11,109)</b>	<b>(3,451)</b>	<b>107,942</b>	<b>122,496</b>

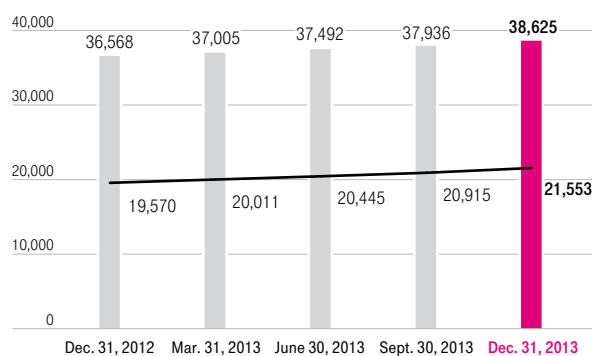
## DEVELOPMENT OF BUSINESS IN THE OPERATING SEGMENTS.

### GERMANY.

#### CUSTOMER DEVELOPMENT.

G 27

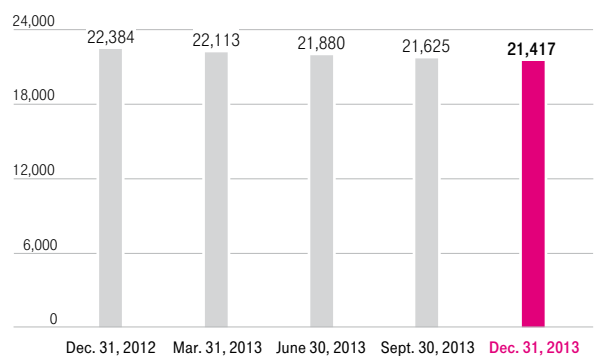
##### Mobile customers. thousands



— Contract customers

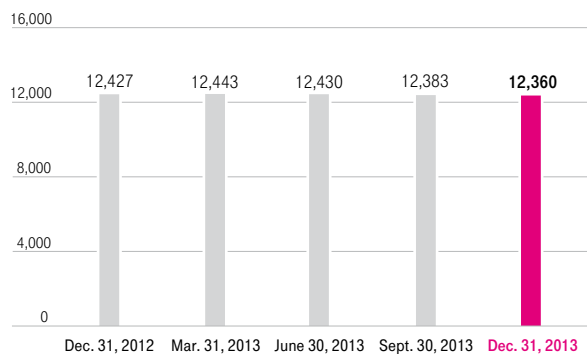
G 29

##### Fixed-network lines. thousands



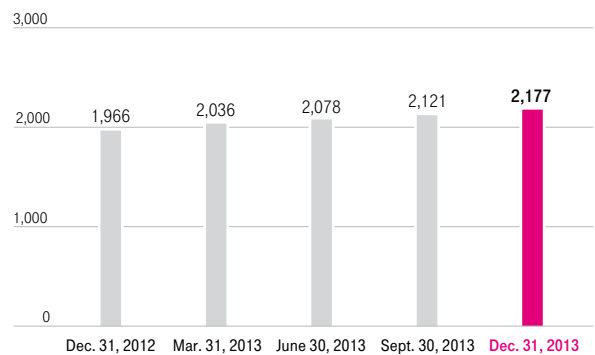
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##### Broadband lines. thousands



G 30

##### TV customers (IPTV, satellite).<sup>a</sup> thousands

<sup>a</sup> Customers connected.

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thousands

	Dec. 31, 2013	Dec. 31, 2012	Change	Change %	Dec. 31, 2011
<b>TOTAL</b>					
Mobile customers	38,625	36,568	2,057	5.6 %	35,403
Contract customers	21,553	19,570	1,983	10.1 %	18,221
Prepay customers	17,072	16,997	75	0.4 %	17,182
Fixed-network lines	21,417	22,384	(967)	(4.3)%	23,399
Of which: IP-based	2,141	937	1,204	n.a.	514
Broadband lines	12,360	12,427	(67)	(0.5)%	12,265
TV (IPTV, satellite)	2,177	1,966	211	10.7 %	1,553
Unbundled local loop lines (ULLs)	9,257	9,436	(179)	(1.9)%	9,598
Wholesale unbundled lines	1,564	1,303	261	20.0 %	1,222
Wholesale bundled lines	390	518	(128)	(24.7)%	704
<b>OF WHICH: CONSUMERS</b>					
Mobile customers	29,943	28,811	1,132	3.9 %	28,382
Contract customers	15,669	13,990	1,679	12.0 %	12,874
Prepay customers <sup>a</sup>	14,275	14,821	(546)	(3.7)%	15,508
Fixed-network lines	16,923	17,789	(866)	(4.9)%	18,763
Of which: IP-based	1,960	856	1,104	n.a.	488
Broadband lines	9,963	10,039	(76)	(0.8)%	9,959
TV (IPTV, satellite)	2,001	1,804	197	10.9 %	1,434
<b>OF WHICH: BUSINESS CUSTOMERS</b>					
Mobile customers	8,682	7,757	925	11.9 %	7,021
Contract customers	5,885	5,581	304	5.4 %	5,347
Prepay customers (M2M) <sup>a</sup>	2,797	2,176	621	28.5 %	1,675
Fixed-network lines	3,445	3,510	(65)	(1.9)%	3,505
Of which: IP-based	164	55	109	n.a.	21
Broadband lines	2,072	2,062	10	0.5 %	1,973
TV (IPTV, satellite)	174	161	13	8.1 %	117


<sup>a</sup> Since January 1, 2013, M2M (machine-to-machine) has been reported exclusively under prepay business customers in mobile communications. Prior-year figures have been adjusted accordingly.

### Total.

In our home market of Germany, we are the market leader in fixed-network and mobile communications and we plan to remain so in the future. We are also ahead of the competition in terms of quality of service and technology. We have the best network quality, confirmed by the fact that we won all major network tests in 2013. For this reason, customers perceive us as better than our competitors. 

Several positive trends continued in the 2013 financial year. Compared with the end of 2012, we recorded a total of 2,057 thousand mobile customer additions by the end of 2013. Smartphone sales increased to 4.3 million in 2013. In the fixed network, our fiber-optic products are growing increasingly important: The total number of lines – VDSL and FTTH – increased by 534 thousand to 1.5 million, in particular due to existing customers switching to higher-quality products with higher bandwidth. We had also migrated 2.1 million customers to IP-based lines by the end of 2013. In broadband business, we recorded an almost stable development of lines in the 2013 financial year, with the total number of lines reaching 12.4 million.

We are still competing with cable operators. With the progress in fiber-optic roll-out and innovative vectoring technology, we will also drive forward the marketing of substantially higher bandwidths. At the end of 2013, we had rolled out vectoring-enabled VDSL lines to the first cities as part of our network upgrade initiative, and, from the second half of 2014, we will double the maximum download speed from 50 Mbit/s to up to 100 Mbit/s.

With our “contingent model” and its future further development, we create incentives for migration from traditional wholesale products, such as bundled wholesale lines or unbundled local loop lines to higher-quality VDSL wholesale lines. Under partnerships with network operators that are based on increased usage of our VDSL and vectoring wholesale products, we can share investment risks and drive forward further roll-out. Our partnerships in the housing sector also proved successful: In total, 68 thousand apartments were connected to our network. 



For more information on awards, please refer to the section “Highlights in the 2013 financial year,” **PAGE 58 ET SEQ.**



Glossary, **PAGE 257 ET SEQ.**



For more information on our wholesale agreements, please refer to the section “Highlights in the 2013 financial year,” **PAGE 58 ET SEQ.**

### Mobile communications.

**Mobile telephony and data services.** In mobile communications, we stepped up our efforts to attract and win back customers in 2013, for example with the new mobile rate plans launched in May 2013. As of the end of 2013, the number of mobile customers increased to 38.6 million, up 2.1 million or 5.6 percent compared with the end of the prior year. The mobile contract customer base grew by 1,983 thousand in 2013. 746 thousand of these new customers were added in branded business under the Deutsche Telekom brand and our second brand "congstar." The remainder were added in the fast-growing, but much lower-revenue reseller segment (service providers).

The positive trend in the area of machine-to-machine solutions and our Call & Surf Comfort via Funk rate plan continued. By the end of 2013, 229 thousand customers had already subscribed to Call & Surf Comfort via Funk. This is part of our integrated network strategy: Thanks to our LTE and 3G roll-out, we can offer these customers a high-quality and faster broadband connection via our mobile network.

We sold 6.3 million mobile phones in the 2013 financial year. The proportion of smartphones, especially Android devices and iPhones, totaled 68.3 percent.

### Fixed network.

**Telephony, Internet, and television.** A total of 17.6 percent of our broadband customers use our television service Entertain. By the end of 2013, the number of TV customers had increased by 10.7 percent compared with 2012; Entertain Sat grew by 34.8 percent.

In the traditional fixed network, the number of lines decreased by 4.3 percent compared with the prior year. Customers switched primarily to cable operators, but increasingly also to mobile products.

### Consumers.

**Connected life across all screens.** We increased the number of mobile contract customers by 12.0 percent in the reporting year compared with 2012. Above all, rate plans with integrated data *flat rates* for mobile Internet (Complete Comfort, special rate plans like Special Allnet), pure data rates, e.g., for *tablets*, LTE add-on options, and Travel & Surf, and SpeedOn passes developed positively. Call & Surf Comfort via Funk also performed very well, with customer growth of 85.1 percent year-on-year. The number of *prepay* customers decreased by 3.7 percent in the reporting year, mainly due to the decline in the reseller segment, which was partially offset by customer additions through "congstar."

In the fixed network, we won another 197 thousand customers for Entertain in 2013, up 10.9 percent against the prior year. The marketing of the Sky Deutschland program packages from June 2013 was also successful. The line losses in the fixed network totaled 866 thousand, which was less than in the prior year. In the broadband market, we won 288 thousand customers for fiber-optic lines.

### Business Customers.

**Connected work with innovative solutions.** Growth in mobile communications is attributable to contract additions and the 621 thousand cards sold for our machine-to-machine solutions in 2013. In mobile Internet, customers are increasingly opting for plans with higher bandwidths, such as Complete Comfort and BusinessProfi, including high-quality handsets. The number of fixed-network lines in the Business Customer area decreased only slightly by 1.9 percent against 2012.

Products in the area of connected work developed positively. Accordingly, we recorded a higher number of Company Connect dedicated Internet connections. In data communications, we significantly increased the number of networks and connections, especially with Internet-based data networks (IP VPNs) and high-bandwidth location networking. Demand for cloud products grew in particular.

### Wholesale.

The number of unbundled wholesale lines increased by 261 thousand in the reporting year, due to the growth in VDSL lines. The "continuent" model, which was launched successfully in the second half of 2012, contributed substantially to this trend. The number of bundled wholesale lines, however, declined by 128 thousand. We expect this trend to continue for the next few years, due in particular to the fact that our competitors are switching from bundled to unbundled wholesale products or to their own infrastructure. The number of unbundled local loop lines (ULLs) decreased by 179 thousand compared with the end of 2012. This decrease is attributable both to the trend towards higher-quality VDSL wholesale lines and to the market situation, since competitors migrate their customers to mobile-based lines or the customers switch to cable companies.



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## DEVELOPMENT OF OPERATIONS.

T 027

millions of €

	2013	2012	Change	Change %	2011
<b>TOTAL REVENUE</b>	22,435	22,736	(301)	(1.3) %	23,206
Consumers	12,122	12,197	(75)	(0.6) %	12,497
Business Customers	5,676	5,680	(4)	(0.1) %	5,615
Wholesale	3,811	4,035	(224)	(5.6) %	4,209
Value-Added Services	288	367	(79)	(21.5) %	425
Other	538	457	81	17.7 %	460
Profit from operations (EBIT)	4,435	4,213	222	5.3 %	4,597
EBIT margin %	19.8	18.5			19.8
Depreciation, amortization and impairment losses	(3,966)	(4,393)	427	9.7 %	(4,344)
EBITDA	8,401	8,606	(205)	(2.4) %	8,941
Special factors affecting EBITDA	(535)	(560)	25	4.5 %	(612)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	8,936	9,166	(230)	(2.5) %	9,553
EBITDA margin (adjusted for special factors) %	39.7	40.3			41.1
<b>CASH CAPEX</b>	(3,411)	(3,418)	7	0.2 %	(3,506)

The operations of Regional Services and Solutions (RSS) have been managed by the Germany operating segment since January 1, 2013 and no longer by the Systems Solutions operating segment to allow a more focused market approach.

### Total revenue.

The revenue decline totaled 1.3 percent in 2013, an improvement of 0.7 percentage points compared with the prior year. This ongoing revenue decline was primarily attributable to intensified price cuts imposed by regulation, lower revenue from the traditional fixed network, as well as a downward trend in voice telephony and mobile text messaging. The decline was partially offset by growing demand for complete packages with mobile data and/or TV rate plans and by increased revenue from the sale of attractive handsets, in particular smartphones.

In mobile communications, revenue increased by 1.3 percent compared with 2012. Our market share of mobile service revenue in Germany exceeded market level in 2013. However, mobile service revenue decreased by 1.9 percent, due to prices being impacted by high competitive pressure in particular. Other reasons for the decrease were regulation-imposed reductions in mobile termination rates in December 2012 and roaming fees as of July 1, 2012 and July 1, 2013. Revenue from text messaging decreased by 27 percent or EUR 193 million, due in part to a shift in consumer behavior toward IP messaging services. By contrast, data and mobile equipment revenue increased. The marketing of Entertain and add-on options as well as revenue from the terminal equipment lease model had a positive impact on our fixed-network business, although this was not sufficient to offset the revenue decrease in traditional voice telephony due to line losses.

Revenue from **Consumers** decreased slightly by 0.6 percent. Revenue from mobile communications grew by 0.9 percent thanks to the positive development in the marketing of mobile devices. By contrast, mobile service revenues decreased by 2.7 percent, mainly due to the decline in mobile voice telephony, intensified regulatory price cuts, and lower text messaging revenue. These negative effects were partially offset by the positive trend in data revenue, due in particular to strong smartphone sales. Fixed-network revenue declined by 2.9 percent in the core business due to the downward trend in voice telephony. Year-on-year growth in TV revenue – including add-on options – of 14.5 percent and in terminal equipment revenue of 18.7 percent had an offsetting effect.

In the **Business Customers** area, total revenue remained more or less on a par with the prior-year level, down by 0.1 percent. Growth in mobile communications was attributable to the increase in revenue from mobile devices of 27.0 percent, as well as an almost stable trend in service revenues with a focus on data revenues. This almost offset the decline in revenue from traditional fixed-network voice telephony.

The decline in **Wholesale** revenue – down 5.6 percent to EUR 3.8 billion – was primarily attributable to the following factors: regulatory price cuts for services such as interconnection calls (from December 1, 2012) and unbundled local loop lines due to new rulings in earlier proceedings, the declining use of interconnection calls, and a volume- and price-related revenue decrease.



Glossary,  
PAGE 257 ET SEQ.

The decline in revenues from **Value-Added Services** of 21.5 percent mainly resulted from the amended regulations concerning free-of-charge queuing, which came into effect as of September 1, 2012 and June 1, 2013, and from weaker use of premium rate call numbers, such as directory assistance services, and of public telephones. To focus more on our core business, we abandoned business with digital out-of-home advertising in the fourth quarter of 2013, with a resultant loss of revenue.

#### EBITDA, adjusted EBITDA.

EBITDA totaled EUR 8.4 billion in the reporting year. This includes EUR 0.5 billion in expenses for special factors, mainly for responsible staff restructuring. Adjusted for special factors, EBITDA decreased by 2.5 percent year-on-year. The revenue decrease was not fully offset by cost savings, for example, in call center services and services rendered by third parties as well as IT cost cuts. Significant factors contributing to this trend were mobile market investments, which were on a par with

the prior-year level, and personnel costs, for example, due to collective salary increases. With an adjusted EBITDA margin of 39.7 percent, we are already within our target corridor of over 40 percent, despite high market investments.

#### EBIT.

Profit from operations for our Germany operating segment increased by 5.3 percent to EUR 4.4 billion year-on-year. This was primarily attributable to lower depreciation and amortization, due, among other factors, to the expiry of the economic useful lives of parts of outside plant.

#### Cash capex.

Cash capex remained on a par with the prior-year level in 2013, with our investments still focused on the "networks of the future," such as the fiber-optic and LTE infrastructure. The delayed award of contracts in the first quarter of 2013 due in part to the cold weather, was compensated by increased investments as the year progressed.

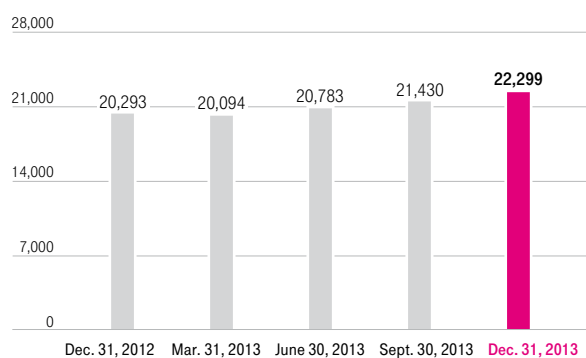
## UNITED STATES.

### CUSTOMER DEVELOPMENT.

G 31

#### Branded postpaid customers.

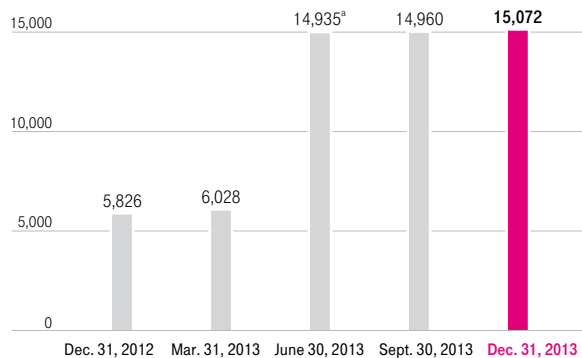
thousands



G 32

#### Branded prepay customers.

thousands



<sup>a</sup> On May 1, 2013, the number of prepay customers increased by 8,918 thousand in connection with the acquisition of MetroPCS.

T 028

thousands

	Dec. 31, 2013	Dec. 31, 2012	Change	Change %	Dec. 31, 2011
<b>UNITED STATES</b>					
Mobile customers	46,684	33,389	13,295	39.8 %	33,186
Branded customers	37,371	26,119	11,252	43.1 %	27,186
Branded postpaid	22,299	20,293	2,006	9.9 %	22,367
Branded prepay	15,072	5,826	9,246	n. a.	4,819
Wholesale customers	9,313	7,270	2,043	28.1 %	6,000
M2M <sup>a</sup>	3,602	3,090	512	16.6 %	2,430
MVNOs	5,711	4,180	1,531	36.6 %	3,570

<sup>a</sup> M2M: machine-to-machine.

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At December 31, 2013, the United States operating segment (T-Mobile US) had 46.7 million customers compared to 33.4 million customers at December 31, 2012. This net increase in customers of 13.3 million was driven by the acquisition of 8.9 million customers in connection with the closing of the business combination with MetroPCS and organic net customer additions of 4.4 million. Net customer additions improved significantly in 2013 compared to a net increase of 203 thousand in 2012.

**Branded customers.** Branded postpaid net customer additions improved to 2,006 thousand for the year ended December 31, 2013, compared to 2,074 thousand branded postpaid net customer losses for the year ended December 31, 2012. The significant improvement in branded postpaid net customer development was attributable to improved branded postpaid churn and higher branded postpaid gross additions, including migrations from branded prepaid plans. Additionally, the success of the company's Un-carrier strategy and the Value/Simple Choice plans, as well as the launches of popular devices and the U.S. wireless industry leading JUMP! upgrade program in 2013 helped drive improvement in branded postpaid net customer additions. Further, branded postpaid churn improved as a result of churn reduction initiatives such as improving network quality and customer experience, which led to an increase in branded postpaid customer retention in 2013.

Branded prepaid net customer additions, excluding the 8.9 million customers acquired through the MetroPCS business combination, were 328 thousand for the year ended December 31, 2013, compared to 1,007 thousand net customer additions for the year ended December 31, 2012. Higher branded prepaid customer deactivations contributed to the decrease in branded prepaid net customer additions, but was partially offset by higher branded prepaid customer gross additions. Additionally, the decrease in branded prepaid net customer additions was the result of migrations to branded postpaid plans due to the success of the Value/Simple Choice plans. The increase in branded prepaid customer deactivations in 2013 was primarily driven by the robust competitive environment in the prepaid business, compounded by a growing prepaid customer base.

**Wholesale customers.** Wholesale net customer additions were 2,043 thousand for the year ended December 31, 2013, compared to net customer additions of 1,270 thousand for the year ended December 31, 2012. The increase in wholesale net customer additions was due to the continued popularity of government subsidized Lifeline programs offered by our MVNO partners and higher MVNO gross customer additions, along with MVNO partnerships launched in the fourth quarter of 2012.

## DEVELOPMENT OF OPERATIONS.

T 029

millions of €

	2013	2012	Change	Change %	2011
<b>TOTAL REVENUE</b>	18,556	15,371	3,185	20.7 %	14,811
Profit (loss) from operations <b>(EBIT)</b>	1,404	(7,547)	8,951	n. a.	(710)
EBIT margin %	7.6	(49.1)			(4.8)
Depreciation, amortization and impairment losses	(2,238)	(12,866)	10,628	82.6 %	(4,407)
EBITDA	3,642	5,319	(1,677)	(31.5) %	3,697
Special factors affecting EBITDA	(232)	1,479	(1,711)	n. a.	(134)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	3,874	3,840	34	0.9 %	3,831
EBITDA margin (adjusted for special factors) %	20.9	25.0			25.9
<b>CASH CAPEX</b>	(3,279)	(2,560)	(719)	(28.1) %	(1,963)

**Value and Simple Choice plans.** T-Mobile US offers services through the company's Value plans which bring more choice and value to branded postpaid customers. Value plans allow customers to subscribe for T-Mobile US's wireless services separately without purchase of or payment for a bundled handset. In an effort to continue providing even more value and flexibility to customers, T-Mobile US introduced the Simple Choice plan in the first quarter of 2013, which is similar to Value plans, however does not require an annual service contract. Depending on their credit profile, customers are qualified either for postpaid service, where they generally pay after incurring a month of service, or prepaid service, where they generally pay in advance. Customers on T-Mobile US's Value/Simple Choice plans benefit from reduced monthly service charges and can choose whether to use their own compatible handset on T-Mobile US's network or purchase a handset from T-Mobile US or one of its dealers. Qualifying customers who purchase their handset from T-Mobile US have the choice of either paying for a handset in full at the point-of-sale or financing a portion of the purchase price over an installment period. For each handset sold, T-Mobile US's Value/Simple Choice plans result in increased equipment revenue, compared to traditional bundled price plans that typically offer a handset discount, but involve higher service charges.

**Total revenue.**

Total revenue for our United States operating segment of EUR 18.6 billion in 2013 increased by 20.7 percent compared to EUR 15.4 billion in 2012. In U.S. dollars, T-Mobile US total revenues increased by 24.9 percent year-on-year due to the inclusion of MetroPCS results since May 2013. Excluding the effects of the MetroPCS business combination, service revenues declined due primarily to decreased average revenue per branded postpaid user. The declines in service revenues were offset by increases in equipment sales, including those sold on installment plans, driven by the launches of certain new smartphones in 2013, and greater adoption of T-Mobile US's Value/Simple Choice plans.

**EBITDA, adjusted EBITDA, adjusted EBITDA margin.**

Adjusted EBITDA increased slightly by 0.9 percent to EUR 3.9 billion compared to EUR 3.8 billion in 2012. Adjusted EBITDA in 2013 excludes EUR 232 million in expenses primarily associated with stock-based compensation and integration-related costs associated with the business combination with MetroPCS. In U.S. dollars, adjusted EBITDA increased by 4.3 percent, due primarily to the inclusion of MetroPCS activity since May 2013. Excluding the results of the MetroPCS brand, adjusted EBITDA would have decreased primarily due to higher loss on equipment sales from increased smartphone sales volumes, which have a higher per unit cost, and higher commission expense from increased gross customer additions. These effects were offset in part by a decrease in bad debt expense related to improved credit quality of T-Mobile US's customer portfolio. Additionally, roaming expenses decreased year-on-year driven by management initiatives to reduce costs. During 2013, the effects of ongoing cost management programs helped control expenses. Adjusted EBITDA margin decreased year-on-year due to the factors described above.

**EBIT.**


EBIT increased to an operating profit of EUR 1.4 billion in the reporting year compared to an operating loss of EUR 7.5 billion in 2012. In the third quarter of 2012, an impairment loss of EUR 10.6 billion was recorded on goodwill, other intangible assets, and property, plant and equipment. The impairment charges lowered the carrying values of property, plant and equipment resulting in lower depreciation expense in subsequent periods.

**Cash capex.**

Cash capex increased 28.1 percent year-on-year to EUR 3.3 billion in 2013 compared to EUR 2.6 billion in 2012 as a result of the deployment of LTE in connection with the T-Mobile US network modernization program which is expected to continue into 2014.

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## EUROPE.

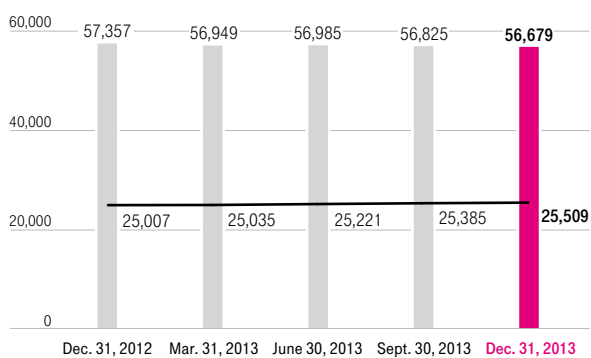
Since January 1, 2013, the tasks and functions of Group Technology including the Global Network Factory, which was previously part of Group Headquarters & Group Services, have been reported under the Europe operating segment. Comparative figures have been adjusted retrospectively. 

## CUSTOMER DEVELOPMENT.

G 33

### Mobile customers.<sup>a</sup>

thousands



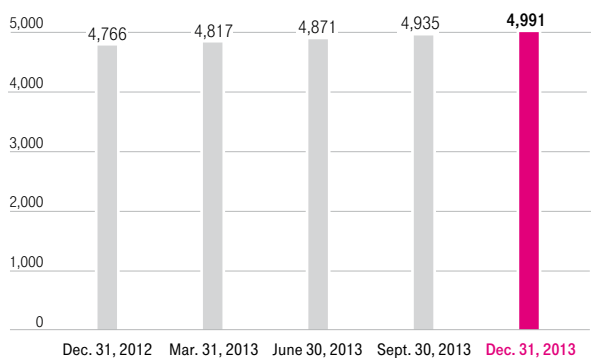
— Contract customers

<sup>a</sup> The customers of our companies in Bulgaria have no longer been included in the Europe operating segment since August 1, 2013 following the sale of the shares held in the companies. They have been eliminated from historical customer figures to improve comparability.

G 34

### Retail broadband lines.

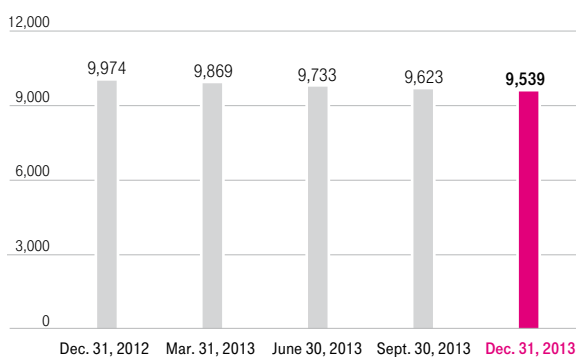
thousands



G 35

### Fixed-network lines.

thousands

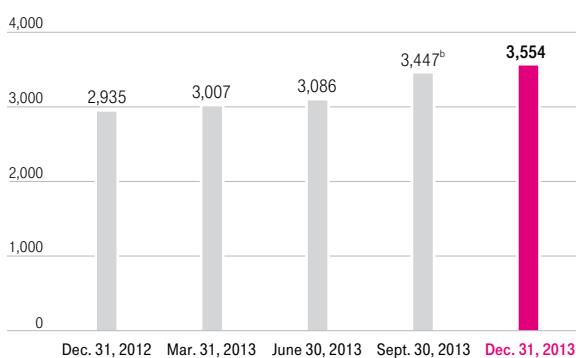


For more information, please refer to Note 32 "Segment reporting" in the notes to the consolidated financial statements, **PAGE 220 ET SEQ.**

G 36

### TV (IPTV, satellite, cable).

thousands



<sup>b</sup> The number of TV customers increased as of September 1, 2013 in connection with the acquisition of DIGI Slovakia.

T 030

thousands

		Dec. 31, 2013	Dec. 31, 2012	Change	Change %	Dec. 31, 2011
EUROPE, TOTAL <sup>a</sup>	Mobile customers	56,679	57,357	(678)	(1.2) %	56,028
	Fixed-network lines	9,539	9,974	(435)	(4.4) %	10,617
	Of which: IP-based	2,718	1,852	866	46.8 %	1,140
	Retail broadband lines	4,991	4,766	225	4.7 %	4,588
	TV (IPTV, satellite, cable)	3,554	2,935	619	21.1 %	2,664
	Unbundled local loop lines (ULLs)/wholesale PSTN	2,258	2,157	101	4.7 %	2,072
	Wholesale bundled lines	150	153	(3)	(2.0) %	153
	Wholesale unbundled lines	101	74	27	36.5 %	50
GREECE	Mobile customers	7,477	7,697	(220)	(2.9) %	7,885
	Fixed-network lines	2,746	2,952	(206)	(7.0) %	3,235
	Broadband lines	1,286	1,203	83	6.9 %	1,126
ROMANIA	Mobile customers	6,153	6,368	(215)	(3.4) %	6,499
	Fixed-network lines	2,369	2,422	(53)	(2.2) %	2,596
	Broadband lines	1,193	1,134	59	5.2 %	1,078
HUNGARY	Mobile customers	4,887	4,837	50	1.0 %	4,817
	Fixed-network lines	1,596	1,611	(15)	(0.9) %	1,658
	Broadband lines	922	875	47	5.4 %	848
POLAND	Mobile customers	15,563	16,040	(477)	(3.0) %	14,161
CZECH REPUBLIC	Mobile customers	5,831	5,498	333	6.1 %	5,381
	Fixed-network lines	120	111	9	8.1 %	100
	Broadband lines	120	111	9	8.1 %	100
CROATIA	Mobile customers	2,303	2,326	(23)	(1.0) %	2,418
	Fixed-network lines	1,133	1,208	(75)	(6.2) %	1,263
	Broadband lines	670	658	12	1.8 %	651
NETHERLANDS	Mobile customers	4,441	4,720	(279)	(5.9) %	4,909
	Fixed-network lines	264	283	(19)	(6.7) %	294
	Broadband lines	256	275	(19)	(6.9) %	284
SLOVAKIA	Mobile customers	2,262	2,311	(49)	(2.1) %	2,326
	Fixed-network lines	922	960	(38)	(4.0) %	1,021
	Broadband lines	521	480	41	8.5 %	464
AUSTRIA	Mobile customers	4,091	4,104	(13)	(0.3) %	4,060
OTHER <sup>a, b</sup>	Mobile customers	3,671	3,457	214	6.2 %	3,573
	Fixed-network lines	390	427	(37)	(8.7) %	449
	Broadband lines	274	258	16	6.2 %	239

<sup>a</sup> The customers of our companies in Bulgaria have no longer been included in the Europe operating segment since August 1, 2013 following the sale of the shares held in the companies. They have been eliminated from historical customer figures to improve comparability.

<sup>b</sup> Other includes national companies of Albania, the F.Y.R.O. Macedonia, and Montenegro.



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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). Prior-period comparatives have been adjusted accordingly.



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## Total.

Throughout the reporting year, customer numbers in the markets of our Europe operating segment developed soundly compared with the prior year despite ongoing intense competition and the still strained economic situation in many countries. As of the end of 2013, there was a slight decline in the number of mobile customers compared with the prior year, in particular in prepay business. The positive trend in the contract customer base continued in the fourth quarter, thereby partially offsetting the prepay losses. The positive trends also continued in the fixed network. For instance, we increased the number of broadband lines compared with the prior year thanks to our strategic focus on rolling out broadband technology. TV business also profited from this broadband growth and from the acquisition of DIGI Slovakia, which increased by 21.1 percent compared with 2012. The number of IP lines rose in many countries of our Europe operating segment, due in part to the successful migration of traditional PSTN lines to IP technology.

## Mobile communications.

**Mobile telephony and data services.** As of the end of the reporting year, we had some 56.7 million mobile customers in total, a slight decline year-on-year of 1.2 percent, attributable to contrasting effects. Contract customer business once again proved to be a constant driver of growth, with some 25.5 million customers as of the end of 2013, up 2.0 percent compared with the prior year. Most countries of our operating segment made a positive contribution to this growth, especially the Czech Republic and Hungary. Thanks to the ongoing appeal of smartphones in all countries of our operating segment, our bundled products continued to be hugely popular. Another positive effect on the customer trend came from the Business Customers area, which accounted for more than 30 percent of total contract customers thanks to significant net additions in Romania, Poland, and Austria.

The prepay customer base, by contrast, decreased in almost all countries of our operating segment due, on the one hand, to tough competition and, on the other, to the implementation of our strategy of focusing on high-value contract customers. Poland and the Netherlands accounted for more than two thirds of the customer losses in the prepay segment.

## Fixed network.

**Telephony, Internet, and television.** Throughout the reporting year, our successful TV business proved to be a reliable growth engine: By the end of the year, we had a total TV customer base of 3.6 million, up 21.1 percent compared with the prior year, mainly driven by the growth in satellite TV customers, in particular in Greece. Slovakia also made a contribution to this growth due to the acquisition of DIGI Slovakia as of September 1, 2013. Growth was also achieved in the IPTV customer base, especially in Hungary, the F.Y.R.O. Macedonia, Slovakia, and Romania, as well as in cable TV lines, e.g., in Romania.

The number of our IP-based lines grew substantially by around 47 percent as of December 31, 2013 compared with the end of 2012 to a total of more than 2.7 million lines. This growth was largely attributable to the successful migration to IP technology in integrated countries: For example, we have already completed the migration of customers to IP-based lines in the F.Y.R.O. Macedonia as of January 15, 2014. We have also migrated a substantial proportion of lines in Slovakia, Croatia, and Hungary. As of the end of the year, IP lines accounted for 29 percent of all lines overall.

The number of **retail** broadband lines increased by 4.7 percent to around 5.0 million compared with December 31, 2012, primarily driven by innovative rate plans that bundle television with Internet services. The majority of this year-on-year increase is attributable to DSL business, especially in Greece, followed by broadband cable lines in Hungary. Other access technologies such as optical fiber, also recorded encouraging growth compared with the end of 2012, e.g., in Romania and Slovakia, which both recorded growth of over 20 percent.

Around 9.5 million customers in our Europe operating segment used a fixed-network line as of December 31, 2013, a decrease of 4.4 percent compared with the end of the prior year. This decline was primarily attributable to line losses in traditional telephony (PSTN). Since the third quarter of 2013, however, there have been the first signs of a quarter-on-quarter slowdown in line losses. By the fourth quarter of 2013, the trend in line losses was almost stable compared with the prior quarter.



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## DEVELOPMENT OF OPERATIONS.

T 031

millions of €

	2013	2012	Change	Change %	2011
<b>TOTAL REVENUE</b>	13,659	14,406	(747)	(5.2) %	15,124
Greece	2,988	3,253	(265)	(8.1) %	3,546
Romania	1,017	1,037	(20)	(1.9) %	1,072
Hungary	1,563	1,429	134	9.4 %	1,438
Poland	1,584	1,678	(94)	(5.6) %	1,740
Czech Republic	915	1,044	(129)	(12.4) %	1,092
Croatia	929	992	(63)	(6.4) %	1,084
Netherlands	1,666	1,664	2	0.1 %	1,747
Slovakia	828	837	(9)	(1.1) %	886
Austria	828	878	(50)	(5.7) %	924
Other <sup>a</sup>	1,513	1,811	(298)	(16.5) %	1,827
Profit from operations (EBIT)	958	1,437	(479)	(33.3) %	760
EBIT margin %	7.0	10.0			5.0
Depreciation, amortization and impairment losses	(3,382)	(3,291)	(91)	(2.8) %	(4,270)
EBITDA	4,340	4,728	(388)	(8.2) %	5,030
Special factors affecting EBITDA	(178)	(208)	30	14.4 %	(246)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	4,518	4,936	(418)	(8.5) %	5,276
Greece	1,165	1,205	(40)	(3.3) %	1,309
Romania	283	289	(6)	(2.1) %	274
Hungary	438	474	(36)	(7.6) %	542
Poland	599	586	13	2.2 %	629
Czech Republic	404	486	(82)	(16.9) %	509
Croatia	404	468	(64)	(13.7) %	511
Netherlands	495	525	(30)	(5.7) %	505
Slovakia	337	354	(17)	(4.8) %	388
Austria	192	234	(42)	(17.9) %	253
Other <sup>a</sup>	205	318	(113)	(35.5) %	361
EBITDA margin (adjusted for special factors) %	33.1	34.3			34.8
<b>CASH CAPEX</b>	(3,648)	(1,724)	(1,924)	n. a.	(1,891)

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> Other: national companies of Bulgaria (up to and including July 31, 2013), Albania, the F.Y.R.O. Macedonia, and Montenegro, as well as ICSS (International Carrier Sales & Solutions), GNF (Global Network Factory), Europe Headquarters, and Group Technology.

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## Total revenue.

As of the end of the financial year, our Europe operating segment generated total revenue of EUR 13.7 billion, down 5.2 percent on the prior year. Excluding contrasting effects, revenue decreased by 3.6 percent as follows: On the one hand, segment revenue decreased due to the loss of revenues since April 1, 2013 in connection with the sale of Hellas Sat as well as the loss of revenues since August 1, 2013 in connection with the sale of our national companies in Bulgaria. In addition, our revenues were impacted by negative exchange rate effects compared with the euro – especially the Hungarian forint and the Czech koruna. On the other hand, the inclusion of DIGI Slovakia from September 1, 2013 had a slightly positive effect on revenue development.

In operational terms, decisions by regulatory authorities had a substantial negative impact on our segment revenue: Reduced mobile termination rates and roaming regulations in almost all countries of our Europe operating segment were responsible for more than half of the decline in our revenue from operations. In addition, competition-induced price reductions in mobile communications and the fixed network as well as the ongoing strained macroeconomic situation in many economies of our operating segment put pressure on revenue despite first signs of a slight economic recovery in some markets.

The impact of the decrease within the OTE group on segment revenue was especially strong. In particular, mobile business in Greece declined due to regulatory decisions and the general market situation. The other countries of our operating segment also recorded market-driven decreases in revenue. In the Czech Republic, for example, the decline in revenue was mainly attributable to drastic price cuts in the mobile market in April 2013. Revenue also declined in Poland and Croatia. Overall, consumer business was affected by declining revenue at segment level – mainly driven by mobile business. Hungary slightly offset the trend at segment level with a year-on-year increase in revenue, mainly due to the energy business. In addition, revenue from terminal equipment sales in Hungary also increased as a result of the continued attractiveness of smartphones. This was accompanied by increased mobile data revenue. In the Hungarian fixed-network business, broadband/TV revenue made a positive contribution to revenue performance. Furthermore, due to the revocation of the Hungarian revenue-related special tax in December 2012, our revenue in 2013 was no longer affected by this tax, such that there was a positive revenue effect compared with the prior year.

Due to the consistent focus on the growth areas in the countries of our Europe operating segment, we partially compensated the negative revenue effects from voice telephony at segment level. Despite the loss of revenues in connection with the sale of our national companies in Bulgaria, revenue from mobile data business grew by 13 percent or EUR 164 million overall compared with the prior year (adjusted for exchange rate effects) in all countries of our operating segment, especially in the Netherlands, the

Czech Republic, Croatia, Hungary, and Slovakia. The majority of this revenue was attributable to consumer business. Thanks to attractive rate plans combined with our broad portfolio of terminal equipment, such as smartphones and tablets, we succeeded in winning and retaining more contract customers. Accordingly, revenue from terminal equipment sales also grew. The continued appeal of smartphones is also reflected in the increased usage rate in data services. In the broadband/TV business, the positive trend of the past few quarters continued: TV business increased by some 21 percent year-on-year. This revenue growth is also based on the first positive effects from our acquisition of DIGI Slovakia. As a result of our broadband roll-out in the fixed network and in mobile communications, we won significantly more customers with our TV offering, especially in Greece, Romania, and Hungary. Thanks to the expansion of our product and service portfolio in Croatia, for example to include cloud services, B2B/ICT also made a positive contribution to revenue. In the adjacent industries, the energy business in Hungary continued on its growth course in 2013.

## EBITDA, adjusted EBITDA.

Our Europe operating segment generated adjusted EBITDA of EUR 4.5 billion in the reporting year, a year-on-year decrease of 8.5 percent. Excluding effects from changes in the composition of the Group in connection with the sale of Hellas Sat and the national companies in Bulgaria, the acquisition of DIGI Slovakia, and negative exchange rate effects from the translation into euros, adjusted EBITDA decreased by 6.6 percent. This remaining operational decline at segment level was largely attributable to the Greek mobile business, as well as to the Czech Republic, Croatia, and Austria. In Hungary, the decrease is also attributable to the utility tax introduced by the national government as of January 1, 2013. The tax due for the 2013 financial year additionally reduced our adjusted EBITDA by EUR 23 million. This was partially offset by increased adjusted EBITDA contributions from Poland and Albania, as well as the fixed-network business in Greece, which had a slightly positive impact overall on the development of adjusted EBITDA at segment level.

The overall decrease in revenue at segment level had a negative impact on the development of EBITDA compared with the prior year. Changes in legislation, taxes and duties, and national austerity programs put additional pressure on the development of earnings. By systematically reducing indirect costs through our efficiency enhancement measures, we partially offset the negative effect from the decline in revenue. Lower personnel costs in the Greek fixed-network business in particular made a positive contribution. In addition, the regulation-induced reduction in interconnection costs and the focus on specific target groups resulted in lower direct costs, despite increased direct costs overall, e.g., for the energy or wholesale business. The sale of Hellas Sat as of March 31, 2013 and our national companies in Bulgaria as of July 31, 2013 resulted in income from divestitures recognized as special factors of around EUR 0.2 billion in total.



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### Development of operations in selected countries.

The Europe operating segment pursues the vision of developing our entities into integrated, pan-European all-IP players. As part of this strategic focus, our entities have been assigned to four clusters according to their respective market position: “**Senior leaders**” are entities that have leading positions in both mobile and fixed-network operations, such as those in Greece, Hungary, Croatia, and the F.Y.R.O. Macedonia. The entities in this cluster aim to maintain their market leadership in both the fixed-network and mobile markets. The cluster of “**junior leaders**” comprises entities which have a strong position in the fixed network, but are not mobile market leaders when viewed separately. Our entities in Romania, Slovakia and Montenegro are such junior leaders and want to use their strong position in the fixed network to drive forward their mobile business. Companies that concentrate primarily on mobile business include what we call “**mobile runners-up**,” specifically, our national companies in Poland, the Czech Republic and Albania, which are not yet market leaders, but aim to achieve that position. These entities are systematically working to become integrated companies. Our subsidiaries in the Netherlands and Austria are “**smart attackers**,” meaning they still have some way to go to catch up with the other market players. Both entities are not expected to achieve the strategic goal in the foreseeable future due to their current position in the market. They consequently focus on efficiency-enhancing measures. Below, we present one national company for each of the four clusters by way of example.

**Greece (senior leader).** Revenue in Greece totaled EUR 3.0 billion in the reporting year, a year-on-year decline of 8.1 percent. Adjusted for the revenue lost since April 1, 2013 in connection with the sale of Hellas Sat, revenue decreased by 7.6 percent. This remaining decline in revenue from operations was largely due to mobile business. Repeated regulatory decisions reducing terminating rates, i.e., the minute price for mobile calls was reduced by around 65 percent year-on-year, resulted in a significant decrease in voice revenues. Ongoing tense competition also continued to put pressure on mobile revenues, as could be seen from both lower pricing and customer losses, especially in the prepaid segment. Despite the difficult economic environment, revenue from mobile data services increased by around 8 percent compared with the prior year. This was due to both increased use of data services and a higher number of data rate plans sold. Thanks to the rapid roll-out of LTE sites, we achieved coverage of more than 50 percent of the population as of December 31, 2013. Higher revenue from terminal equipment sales had a positive effect on revenue.

The fixed-network area was also affected by revenue reductions, mainly in voice services. This was primarily due to line losses of around 7 percent in traditional telephony. The low price level, especially in the broadband business, continued to put pressure on our revenue. The resulting revenue decline was only partially offset by growth in DSL lines. The TV business continued its encouraging growth trend of the last few quarters. We won many new customers with our expanded TV offering, which now includes, for example, exclusive soccer content.

In Greece, adjusted EBITDA decreased to EUR 1.2 billion in the reporting period, a year-on-year decline of 3.3 percent. Excluding the effects from the deconsolidation of Hellas Sat, adjusted EBITDA decreased by just 1.9 percent, mainly due to the negative revenue effects, especially in mobile business. This decrease was partially offset by lower direct costs, on the one hand due to a regulation-induced reduction in interconnection costs and, on the other, to cuts in mobile customer acquisition costs. In terms of indirect costs, we partially compensated the negative revenue effects with our programs to enhance efficiency in fixed-network and mobile operations. The success of these programs can be seen in particular in lower personnel costs due to lower staff levels and lower marketing costs.

**Slovakia (junior leader).** In the reporting year, our Slovak subsidiary generated revenue of EUR 828 million, down only slightly by 1.1 percent year-on-year. Excluding the effects from the inclusion of DIGI Slovakia as of September 1, 2013, revenue decreased by 2.2 percent, primarily due to the mobile business. The lower price level underlying mobile voice revenues was, in particular, the result of the highly intense competition on the Slovak mobile communications market as well as regulatory decisions. This was only partially offset by increased use of voice services. In absolute figures, the decrease in revenue from consumers was stronger than that from business customers. The mobile data services business again proved to be a constant driver of growth. Thanks to the increased use of data services by customers and the ongoing strong appeal of smartphone use, we increased revenue by around 26 percent. In addition, higher terminal equipment sales made a positive contribution to revenue. In the fixed network, the decreases were primarily attributable to lower revenue in voice telephony, mainly due to line losses in traditional telephony and lower price levels. We also made progress in Slovakia in migrating PSTN lines to the forward-looking IP technology. As of the end of 2013, we recorded a migration rate of around 60 percent. The TV business of our Slovak subsidiary, which grew substantially against the prior year, received fresh impetus from the acquisition of DIGI Slovakia as of September 1, 2013. B2B/ICT business also increased significantly against the prior year.

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Adjusted EBITDA amounted to EUR 337 million in the reporting year, down 4.8 percent year-on-year. Excluding the effects from the acquisition of DIGI Slovakia, adjusted EBITDA decreased by 5.4 percent. The slightly negative effects from the revenue decline and the slightly higher overall direct costs, due in part to the B2B/ICT business, were only partially offset by lower indirect costs as a result of efficiency enhancement measures.

**Poland (mobile runner-up).** In the reporting year, revenue in Poland totaled EUR 1.6 billion, down 5.6 percent year-on-year. Excluding the slightly negative exchange rate performance of the Polish zloty against the euro, revenue decreased by 5.3 percent. This operational decline was mainly driven by repeated regulation-induced reductions in termination rates in January and July 2013. Despite contract customer additions and increased use of voice services, the lower price level in the Polish mobile market had a negative effect on our revenue. Text messaging revenue also declined compared with 2012 as a result of lower average prices. By contrast, the sale of terminal equipment made a positive contribution to revenue, especially due to the successful marketing of tablets and, above all, smartphones, which accounted for around 70 percent of all terminal equipment sold.

Adjusted EBITDA amounted to EUR 599 million in the reporting period, up 2.2 percent year-on-year. Excluding the slightly negative exchange rate effects, the increase was 2.6 percent. Revenue-driven declines were offset by the regulation-induced reduction in interconnection costs and our strict cost management, primarily thanks to a more personalized dialog with customers for the purpose of customer retention and acquisition.

**Netherlands (smart attacker).** In the Netherlands, our revenue stabilized in 2013 compared with the prior year at EUR 1.7 billion. Although the reduction in mobile termination rates in September 2013 impacted on voice revenue, we were able to win more contract customers, especially thanks to the market launch of new rate plans in the third quarter. Revenue from mobile data services also grew, due to increased usage by customers and the ongoing high demand for smartphones, especially high-priced devices. In addition, wholesale business activities helped to increase the sale of terminal equipment.

Adjusted EBITDA declined by 5.7 percent year-on-year to EUR 495 million in the reporting year. Increased direct costs, for example, as a result of increased expenses for customer retention and wholesale business activities with terminal equipment, were partially offset by slightly positive effects from indirect costs, due in particular to savings in personnel costs and costs for goods and services purchased.

#### EBIT.

EBIT in our Europe operating segment totaled EUR 1.0 billion in the reporting year, down 33.3 percent year-on-year, mainly as a result of the decline in adjusted EBITDA. In addition, EBIT decreased due to impairment losses recognized on goodwill, in particular in Austria as a result of the high costs of the spectrum acquired in an auction in 2013. This negative effect was partially offset by lower depreciation, amortization and impairment losses in most countries of our operating segment; in Poland and Slovakia in particular, depreciation on property, plant and equipment decreased year-on-year. Due to the disclosure of our national companies in Bulgaria as "held for sale" in the period from May to July 2013, depreciation and amortization charges were no longer recognized. In addition, the subsequent deconsolidation of our national companies in Bulgaria as well as the deconsolidation of Hellas Sat in Greece reduced depreciation and amortization.

#### Cash capex.

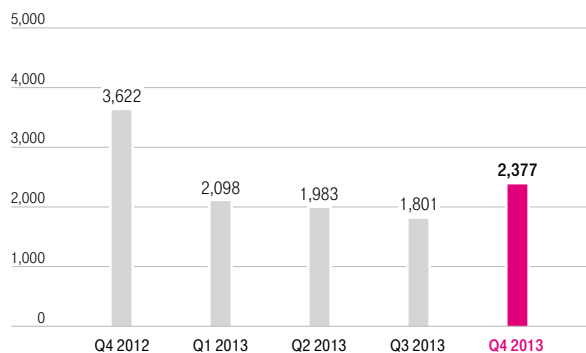
In 2013, our Europe operating segment reported cash capex of EUR 3.6 billion. The increase of EUR 1.9 billion year-on-year was mainly attributable to the acquisition of mobile licenses in countries such as the Netherlands, Austria, Romania, Hungary, and Poland. Adjusted for the effects of spectrum acquisition, cash capex was slightly higher than in the previous year due to ongoing investments in our networks for the future. Our national companies acted very prudently in their capital spending. The reasons for this included the difficult market situation, decisions by regulatory authorities, and additional financial burdens, such as the taxes in Hungary or the real estate tax in Greece.

## SYSTEMS SOLUTIONS.

### SELECTED KPIs.

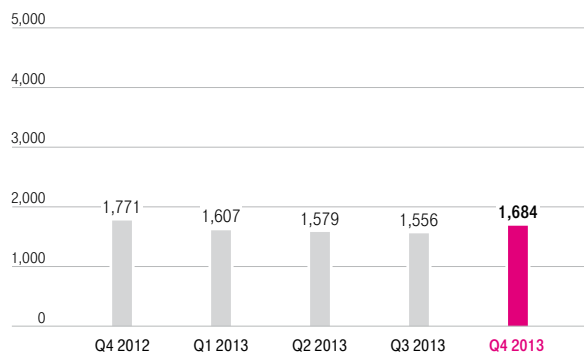
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#### Order entry. millions of €



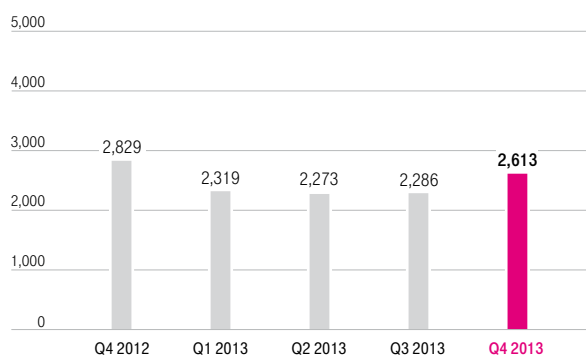
G 39

#### External revenue. millions of €



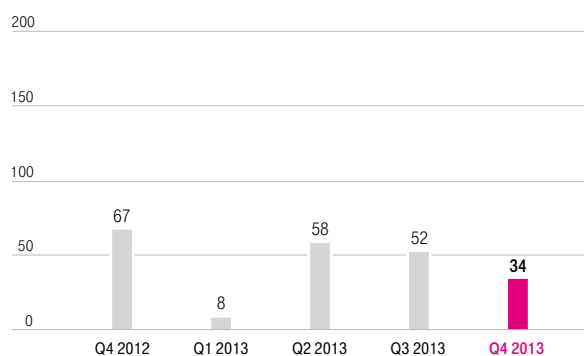
G 38

#### Revenue. millions of €



G 40

#### Adjusted EBIT. millions of €



T 032

		Dec. 31, 2013	Dec. 31, 2012	Change	Change %	Dec. 31, 2011
<b>ORDER ENTRY</b>	millions of €	8,259	8,737	(478)	(5.5) %	7,396
<b>COMPUTING &amp; DESKTOP SERVICES</b>						
Number of servers managed and serviced	units	62,308	57,121	5,187	9.1 %	58,053
Number of workstations managed and serviced	millions	1.31	1.93	(0.62)	(32.1) %	2.00
<b>SYSTEMS INTEGRATION</b>						
Hours billed	millions	6.6	6.3	0.3	4.8 %	n. a.
Utilization rate	%	82.5	85.1		(2.6) %p	n. a.



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## Development of business.

In the 2013 financial year, we concluded many new deals in Germany and abroad, e.g., with RWE, the European Commission, Deutsche Rentenversicherung (German statutory pension insurance), the Finnish company KONE, and the Swiss National Railways. This encouraging development did not compensate for the persistent cost pressure in the ICT market, however: Order entry was down 5.5 percent year-on-year in 2013. Nevertheless, our standard solutions in the growth area of cloud computing succeeded in the face of strong competition, winning us contracts with many of our corporate customers, for example, with the Pioneer Europe electronics corporation. We accordingly further expanded our dynamic resources from the cloud in 2013. For our customers, this means that they receive bandwidth, computing capacity, memory and software as they require it, while sharing infrastructure and paying only according to what they actually use.

The new deals result in increased requirements, which we are meeting by continuously modernizing and consolidating our ICT resources. The number of servers managed and serviced increased by 9.1 percent compared with the end of 2012. We partially compensated for the greater demand for resources with higher-performance servers and improved utilization management. A similar trend was seen in data centers, where consolidation is creating larger, higher-performance units. In Munich, we also launched the new **Dynamic Computing** platform on which all cloud solutions for our customers will be operated in the future. The number of workstations managed and serviced decreased mainly as a result of staff restructuring measures and IT cost-cutting initiatives within the Group.

## DEVELOPMENT OF OPERATIONS.

### Total revenue.

Total revenue in our Systems Solutions operating segment in the reporting period amounted to EUR 9.5 billion, a year-on-year decrease of 5.2 percent. This is due in large part to substantial decreases in Telekom IT's revenue, which reflects the successful reduction of IT costs within our Group.

Revenue recognized at the Market Unit includes revenue generated with external customers as well as intragroup revenues for telecommunications services and international IT services that do not fall within the remit of Telekom IT. At EUR 7.7 billion, total revenue was below the 2012 level. While domestic revenue remained at the prior-year level, international revenue decreased year-on-year. The deconsolidation of T-Systems Italia, the sale of the SI business unit at T-Systems France in the first half of 2013, and exchange rate effects had a negative impact on revenue. On the one hand, the increased number of new deals concluded and our multi-annual contracts from prior periods had a positive effect on total revenue; on the other, the general downward trend in prices for IT and communications services had a negative impact.

In the Telekom IT business unit, which pools all of the Group's internal domestic national IT projects, revenue was well down against the prior year by 17.6 percent, primarily reflecting the Group's savings in IT costs.



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T 033

millions of €

	2013	2012	Change	Change %	2011
<b>TOTAL REVENUE</b>	9,491	10,016	(525)	(5.2) %	9,953
Loss from operations <b>(EBIT)</b>	(279)	(307)	28	9.1 %	(395)
Special factors affecting EBIT	(431)	(417)	(14)	(3.4) %	(418)
EBIT (adjusted for special factors)	152	110	42	38.2 %	23
EBIT margin (adjusted for special factors) %	1.6	1.1			0.2
Depreciation, amortization and impairment losses	(669)	(649)	(20)	(3.1) %	(669)
EBITDA	390	342	48	14.0 %	274
Special factors affecting EBITDA	(416)	(405)	(11)	(2.7) %	(398)
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	806	747	59	7.9 %	672
EBITDA margin (adjusted for special factors) %	8.5	7.5			6.8
<b>CASH CAPEX</b>	(1,080)	(1,187)	107	9.0 %	(1,413)

The operations of Regional Services and Solutions (RSS) have been managed by the Germany operating segment since January 1, 2013 and no longer by the Systems Solutions operating segment to allow a more focused market approach.

**EBITDA, adjusted EBITDA.**

Adjusted EBITDA in our Systems Solutions operating segment increased by 7.9 percent in the reporting year. This positive trend is attributable both to significantly higher profitability in operations and to effective restructuring and efficiency enhancement measures. The adjusted EBITDA margin increased from 7.5 percent in the prior year to 8.5 percent in 2013. EBITDA increased by 14.0 percent as a result of the strong operational improvement, which more than offset the increased expenses for restructuring measures and expenses for the deconsolidation of T-Systems Italia.

**EBIT, adjusted EBIT.**

Adjusted EBIT for 2013 was EUR 42 million higher than in the prior year. This was primarily attributable to improved adjusted EBITDA, partially offset by slightly higher depreciation and amortization. The adjusted EBIT margin increased from 1.1 percent in the prior year to 1.6 percent.

**Cash capex.**

Cash capex was reduced by 9.0 percent year-on-year to EUR 1.1 billion in the 2013 financial year. This decline was achieved despite the capital expenditure needed for new contracts and customer relationships, thanks to increased efficiency, for example, by means of the standardization of the ICT platforms. Telekom IT management aims to reduce its own capital expenditure in the long term. Cash outflows include payments for the expansion of the Dynamic Computing platform and for technical upgrades in connection with new deals.

**GROUP HEADQUARTERS & GROUP SERVICES.**

As a result of the realignment of the central management and service functions, the green light was given for our new Group Headquarters and the newly formed Group Services on January 1, 2013. As part of this process, we renamed the segment Group Headquarters & Group Services.

Since January 1, 2013, the tasks and functions of Group Technology including the Global Network Factory, which was previously part of Group Headquarters & Group Services, have been reported under the Europe operating segment. Comparative figures have been adjusted retrospectively.

Vivento, our personnel service provider, supported us once again in 2013 in our efforts to restructure the Group's workforce. Its focus was on securing external employment opportunities for civil servants and employees, predominantly in the public sector. As of December 31, 2013, Vivento had a workforce of around 8,000 employees (December 31, 2012: around 8,200 employees), of which around 3,900 were deployed externally, mainly in the public sector, for example at the Federal Employment Agency. Another 3,100 or so employees were employed within the Group, especially in service centers. Around 1,000 employees were placed in Vivento's operational and strategic units or continued to be managed by Vivento. In the reporting period, Vivento took on a total of around 1,300 new employees, while around 1,500 employees left the personnel service provider to pursue new opportunities.

**DEVELOPMENT OF OPERATIONS.****Total revenue.**

Total revenue in the Group Headquarters & Group Services segment in the 2013 financial year increased by 1.6 percent year-on-year, primarily due to revenue growth at the Digital Business Unit, mainly from sales of tolino e-readers and tolino tablets. This was contrasted by lower revenue from Group Services.

**EBITDA, adjusted EBITDA.**

Adjusted EBITDA at Group Headquarters & Group Services improved by EUR 0.1 billion year-on-year in the reporting year. This improvement was mainly attributable to operational cost savings in Group Services and income in connection with our procurement joint venture BuyIn. These positive effects were offset by lower income from trademark licenses and higher costs for the Digital Business Unit's growth businesses.

Overall, EBITDA was adversely affected by negative special factors totaling EUR 228 million in the reporting year, primarily due to expenses in connection with staff-related measures, in particular for early retirement and severance payments. In 2012, EBITDA had been impacted by special factors totaling EUR 282 million, with expenses for staff-related measures reducing the positive effect of a cost refund by Kreditanstalt für Wiederaufbau in connection with a settlement reached in the United States.



T 034

millions of €

	2013	2012	Change	Change %	2011
<b>TOTAL REVENUE</b>	2,879	2,835	44	1.6 %	2,822
Of which: Digital Business Unit	970	868	102	11.8 %	843
Profit (loss) from operations <b>(EBIT)</b>	(1,582)	(1,750)	168	9.6 %	1,299
Depreciation, amortization and impairment losses	(699)	(753)	54	7.2 %	(752)
EBITDA	(883)	(997)	114	11.4 %	2,051
Special factors affecting EBITDA	(228)	(282)	54	19.1 %	2,691
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>	(655)	(715)	60	8.4 %	(640)
Of which: Digital Business Unit	121	137	(16)	(11.7) %	168
<b>CASH CAPEX</b>	(411)	(379)	(32)	(8.4) %	(331)

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## EBIT.

The year-on-year decrease in loss from operations by EUR 0.2 billion is mainly a result of higher EBITDA and lower depreciation due in particular to the decrease in property, plant and equipment.

## Cash capex.

Cash capex increased year-on-year by 8.4 percent, principally attributable to higher additions, in particular for IT licenses, and to increased capital expenditure by the Digital Business Unit. Lower vehicle purchases in the reporting period had an offsetting effect.

## DEVELOPMENT OF BUSINESS AT DEUTSCHE TELEKOM AG.

Deutsche Telekom AG, which has various branch offices in the Federal Republic of Germany, prepares its annual financial statements in accordance with the principles of German GAAP, as specified in the German Commercial Code and the German Stock Corporation Act.

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. For Deutsche Telekom AG, the 2013 financial year was again marked by intense competitive and price pressure in the telecommunications industry, which was also reflected in the income and loss of its subsidiaries. Deutsche Telekom AG reported income after taxes for the 2013 financial year of EUR 2.8 billion. The development of business in the reporting year was influenced by a number of very different effects (e.g., the extension of early retirement arrangements until December 31, 2013, the transfer of the Scout24 group within the Group, the write-up of intangible assets), arising both from the Company's own business and from income related to subsidiaries, associated and related companies.

## RESULTS OF OPERATIONS OF DEUTSCHE TELEKOM AG.

Operating results declined by approximately EUR 1.4 billion compared with the previous year, while net revenue was essentially stable year-on-year at EUR 3.8 billion. The decline in operating results is due to a year-on-year decrease of EUR 2.0 billion in other operating income, partially offset by a decrease of EUR 0.3 billion in other operating expenses and EUR 0.3 billion lower personnel costs. Other operating income in the prior year was primarily influenced by the transfer of the shares in T-Mobile Polska S.A. (formerly Polska Telefonía Cyfrowa S.A.), Warsaw, from Telekom Deutschland GmbH to T-Mobile Poland Holding GmbH at fair values of EUR 1.5 billion. The year-on-year decrease in other operating expenses resulted in particular from the decline in expenses from currency hedging in connection with foreign currency transactions. The decline in personnel costs compared with the prior year is mainly attributable to the lower headcount at Deutsche Telekom due to the use of early retirement arrangements.

The net financial expense recorded in the previous year was reduced by EUR 8.8 billion, resulting in net financial income of EUR 5.0 billion. This was largely attributable to the increase of EUR 8.6 billion in income related to subsidiaries, associated and related companies. In the previous year, income related to subsidiaries, associated and related companies had been reduced in particular by the loss transfer of EUR 7.1 billion from T-Mobile Global Zwischenholding GmbH resulting from the write-down recognized on the net carrying amount of T-Mobile USA in the 2012 financial year. The profit of EUR 4.7 billion transferred by Telekom Deutschland GmbH, Bonn, was EUR 0.5 billion higher on account of a write-up of intangible assets and had a particularly positive effect on income related to subsidiaries, associated and related companies in the reporting year. The transfer of profits by Scout24 Holding GmbH, Munich, in the amount of EUR 0.4 billion and by PASM Power and Air Condition Solution Management GmbH, Munich, in the amount of EUR 0.2 billion also had a positive impact on income related to subsidiaries, associated and related companies in the 2013 financial year. These profit transfers were largely a result, in the case of Scout24

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

millions of €

	2013	2012	Change	Change %	2011
<b>NET REVENUE</b>	<b>3,765</b>	<b>3,817</b>	<b>(52)</b>	<b>(1.4)%</b>	<b>3,824</b>
Other own capitalized costs	12	2	10	n. a.	-
<b>TOTAL OPERATING PERFORMANCE</b>	<b>3,777</b>	<b>3,819</b>	<b>(42)</b>	<b>(1.1)%</b>	<b>3,824</b>
Other operating income	3,254	5,296	(2,042)	(38.6)%	7,542
Goods and services purchased	(1,405)	(1,456)	51	3.5 %	(1,404)
Personnel costs	(3,062)	(3,327)	265	8.0 %	(3,398)
Depreciation, amortization and write-downs	(459)	(496)	37	7.5 %	(491)
Other operating expenses	(4,184)	(4,489)	305	6.8 %	(5,221)
<b>OPERATING RESULTS</b>	<b>(2,079)</b>	<b>(653)</b>	<b>(1,426)</b>	<b>n. a.</b>	<b>852</b>
Financial income (expense), net	5,046	(3,710)	8,756	n. a.	1,214
<b>RESULTS FROM ORDINARY BUSINESS ACTIVITIES</b>	<b>2,967</b>	<b>(4,363)</b>	<b>7,330</b>	<b>n. a.</b>	<b>2,066</b>
Extraordinary income (expense)	(17)	(17)	0	n. a.	(19)
Taxes	(113)	(165)	52	31.5 %	(399)
<b>INCOME (LOSS) AFTER TAXES</b>	<b>2,837</b>	<b>(4,545)</b>	<b>7,382</b>	<b>n. a.</b>	<b>1,648</b>

Holding GmbH, Munich, of a transfer within the Group, and, in the case of PASM Power and Air Condition Solution Management GmbH, Munich, of the refund of electricity tax contributions paid in accordance with § 9 and § 10 of the German Electricity Tax Act.

Net interest expense remained virtually stable compared with the previous year, marginally up by EUR 0.1 billion. Results from ordinary business activities were particularly impacted by the aforementioned effects and increased by a total of EUR 7.3 billion year-on-year in 2013.

Extraordinary expenses of EUR 17 million and a tax expense of EUR 113 million combined with the aforementioned factors resulted in income after taxes of EUR 2,837 million in 2013. Taking into account EUR 40 million in unappropriated net income carried forward, unappropriated net income totaled EUR 2,877 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 7.9 billion year-on-year to EUR 104.7 billion.

T 036

#### Balance sheet of Deutsche Telekom AG under German GAAP. millions of €

	Dec. 31, 2013	Dec. 31, 2013 %	Dec. 31, 2012	Change	Dec. 31, 2011
<b>ASSETS</b>					
Intangible assets	285	0.3 %	197	88	326
Property, plant and equipment	3,921	3.7 %	4,266	(345)	4,698
Financial assets	86,215	82.3 %	81,632	4,583	81,146
<b>NONCURRENT ASSETS</b>	<b>90,421</b>	<b>86.3 %</b>	<b>86,095</b>	<b>4,326</b>	<b>86,170</b>
Inventories, materials and supplies	3	0.0 %	2	1	5
Receivables	10,888	10.4 %	8,302	2,586	8,439
Other assets	1,654	1.6 %	942	712	1,636
Cash and cash equivalents	1,122	1.1 %	997	125	1,507
<b>CURRENT ASSETS</b>	<b>13,667</b>	<b>13.1 %</b>	<b>10,243</b>	<b>3,424</b>	<b>11,587</b>
Prepaid expenses and deferred charges	603	0.6 %	470	133	644
Difference between plan assets and partial retirement liabilities	7	0.0 %	9	(2)	29
<b>TOTAL ASSETS</b>	<b>104,698</b>	<b>100.0 %</b>	<b>96,817</b>	<b>7,881</b>	<b>98,430</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>					
Capital stock and reserves	48,491	46.4 %	47,357	1,134	53,307
Unappropriated net income	2,877	2.7 %	3,050	(173)	4,656
<b>SHAREHOLDERS' EQUITY</b>	<b>51,368</b>	<b>49.1 %</b>	<b>50,407</b>	<b>961</b>	<b>57,963</b>
Pensions and similar obligations	1,879	1.8 %	1,986	(107)	2,461
Tax accruals	257	0.2 %	352	(95)	515
Other accruals	2,894	2.8 %	3,127	(233)	3,578
<b>ACCRUALS</b>	<b>5,030</b>	<b>4.8 %</b>	<b>5,465</b>	<b>(435)</b>	<b>6,554</b>
Debt	5,307	5.1 %	5,540	(233)	7,153
Other liabilities	42,764	40.8 %	35,157	7,607	26,485
<b>LIABILITIES</b>	<b>48,071</b>	<b>45.9 %</b>	<b>40,697</b>	<b>7,374</b>	<b>33,638</b>
Deferred income	229	0.2 %	248	(19)	275
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>104,698</b>	<b>100.0 %</b>	<b>96,817</b>	<b>7,881</b>	<b>98,430</b>

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The increase in total assets was mainly attributable to the increase of EUR 4.6 billion in financial assets, the increase of EUR 2.6 billion in receivables from subsidiaries, and the increase of EUR 0.7 billion in other assets. The year-on-year growth in financial assets is due to a net increase of EUR 4.3 billion in loans extended to T-Mobile USA, which were taken over as part of the refinancing of T-Mobile USA in connection with the contribution of T-Mobile USA to Metro PCS. The EUR 2.6 billion increase in receivables from subsidiaries mainly results from higher profit transfers by the subsidiaries and from additional higher receivables from cash management. Other assets increased by EUR 0.7 billion year-on-year through higher cash collateral used to hedge credit risks related to derivative financial instruments.

The increase in total liabilities was mainly attributable to the increase of EUR 7.6 billion in other liabilities and of EUR 1.0 billion in shareholders' equity, primarily on the back of income after taxes for the financial year of EUR 2.8 billion and the deposits of EUR 1.1 billion by shareholders who chose in the 2013 financial year to exchange their dividend entitlements for shares as part of the fulfillment of dividend entitlements. The EUR 3.0 billion dividend payment for the previous year had an offsetting effect. Other liabilities rose mainly on account of net borrowings of EUR 10.3 billion. These relate in particular to borrowings of EUR 11.1 billion at Deutsche Telekom International Finance B.V., Amsterdam, in connection with the refinancing of T-Mobile USA. The reduction of liabilities from cash management in the amount of EUR 1.7 billion and from collateral of EUR 0.7 billion had an offsetting effect.

## T 037

**Statement of cash flows.**

millions of €

	2013	2012	Change
<b>INCOME (LOSS) AFTER TAXES</b>	<b>2,837</b>	<b>(4,545)</b>	<b>7,382</b>
Net cash (used for) provided by operating activities	(980)	1,918	(2,898)
Net cash provided by investing activities	2,848	66	2,782
Net cash used for financing activities	(1,743)	(2,494)	751
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>125</b>	<b>(510)</b>	<b>635</b>
Cash and cash equivalents, at the beginning of the year	997	1,507	(510)
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>	<b>1,122</b>	<b>997</b>	<b>125</b>

Net cash used for/provided by operating activities declined year-on-year by EUR 2.9 billion, resulting in net cash used for operating activities of EUR 1.0 billion. Despite income after taxes of EUR 2.8 billion, net cash used for/provided by operating activities declined in particular as a result of the increase of EUR 2.1 billion in receivables from cash management, which was largely on account of higher profit transfers by subsidiaries as well as short-term loans in connection with cash management at the Group. The decline in net cash used for/provided by operating activities is also due to the decrease of EUR 1.7 billion in liabilities from cash management, primarily as a result of the reduction in liabilities in connection with the refinancing of T-Mobile USA. Net cash provided by operating activities in the previous year, in spite of a loss before taxes of EUR 4.5 billion and a cash outflow for the allocation of EUR 0.8 billion to CTA assets, was predominantly due to the increase of EUR 7.0 billion in liabilities from cash management.



For more information relating to our CR strategy, our CR targets, and the most important CR issues, please refer to our online CR report at: [www.cr-report.telekom.com](http://www.cr-report.telekom.com)

Net cash provided by investing activities in the financial year was influenced by the sale of some of the bonds issued by T-Mobile USA in connection with refinancing activities, which were transferred in the reporting year to Deutsche Telekom AG in the amount of EUR 4.3 billion with a non-cash effect. This was offset in particular by cash outflows of EUR 0.7 billion for cash collateral furnished to hedge derivatives, current investments of EUR 0.3 billion at subsidiaries, and cash outflows of EUR 0.3 billion for the acquisition of shares in Sireo Immobilienfonds No.1 GmbH & Co. KG, Frankfurt/Main.

The EUR 0.8 billion decrease in net cash used for financing activities is primarily due to a EUR 1.1 billion lower cash outflow for dividends in 2013, resulting from the deposits by a portion of shareholders in connection with the fulfillment of the dividend entitlement in the form of new shares. Furthermore, the issuance of financial liabilities decreased year-on-year by EUR 0.4 billion. Net cash used for financing activities in the reporting year mainly relates to the net repayment of current liabilities of EUR 3.1 billion as well as the payment of the cash dividend of EUR 1.9 billion for the 2012 financial year. Medium- and long-term borrowings totaling EUR 3.2 billion from Deutsche Telekom International Finance B.V., Amsterdam, had an offsetting effect. The takeover of loans from Deutsche Telekom International Finance B.V., Amsterdam, in connection with the refinancing of T-Mobile USA had a non-cash effect in the reporting year, however.

In total, this resulted in an increase in cash and cash equivalents of approximately EUR 0.1 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.

## CORPORATE RESPONSIBILITY.

- Sustainable value creation
- Measurable progress
- Contribution to society

### RESPONSIBILITY – BUSINESS MODEL OF THE FUTURE.

We are one of the world's leading providers of telecommunications and information technology. We assume corporate responsibility (CR) in the social and ecological areas, and our aim is to play a leading role in our industry in this field. In our Group-wide CR strategy, which we have derived from our Group strategy, we are committed to the principles of sustainable corporate governance.

Our business operations have high social, ecological and economic relevance. ICT products, services and in particular our networks play a vital role in creating the conditions required for a competitive and sustainable society: our networks are the highways and railroads of the 21st century. We are a trusted companion in an increasingly complex digital world – at home and at work, anyplace, anytime. We want to simplify and enrich people's lives in the long term. This is our mission.

We create the conditions needed in such areas as climate protection, healthcare services and the transportation business to make it easier for people to cope with the challenges that lie ahead and, in doing so, make our contribution to social value added. We make our customers' lives easier, for instance by migrating the complex operation of hardware and software to our computing centers. The processes required to do this run with maximum energy and resources efficiency in the cloud. This is made possible by high-performance servers working at optimum capacity in computing centers with optimized energy efficiency. With our ICT solutions, transports and numerous industrial processes consume far fewer resources and cause less harm to the climate.

We assume social responsibility not only by putting our customers in a position to act more sustainably but, as ICT experts, also assume responsibility in generating value added for society in procurement, in the management of our Group and in our social commitments. This calls for central policies and guidelines, Group-wide targets and the appropriate organization in our Group. Our object is to maintain a balance between a universal approach which is as effective as possible for the entire Group on the one hand and sufficient implementation scope for individual national companies on the other. The framework for achieving this is our CR strategy.

In 2013, we reached three key milestones. Our revised Social Charter now places even greater emphasis on the observance of human rights. Besides this, our Board of Management approved an international climate protection target, which renders the progress we make in climate protection measurable, and a Group-wide CR policy, which underlines the high significance of our social responsibility.



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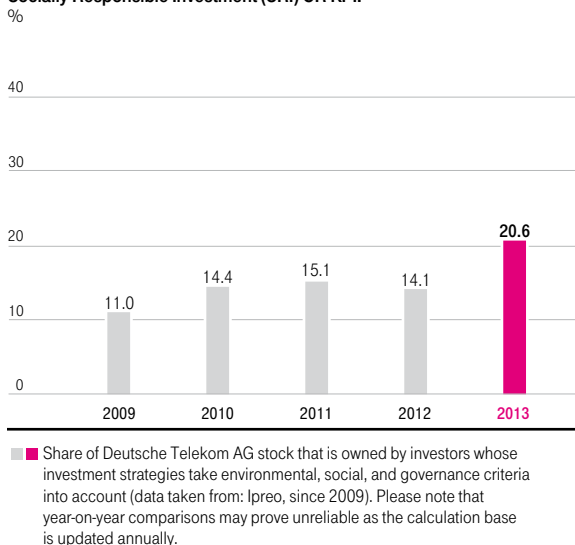
## MEASURABLE PROGRESS IN SUSTAINABLE DEVELOPMENT.

To make our CR performance both transparent and comparable, we quantify our CR activities and, since 2011, have published our CR key performance indicators in our annual report. These CR KPIs are one element of our integrated financial and CR reporting. We have followed with great interest the discussion on the SD KPIs (Sustainable Development key performance indicators) which were developed in collaboration with the German Federal Ministry for the Environment, external auditors, and analysts. However, since our own CR KPIs enable us to present our CR performance in greater detail, we have retained them and subject them to continual further development. In the reporting year, we forecast results for three of our KPIs – Sustainable Procurement, Energy Consumption and CO<sub>2</sub> Emissions.

Another important aspect in measuring the success of our CR activities is the percentage of T-Shares held by investors whose investment strategy is based on factors including ecological, social and governance criteria. As shown in GRAPHIC 41, we measure our performance in this area with the Socially Responsible Investment CR KPI.

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### Socially Responsible Investment (SRI) CR KPI.



In 2013, 19 percent of our shares were held by investors who take SRI criteria at least partially into account in their investment decisions (broad SRI). 2 percent of T-Shares were held by investors who give priority to SRI aspects when managing their funds (core SRI).

Our commitment to sustainable development has received widespread acknowledgment. Various rating agencies give us high marks for sustainability. In addition to this, our shares are listed on many sustainability indexes, including the FTSE4Good Index. The following TABLE 038 provides an overview of how successful we are in the leading ratings and indexes.

T 038

### Listing of the T-Share in sustainability indexes/ratings.

Rating agency	Indexes/ratings/ranking	Successfully listed in index				
		2013	2012	2011	2010	2009
SAM	DJSI World	✓	✓	✓	✓	✓
	DJSI Europe	✓	✓	✓	✓	✓
Oekom	"Prime" <sup>a</sup>	✓	✓	✓	✓	✓
Sustainalytics	ISTOXX 50 SD KPI /disproportionate emphasis on DT (new since 2013)	✓	n. a.	n. a.	n. a.	n. a.
	STOXX Global ESG Leaders	✓	✓	✓	n. a.	n. a.
	UN Global Compact 100 (new since 2013)	✓	n. a.	n. a.	n. a.	n. a.
imug/EIRIS	FTSE4Good <sup>a</sup>	✓	✓	✓	✓	✓
VIGEO	ASPI (index terminated in June 2013)	✓	✓	✓	✓	✓
	ESI	✗	✗	✓	✓	✓
CDP	Carbon Disclosure Leadership <sup>b</sup>	✓	✗	✗	✗	✗
	Carbon Performance Leadership	✗	✗	✗	✓	n. a.
Newsweek Green Rankings	Included in Global Top 500 <sup>c</sup>	✓	✓	✓	✓	n. a.
Sarasin	DAX Global Sarasin Sustainability <sup>a</sup>	✓	✓	✓	✓	✓
MSCI	MSCI Global Climate	✗	✗	✓	✓	✓

✓ Successfully listed    ✗ Not listed

<sup>a</sup> Last DT rating carried out in 2012; new rating planned for 2014.

<sup>b</sup> First inclusion in the Carbon Disclosure Leadership Index of the DACH region (Germany, Austria, Switzerland).

<sup>c</sup> Last ranking carried out in 2012 (Global #41), next ranking planned for 2014.

The T-Share was listed on the STOXX Global ESG Leaders Index for the third year in succession. It was successfully added to the new UN Global Compact 100 index in 2013. This index lists business enterprises that head world ratings in human rights, labor conditions, environmental protection and compliance. During the reporting year we again improved our result in the SAM rating, which assesses sustainability management performance, compared with the previous year. This improvement was, however, not sufficient for re-admittance to the Dow Jones Sustainability Indexes (DJSI), since requirements for entitlement have again been raised. In order to raise our SAM rating even further in 2014, we therefore plan to concentrate above all on the topics that offer the greatest improvement potential. In 2013, we gained a place on the Climate Disclosure Leadership Index for the DACH region (Germany, Austria, Switzerland). This was the result of well above-average transparency in our climate-relevant activities. We were awarded 90 out of a possible total of 100 points for the data we submitted to the Climate Disclosure Project. This positions us among the best ten percent of companies in these regions.

DEUTSCHE TELEKOM IN SOCIETY.

The ecological and social value added generated by our business operations is confirmed throughout our value chain. As GRAPHIC 42 shows, this basically means that we play a role in the sustainable development of society – in procurement, within our Group itself, and with our networks, products and services.

G 42

Value chain.



The following examples illustrate how we utilize the potential of ICT and our experience in the field of corporate responsibility to generate sustainable value added in the field of corporate responsibility.

SUSTAINABLE PROCUREMENT.

There is often good reason to criticize the sustainable approach of suppliers in the global supply chain for ICT products, first and foremost in emerging and developing countries. We have put clear and comprehensive social and environmental standards in place, and our suppliers are expressly included in this responsibility. In addition, we make efforts to extend our influence to cover second and third-tier suppliers. We specify binding rules for our supply firms and carry out intensive checks on a regular basis to ensure that social and environmental standards are observed. We help our business partners set up sustainable business processes at local level by creating incentives, providing advice and, where necessary, reacting to breaches with the appropriate consequences. For example, we show in practice how

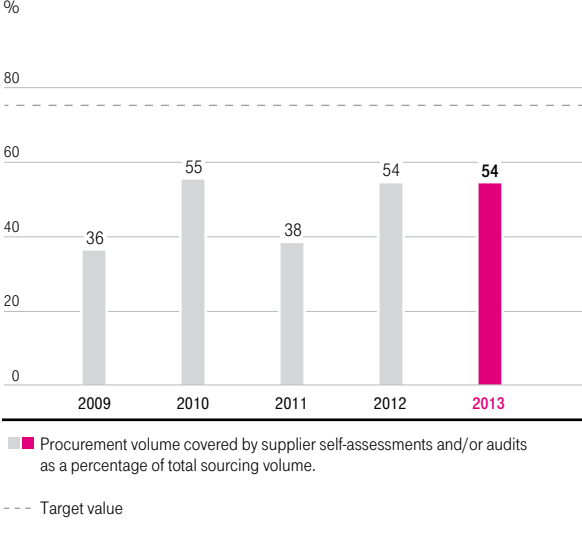
ambitious standards lead to higher productivity and economic success – and in doing so create value added for the economies and societies of the producing countries. We play an active role in various industry initiatives, including the new CFSI (Conflict Free Smelter Initiative) that deals with conflict minerals.

The social and environmental standards governing our supply chain are embedded in our Code of Conduct and our Social Charter. They are also a component of our sustainable procurement policies. Our General Terms and Conditions for Purchasing lay down these obligations and refer buyers to documents such as our Social Charter. We measure the degree to which our procurement volume is covered by sustainable activities with the Sustainable Procurement CR KPI. It measures the share of procurement volume we obtain from suppliers where one or several companies of the corporate group have been assessed for compliance with our social and environmental standards by way of self-assessments and/or audits. This also includes audits carried out with upstream suppliers (see GRAPHIC 43). Our objective is to raise the share of audited procurement volume to 75 percent by the end of 2015.

Standing at 54 percent, the Sustainable Procurement CR KPI reflects a stable development compared with the previous year. This is a major success in view of last year's challenges, with a change in operator for the E-TASC platform and volatile procurement volumes, and is a result of the ongoing integration of CR requirements in procurement processes and systems. The rating for the Sustainable Procurement CR KPI is likely to rise slightly in the coming year on the way to achieving this target. This is due to the fact that the number of suppliers which are audited for compliance with our social and environmental standards, and the proportion of the procurement volume attributable to them, is growing continually.

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Sustainable Procurement CR KPI.



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Alongside the comprehensive set of tools used for supply chain management, we rely on a partnership approach as well as on the appropriate controls in concrete collaboration with our business partners in the producing countries. We have identified various success factors for this work, including for example regular involvement of the supplier's staff. We are convinced that this dialog is essential in order to establish the necessary transparency and further develop the aspect of sustainability. Even though we have already achieved much on the way to sustainable procurement, there is still a lot to be done. The agenda for 2013 included rolling out a supplier development program. The aim of the program is to help strategic and critical suppliers install business practices that comply with social and ecological principles, and are economically efficient. We have not been able to launch the pilot project planned for this, because we have not yet found a suitable partner who could implement our requirements. This project – along with various other aspects – will be implemented in 2014 with the aim of further improving our procurement sustainability score.

### CORPORATE RESPONSIBILITY IN THE GROUP.

In December 2013, our Board of Management approved a CR policy for the entire Group, which still awaits approval by the relevant co-determination bodies. The Group Policy on Corporate Responsibility underlines the importance of CR for our Company. It defines concrete rights and obligations for the Company units and functions and refers to the following areas: governance structures, sustainable business practices, responsible supply chain, resources and energy efficiency, climate protection, social commitment, and sustainable products and services for our customers. The policy also describes the Group's CR organization, naming the Group Board of Management as the bearer of overall responsibility for CR. We are set to implement this policy in our national companies, starting in 2014.

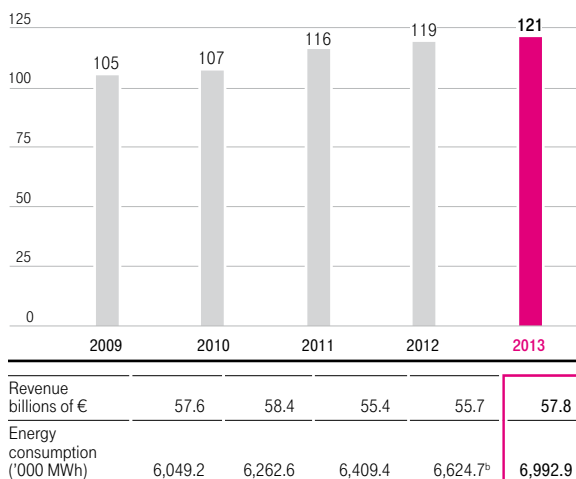
On December 3, 2013, the Board of Management approved a strategic climate protection target for the entire Group. By the year 2020, we plan to reduce total CO<sub>2</sub> emissions in the Group (excluding T-Mobile US) by 20 percent compared with 2008. Supported by Group Headquarters, 36 business units from around 27 countries collaborated to define the Group-wide climate protection target. The decision was based on systematic measurements of emissions from the combustion of fossil fuels (Scope 1) and emissions from the use of secondary energy in the form of electricity or district heating (Scope 2), as well as potential analyses from each company. It soon emerged that the social challenge – namely to prevent the demand for energy growing at the same rate as the increase in data volumes – is equally relevant for our climate strategy. Potential for a further reduction in CO<sub>2</sub> emissions consists in increasing the use of electricity from renewable energy sources.

Through climate protection measures in network expansion, facility management and our vehicle fleet we make an important contribution to sustainable development in our Group. Our aim is to reduce our energy consumption and thus emissions. With this in mind, we have implemented steering-relevant CR KPIs (GRAPHIC 44 Energy Consumption CR KPI and GRAPHIC 45 CO<sub>2</sub> Emissions CR KPI).

G 44

#### Energy Consumption CR KPI.<sup>a</sup>

Expressed as MPEI: electricity consumption ('000 MWh)/revenue (billions of €)



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

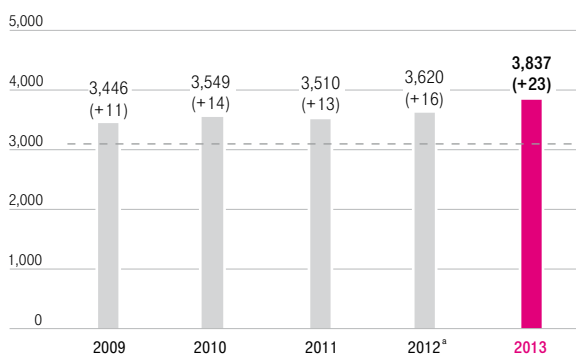
<sup>a</sup> Calculated on the basis of appropriate estimates and extrapolations.

<sup>b</sup> A minor correction was made subsequently (– 0.2%) as a result of minor adjustments to electricity consumption in 2012 at individual national companies.

G 45

#### CO<sub>2</sub> Emissions CR KPI.

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



■ 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 in accordance with the Greenhouse Gas Protocol and employing the emission factors specified by the International Energy Agency and the Greenhouse Gas Protocol.

--- Base year 2008: 3,117,000 t CO<sub>2</sub>

<sup>a</sup> Minor corrections were made subsequently to total emissions (– 0.7%) and the CO<sub>2</sub> Emissions CR KPI (– 1 percentage point) for 2012 due to minor adjustments to energy and fuel consumption at individual national companies and to a retroactive correction of emission factors by IEA that was relevant for individual national companies.

The Energy Consumption CR KPI remained stable year-on-year. Our electricity consumption climbed marginally higher than the relevant revenue of the Group units covered by the CR report, which accounted for 96 percent of the Group's overall revenue. For the coming year 2014, we anticipate that the reduction in power consumed above all by Deutsche Telekom in Germany will be outweighed by the expansion of T-Mobile US and the associated rise in power consumption. In 2015, we expect that above all the changeover to the IP network and the consolidation of several T-Systems data centers will result in a major reduction in energy consumption. This will compensate for the power needs of T-Mobile US, which are likely to continue to rise. The revenue trends anticipated for the relevant Group units lead us to expect a stable Energy Consumption CR KPI for 2014 and an improvement for 2015.

Calculation of the CO<sub>2</sub> Emissions CR KPI is based on Scope 1 and 2 emissions of the Greenhouse Gas Protocol (GHG Protocol). Since our CO<sub>2</sub> emissions are largely driven by electricity consumption, the year-on-year development is the result of the effects described above under the Energy Consumption CR KPI. We expect the CR KPI to stabilize over the coming year, while in 2015 migration to the IP network and increased efficiency at T-Systems data centers will lead to a significant drop in emissions from electricity consumption. This will have a stronger impact than the increasing emissions resulting from the development of business at T-Mobile US.

Calculation of the CO<sub>2</sub> Emissions CR KPI does not yet include indirect emissions in accordance with GHG Protocol Scope 3. Scope 3 emissions are generated for instance by our employees on their way to work or by our customers when they use our products. We are already reducing these Scope 3 emissions, e.g., by issuing our staff with discount season tickets for the use of public transportation. The extent of these emissions is reflected in the fact that, on their way to work alone, our employees in Germany generate a volume of CO<sub>2</sub> emissions representing around 12 percent of our entire Scope 1 and 2 emissions. In 2013, we made progress with the measurement of these Scope 3 emissions. We can now calculate 10 out of 15 categories in GHG Protocol Scope 3 which we have rated relevant for our Company. Our object is to report all our main Scope 3 emissions; we plan to achieve this in Germany in 2014 and for the Group overall in 2016.

In the reporting year, we standardized our waste management system by creating an "international framework for waste management." We want to reduce waste – in particular hazardous waste such as impregnated wooden masts – and to improve our recycling of raw materials. Our national companies will develop their own waste strategies or improve already existing strategies and define appropriate targets on this basis.

In 2013, the 10th year of its existence, we revised our Social Charter in order to take account of the United Nations Guiding Principles on Business and Human Rights. We added provisions regarding sustainability and environmental protection. However, the main aspects of our Social Charter as a guideline for all our employees, investors, customers and suppliers remain unchanged. The document specifies the working conditions and social standards under which we manufacture and offer our products and services. As laid down in the revised Social Charter, we have set up a point of contact for human rights issues – for employees, investors, customers, suppliers and other stakeholders or people affected. This whistleblower portal can now be used explicitly to notify the Company of potential infringements of human rights and other breaches of our policies, laws, and principles of conduct; each case will be handled in the strictest confidence.

Furthermore, in the reporting year we began to establish a process that will review the impact of our Company's activities on human rights. The first step had already involved carrying out a survey on human rights aspects relevant to our employees in several of our national companies, e.g., concerning the areas of health, equal opportunities, complaints channels and work-life balance. We used the results of this survey in one case for concrete follow-up measures. One specific project which ran over a prolonged period had led to staff amassing huge amounts of overtime and therefore put them under immense stress. We therefore adjusted resources management in the project so that employees had less extra work and could improve the balance between their work and their private lives. In the coming year, we will continue to review human rights aspects in our national companies, and will extend this to include further risk analyses for our products and services.

#### **CUSTOMERS – NETWORKS – PRODUCTS.**

As a provider of ICT products and operator of the network infrastructure, we reduce CO<sub>2</sub> emissions in other industries with our smart solutions by a figure that is many times greater than our own emissions. Deployed in the right way, ICT can lower global CO<sub>2</sub> emissions by more than 16 percent by the year 2020. ICT will enable industry, trade, agriculture and transportation to achieve the transformation to a climate-friendly economy. And it can pave the way for consumers by offering energy-efficient products that require fewer resources during production, are recyclable and reasonably priced. The basis for this is provided by our energy-efficient, high-speed networks and data centers. The services that we handle there already have a relatively low CO<sub>2</sub> footprint. To reduce it once again, we plan to close underutilized facilities and bundle our services in high-performance data centers. This means maximum efficiency and flexibility with minimum CO<sub>2</sub> emissions for customers who use these services. Our ICT solutions not only help protect the climate but also ensure that private and business data is archived securely, and enable such innovations as connected healthcare services.



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In March 2013, we were the first, and so far the only, company to offer DECT telephones with the prestigious Blue Angel eco-label. All ten models in the new Sinus range enable our customers to make a contribution to environmental and climate protection with their purchase decision. The certified devices have highly energy-efficient switched-mode power supplies which consume at least 60 percent less energy than DECT telephones with conventional power supplies. For the first time, customers can set the reach and thus the intensity of the electromagnetic fields themselves. In addition, the telephones have replaceable batteries and the plastic parts do not contain any critical substances. We were awarded the Blue Angel prize for our dedicated promotion of this eco-label.

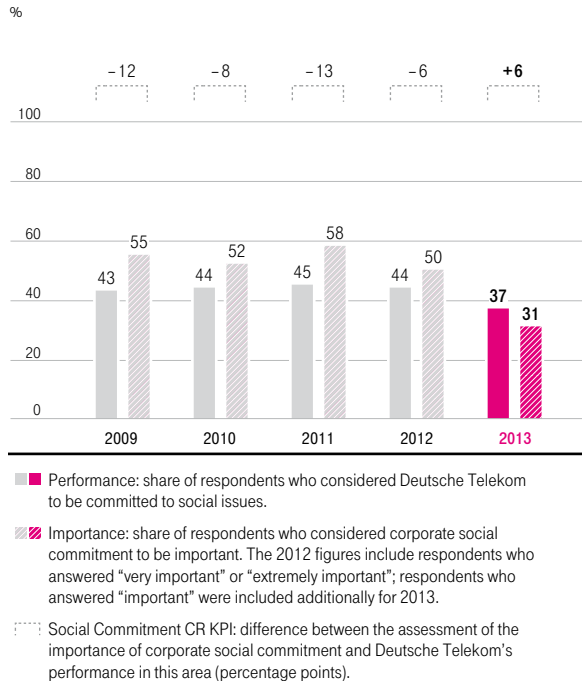
The number of electrical appliances in households continues to increase. At the same time, the possibilities for networking these devices and therefore increasing energy efficiency, security and convenience are also growing. In 2013, we therefore initiated QIVICON, an alliance of leading industrial companies in Germany. Together with partners EnBW, eQ-3, Miele and Samsung, we developed a platform that makes it possible to check and control a large number of devices from many different vendors. By taking this step we gain access to a growth area of great significance for society, and with our Smart Home product, we now offer our own solution for consumers and business customers based on QIVICON. This user-friendly application can be used to control heating, lighting and electrical appliances and to program security scenarios.

### CORPORATE RESPONSIBILITY FOR SOCIETY.

Our social responsibility covers more than simply our whole value chain. As a leading ICT provider we also want to have a positive impact on the development of our society. Our know-how and the dedication of our staff enable us to help support and promote education, media skills and the exchange of knowledge within society. We are heavily committed to these areas and are therefore in a position to establish better conditions for sustainable development at all our locations and beyond. As shown in GRAPHIC 46, we measure our performance in society with the **Social Commitment CR KPI**. The CR KPI shows that in 2013 our performance was rated significantly higher than the level of importance attached by the public to the subject. We plan to review this CR KPI in 2014 with a view to potentially implementing a new indicator.

G 46

#### Social Commitment CR KPI.



Source: TNS Infratest. Until 2012: excluding telephone surveys carried out among the residential population of Germany (CR Mafo). From 2013: similar question set incorporated into the Group CRQI survey (Corporate Reputation Quality Indicator). Adjustments to survey focus and analysis have resulted in significant changes compared with the prior year.

The dialog with our stakeholders supplies us with vital information about future issues, new business areas and challenges which we will have to face in our business environment. We use various formats to promote the exchange with them, and offer individual portals and events for specific stakeholder groups. We attach great importance to our dialog with experts. In June 2013, for example, we held a workshop with the Collaborating Center on Sustainable Consumption and Production at the Wuppertal Institute for Climate, Environment and Energy. Participants, some 30 experts from various disciplines, discussed the potential for sustainability as an innovation driver. They exchanged ideas on appropriate business models and potential partnerships, and were unanimous in their opinion that sustainability offers vast opportunities for our Group and the ICT industry as a whole.

Social commitment gains authenticity when the right approach is taken. If we as ICT providers use our know-how to help children develop their talents with confidence today and to use modern media in doing so, they may be our future specialists. Young people with innovative business ideas play a vital part in overcoming social challenges. Future success is one of our top priorities. The Deutsche Telekom Stiftung, which celebrated its 10th anniversary in 2013, is endowed with a capital of EUR 150 million and is committed to improving education in the STEM subjects (science, technology, engineering and math) throughout the country, from pre-school level right through to cutting-edge university research.



Besides this, we have participated for many years in the “Yes, I can!” initiative, in which we help children and young people from difficult social backgrounds to develop their skills. The initiative’s projects focus in particular on 9 to 14-year-olds, encouraging them to discover and expand their individual abilities, gain key skills such as team spirit and self-organization, and to develop personal as well as career opportunities. Germany’s UNESCO Commission commended the “Yes, I can!” initiative for its sustainable approach as an “official measure” of the UN Decade of Education for Sustainable Development in 2013. For this reason, the initiative can be seen as a key instrument for embedding sustainability in Germany’s education sector for the long term.

As infrastructure operators, we see another aspect of our role in society in providing active help when disasters occur. During the catastrophic Elbe and Danube floods in June 2013, for example, we provided temporary mobile technology to link helpers and victims, and therefore ensured that helpers could coordinate their actions via the mobile and fixed networks. We also set up temporary sales outlets to provide people affected by the floods with replacement cell phones. Employees from Germany, the Czech Republic, Austria, and Hungary volunteered to help fill the sandbags. In Germany alone, we donated over EUR 340,000 in aid together with customers and employees.

#### GROUP-WIDE SOCIAL COMMITMENT.

Employees in our national companies show their commitment to society in many different ways. This commitment frequently focuses on people who are not yet able to help themselves, children and young people in need.

- In Greece, OTE and Cosmote donated a total of EUR 550,000 to 22 non-governmental organizations in 2013. The majority of this was used for voluntary care of children with disabilities or cancer diseases.
- In the F.Y.R.O. Macedonia, only 22 percent of 3- to 5-year-olds attend a day-care center or other facility which promotes children’s early development. In response, UNICEF and the T-Mobile Foundation for the F.Y.R.O. Macedonia launched a joint campaign with the aim of enabling all children in the country to start out life on an equal footing. The T-Mobile Foundation supported the campaign with USD 50 thousand.
- Our Polish company T-Mobile Polska organized several sponsored runs with over 200,000 participants, as well as cycling and wheelchair races, and inline skating competitions throughout the country in 2013. Participants donated a fixed sum for each kilometer they covered – and T-Mobile Polska raised this with an additional donation. The total amounted to the equivalent of EUR 230,000, which was used to help disabled children.
- T-Mobile Czech Republic supports start-ups, in particular from disadvantaged groups, with funding and a comprehensive consulting service. 98 percent of the projects funded since 2011 are still successful, and our company in the Czech Republic acquired 130 loyal business customers during the same period.

## INNOVATION AND PRODUCT DEVELOPMENT.

- Creating new perspectives
- Winning with partners

#### PIONEERING THE DIGITAL AGE.

We are one of the world’s leading providers of telecommunications and information technology. To reinforce this position, we must strengthen our innovation capacity. This ultimately also benefits our customers, since innovative technology enables us to deliver the best networks – above all for mobile communications – and to offer our customers innovative products and services.

Our aim is to pioneer the digital age. The basis that we will use to do so remains unchanged, namely our high-speed broadband infrastructure for the fixed and mobile networks. The volume of data that is transported and stored is growing astronomically. In the coming years, we will therefore have to – and will – go on investing heavily in infrastructure.

Activities in **Germany** will center around building out the LTE network in mobile communications and on fiber-optics and vectoring technology in the fixed network. In addition to this, we will develop ‘hybrid’ products in which we combine the benefits of fixed and mobile communications, namely capacity and speed. Here, LTE and vectoring will interact to increase bandwidth. IP transformation is the prerequisite for successful implementation of our integrated network strategy and thus represents the basis for all our future products and services. Building also continues on the nationwide LTE network in the **United States**. T-Mobile US has initially rolled out the 4G/LTE network in seven major U.S. metropolitan areas covering now 209 million people. In **Europe**, expansion of the LTE network is also making good progress. In 2013, we rolled out LTE technology in Romania, the Czech Republic, Slovakia, the Netherlands, Montenegro and the F.Y.R.O. Macedonia.

#### INNOVATION CULTURE AND INNOVATION PROCESS.

Innovation cannot be prescribed. Innovation is a culture that has to be nurtured and brought to life from the inside. Large enterprises like our corporate 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.

Clear process structures give ideas the scope they need to grow and transform into innovative products and services. As **GRAPHIC 47** shows, **innovation processes** in our Company pass through four phases.

- First, there is an idea – which may be the result of market research or customer feedback or may have come from internal sources such as our Technology Radar or Ideas Management. In addition to this, we have established a global scouting network, with trend scouts in Germany, the United States, Israel, and Asia.

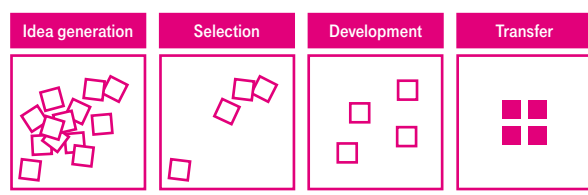


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- During the selection phase, we evaluate each idea: How easy is it to implement? How great is its potential?
- In the development phase, we integrate customer desires and design requirements into the product or service concept.
- Finally, the product or service is transferred to the market.

G 47

#### Deutsche Telekom's innovations process.



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 lead to development of a product being abandoned in the course of one phase of the innovation process – a vital option since not every good idea has the potential for a good product or a good service. Every innovation must offer our customers added value. If customers do not accept an innovation or the timing for the innovation is not right, even the best ideas are worthless.

We have set up an innovation governance concept to manage innovation processes in the Group and to further promote our innovation culture. It includes the Portfolio & Innovation Board, which makes sure

we get our priorities right. The board identifies and selects innovation focuses for the Group and resolves the individual strategies for their implementation. This means, for example, defining a portfolio which offers the greatest opportunities and making sure these are actually exploited. We are introducing our Group-wide innovation priorities – our “corporate priorities” – step by step in all our national companies. Our four corporate priorities currently include cloud services for small and medium-sized enterprises, the communication service Joyn, data communications between different devices and machines (machine-to-machine, M2M), and mobile payments. Corporate priorities are the products, platforms and services which are instrumental in ensuring that our Group remains fit for the future and is competitive over the long term. Various criteria are relevant for an innovation topic to become a corporate priority. These include the strategic importance for changes in our Group and markets, the response from customers, the financial impact, and the need for comprehensive standardization or accelerated market entry. We check regularly where we stand with our corporate policies, as we do with other topics. If a topic is already established in the market or if it is not progressing as planned, it may lose its status as a corporate priority.

#### THREE-PRONGED INNOVATION STRATEGY.

We are facing up to the challenges of the future. To develop even greater innovation capacity, our Group not only makes use of its own innovations, but it also successfully integrates innovations from outside the Group. We generate growth from innovation in three different ways: from in-house developments, from partnerships, and from equity investments. As GRAPHIC 48 shows, we approach innovation with a three-pronged strategy. The uncompromising central focus is always on the benefit for our customers.

G 48

#### Growth through innovation.



#### T-LABS: OUR OWN POWERHOUSE OF IDEAS.

With our central research and innovation unit, Telekom Innovation Laboratories (T-Labs), we operate our own research and development facilities at various locations, including Berlin, Darmstadt, Bonn (Germany), Beer Sheva and Tel Aviv (Israel), and Mountain View (United States). There, around 360 experts and scientists from various disciplines develop and test new technologies, cooperating closely with international universities and research institutes. T-Labs works closely with Deutsche Telekom's operating units to deliver new ideas and support when it comes to developing and rolling out innovative products, services and infrastructures.

At its main Berlin site, T-Labs has been associated with Technische Universität Berlin since 2005 and represents one of the biggest and best-known public-private partnerships in Europe. Priority was given to the following topics in the reporting year:

- **Infrastructure and network technologies:** The development of prototype solutions for bundling different types of connection technologies, such as the hybrid technology bundle comprising DSL and LTE or the DSL community bundling of neighboring DSL lines, as well as the development of cost-effective methods and tools to improve capacities and quality using new 4G+ technologies. What's more, new technologies are being developed that offer customers 100 times more bandwidth without increasing costs thanks to 5G and an optimized FTTx architecture.
- **Automation and virtualization:** Automation and seamless virtualization of IT and network resources have the potential to dramatically accelerate the launch of new services and increase the efficiency of existing resources. These principles are used to promote new business models for expanding broadband services. It is especially important that the network resources of one network operator be available for use by another network operator – seamlessly. In future, these solutions will extend beyond today's bit stream access. Initiatives promoting more production flexibility are based on the virtualization/automation of installations in customer households as well as in small and medium-sized enterprises.
- **Standardization and licensing:** Research and innovation also have the purpose of promoting standardization. T-Labs contributes to the standardization of broadband access and home networking technologies. Patents from T-Labs also help to protect innovation and reduce direct and indirect license fees at Deutsche Telekom. Prime examples are the development of next-generation prototypes for mobile communication networks, e.g., wireless technologies to succeed LTE/4G networks, as well as next-generation fixed-line networks, for example, fiber optic technology.

T-Labs was also successful in establishing a number of start-ups, including MotionLogic, LiteElements and Trust2Core.

With the additional aim of driving forward innovation from the customer's perspective, an innovation platform has been implemented at the Creation Center and the User-Driven Innovation department to dispense creative input and methodical support to all of our departments. The everyday life of users is the starting point for all our considerations and projects. Our teams immerse themselves in the real world of the customer and actively incorporate these perspectives into the development process. This inspires our employees to develop future generations of products and service concepts. This is where the idea for the "Night of the Startups" event came from, which took place for the first time in Berlin in 2013. 73 start-ups were showcased to an audience from Germany and the United States, and with more than 2,000 visitors we successfully positioned ourselves as an enabler and partner.

### Creating scope for ideas.

Our objective in setting up the Telekom Innovation Arena is to create the ideal conditions for ideas relating to the digital life of the future. On November 28, 2013 we bundled our Berlin innovation units at a new site. The Innovation Arena offers first and foremost optimal working conditions, with a state-of-the-art IT infrastructure, modern premises and exchange facilities which are available round the clock, through to creative rooms for relaxation. Employees at hub:raum, T-Labs, Design and Partnering now work together on premises that extend 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 Innovation Arena the hotspot for ideas in Germany. Our Group Business Development unit depends on the Innovation Arena as a central basis for start-up scouting within the framework of its partnering activities. We also use the facility to offer our international partners a place to explore the start-up scene in Berlin.

### IN-HOUSE DEVELOPMENTS.

With the realignment of our Innovation & Product Development unit in 2012, we set the scene for more growth. We founded the Digital Business Unit (DBU), which develops offers for consumers and business customers in the following areas: communication services, TV platforms, cloud services, digital media and marketing, advertising business, marketplaces and payment services. In line with our Group strategy, the DBU develops new business areas and platform business in order to drive growth within our corporate group. Another of the DBU's tasks is to ensure that we deliver the right products to the right customers through suitable channels in our different markets. All areas are positioned so that they can act autonomously in their individual markets. The unit heads manage their business as if they were in charge of their own companies. They are free to decide what is necessary in order for their products to succeed. This helps us accelerate the speed at which we bring innovative products and services to market.

### PARTNERSHIPS AND COOPERATIONS.

"Innovation by cooperation" is one of the four focuses of our Group strategy. ■ The need to become even faster, more creative, and more open is a fixed item on our corporate agenda. This means we must be receptive to the ideas and business models of other companies, since they offer us new possibilities. Partnerships and cooperations are therefore a basic element of our innovation strategy.

In the strategic area of operation "Win with partners" within our enhanced "Leading Telco" Group strategy, we want to deliver the digital services that our customers require, on standard platforms and with attractive partners. We can connect partners and partner products to this technical commercial platform fast, flexibly and at low cost, in the same way as we would plug devices into a multiway power strip. We want to be the preferred telecommunications provider through which partners market their innovative products. For us, this means greater cost efficiency, faster market maturity for products and services, and adding and removing services faster, which represents a clear competitive advantage in our dynamic market environment. Our partners benefit from our broad customer base, our extensive sales channels and our strong brand, as well as from our excellent network quality.




For more information about this, please refer to the corresponding section in this report on PAGES 119 and 120.

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Below we present several of the attractive products and services which resulted from partnerships and cooperations in the reporting year:

- The Evernote Premium app enables customers to improve the organization of personal ideas and memos on their cell phones, allowing them to write memos, store websites and articles, or create to-do lists and voice memos.
- In future, the partnership with Twitter will make it easier for us to reach even more people than before. It will also become easier for our customers to share emotional moments directly.
- We have joined forces with Spotify to offer our customers an attractive add-on option and special rate packages containing the music streaming service.
- The partnership with Lookout gives our customers the opportunity to use the free user-friendly security app of the same name to improve protection of their mobile devices and the data stored on them. Any smartphone that is stolen or lost can be traced via the Lookout website.
- We cooperated with Mozilla to bring the new Firefox OS mobile operating system to market. In addition to our collaboration on development, we are one of the first carriers worldwide to sell smartphones with the Firefox OS. We now market these devices in Germany, Poland, Hungary, and Greece.
- Together with leading booksellers such as Thalia and Club Bertelsmann, we bundle our technology and sales expertise in the field of digital reading. With these partners, we are also promoting the new "tolino" brand.

We are pioneers of the digital world:  Our networks are the basis for the next industrial revolution. We are also in great demand as a partner on the way to this digital world, cooperating, for example, with companies from other sectors including energy, healthcare and mobility:

- **Energy:** In the energy sector we have established ourselves as an expert partner to the energy industry and are set to play a key role in the energy turnaround. We have already won numerous **smart-metering** deals and, together with RWE, ABB, and EnBW, are driving growth in the smart grid.
- **Healthcare:** We made especially good progress again in 2013 in networking in the healthcare sector. We signed contracts, for example, with the German Association of General Practitioners (Deutscher Hausärzterverband), and embarked on the large-scale telemedicine trial Fontane in cooperation with the Berlin Charité hospital. We won various orders for electronic health card services, where we will act as general contractor for the tests in Bavaria and Saxony, which are considered to be the final rehearsal prior to nationwide rollout of the networked card. During the year, we made further additions to our product portfolio. In the care sector, for example, we rolled out the Tagesnavi app for senior citizens

and the connected care bed. We also extended our initiatives in the hospital segment and, at the beginning of 2014, acquired brightONE's healthcare IT business. This puts us in an excellent position to serve the growing market for connected hospital information systems. Another positive development was seen in our business with Entertain for patients – the hospital variant of our TV entertainment offer. Several facilities, including most recently the Schwarzwald-Baar clinic, now offer their patients our innovative digital television service.

- **Connected car:** We entered into groundbreaking partnerships in 2013 in order to promote the car as a mobile workplace. We develop and market the vehicle backend for the Mercedes multimedia system COMAND Online – the platform for global vehicle and driver services from Daimler. 1,900 HotSpots were installed in the BMW fleet of the car hire company Sixt, giving all passengers access to broadband Internet in the car. Besides this, we won big points in the commercial vehicle market, when Europe's biggest truck rental firm PEMA opted to buy a telematics solution from Deutsche Telekom.

#### START-UP FUNDING AND SHAREHOLDINGS.

Beside the traditional approach with in-house research and development, we also rely on open innovation. We look for the best ideas and the best brains outside as well as inside the Company. Through our participation in joint ventures, we not only help finance new businesses but also provide advice and support. Likewise, we pass on our entrepreneurial know-how. At the same time, we leave these young and often very small enterprises enough space to stay mobile and agile.

Another way in which we participate in innovation is through **T-Venture**, our venture capital arm. Through it, we have set up close ties with very promising start-up companies over a period of more than 16 years. T-Venture is the most active corporate venture capital fund in Germany and is positioned among the top five worldwide. Its volume currently stands at EUR 450 million. Since its inception we have acquired over 190 minority shareholdings. We have supported these companies in their development over a specific period and, in some cases, later withdrew.

T-Venture currently holds around 100 investments. The following examples show that this is bearing fruit:

- **Affirmed Networks** is responsible for significant changes and more intelligence in the field of mobile data networks. The company's solution combines gateway functions with services that deliver richer applications and content in a leading virtualized system. Along with other prominent investors, T-Venture participated in the company's foundation back in 2010 and confirmed the long-term strategic relevance of this innovative solution, not least thanks to the company's established collaboration with Deutsche Telekom.



Sustainability at  
Deutsche Telekom



Sustainability at  
Deutsche Telekom



Glossary,  
PAGE 257 ET SEQ.

- **VeliQ** offers a platform which companies can use for secure and flexible management of their staff's mobile devices, i.e., the IT department can configure, activate, deactivate and upload software to a single or tens of thousands of devices via a protected point of Internet access. At the same time, it gives employees secure access to corporate applications and data on the move. VeliQ is already successful in many European countries as well as in the United States and cooperates with T-Systems for its sales activities.
- **Skorpios** develops and designs integrated optical modules and subsystems for opto-electronic communications systems. The technology allows the generation, rectification and modulation of light within monolithically integrated high-speed electronic circuits. The CMOS foundry compatible process is based on composite semiconductor on insulator (C-SOI) technology. This concept revolutionizes the economy of optical systems, since it makes it possible to significantly reduce component size, power consumption and complexity, and therefore generates major cost savings in optical network elements. Using the new technology will enable us to maximize efficiency in the expansion of our fiber-optic network.

In mid-2012, we established **Telekom Innovation Pool GmbH (TIP)** to enable us to integrate young companies as majority shareholdings in our Group in the future. The new company is led by T-Venture, i.e., T-Venture supplies funding and is also responsible for its administration. TIP also takes over internal company spin-offs, units that are outsourced from Deutsche Telekom as standalone companies. Examples of TIP investments include LiteElements GmbH, which was founded in 2013 as a spin-off from T-Labs, and the acquisition in 2013 of xplosion Interactive GmbH, a member of the Otto Group.

Furthermore, we provide targeted support for companies starting up in business. To help us do so, we launched a so-called incubator – **hub:raum** – in 2012, which aims to promote the networking of people and capital with innovative business ideas and build up new business. We support talented young founders and their companies by providing start-up financing, office premises and access to our Group, our experts and facilities – all supervised by experienced mentors. We as a company benefit from the dynamics of these start-ups and from the fact that we identify emerging trends. In the eighteen months of its existence, hub:raum has become a familiar name in the start-up scene. At the same time, hub:raum is gaining a firm foothold at international level, firstly, thanks to a program that specifically addresses Israeli start-ups and, secondly, to the launch of Poland's own hub:raum in Krakow.

#### **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 cooperations and partnerships. National and international IPRs are vital for these types of activity. We are strongly dedicated to generating our own IPRs. In the reporting year, we filed 148 patent applications, taking the total number of IPRs held by the Group to around 7,500.

Thanks to our intense efforts to develop and structure our IPR portfolio, the rights we hold are highly valuable and firmly in line with the 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. We manage our IPRs on the basis of cost/benefit aspects, filing only selected applications subject to a strict schedule.

#### **EXPENDITURE AND INVESTMENT IN RESEARCH AND DEVELOPMENT.**

Research and development 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 2013, research and development expenditure in the Deutsche Telekom Group amounted to EUR 97 million, which was more than in the previous year. As the parent company, Deutsche Telekom AG bears part of the Group's research and development expenditure. At EUR 60 million, this amount was slightly above the prior-year figure of EUR 52 million.

However, this indicator must not be considered in isolation from the three-pronged innovation strategy described above. We also rely on new external innovations and plan to generate growth not only from our in-house developments but also from our partnerships and shareholdings. For example, we currently have a fund of EUR 450 million available for such projects in our T-Venture company.

Deutsche Telekom's investments in internally generated intangible assets to be capitalized were also up year-on-year at EUR 112 million. These investments predominantly relate to internally developed software, mainly in our Systems Solutions operating segment. In the reporting year, some 2,900 employees (2012: around 2,400) were involved in projects and activities to create new products and market them more efficiently. The majority of employees working for T-Labs, the unit responsible for results-oriented research and innovation, are researchers from a wide variety of disciplines.

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**Expenditure and investment in research and development.**

millions of €

	2013	2012	2011	2010	2009
Research and development expenditure	97.0	65.9	121.4	145.6	205.5
Investments in internally generated intangible assets to be capitalized	112.0	78.0	122.4	162.2	232.5

**EMPLOYEES.**


- Implementation of the HR strategy
- HR strategy 2014
- Headcount development

For further information, please refer to our Human Resources Report. 

**HR STRATEGY.**

Day in, day out, our employees are behind everything we offer our customers in terms of products and services. They are the ones who create groundbreaking innovations and make our claim to offer the best service in the business come true. We are committed to maintaining and enhancing our competitiveness by having the right people in the right place. Specifically, this means allowing our workforce to be innovative, encouraging each individual employee's talents, and simplifying our working conditions and operations to create even more space for new ideas and personal development.

Our clearly formulated HR strategy reflects this philosophy: "Human Resources (HR) accelerates the success of the Company and its employees." In other words, we want to exert a measurable influence over the success of our Company and its employees.

When it comes to setting priorities in our HR work and fleshing out the details, we are guided by the Group strategy, whilst also incorporating all relevant external factors. These include long-term trends such as globalization, individualization, sustainability, demographic change, and the Group's competitive environment. At the same time, we never lose sight of our internal values, including our Social Charter, Code of Conduct, and Guiding Principles. 

In conclusion, our HR work is consistently centered around **four fundamental strategic directions**: "productivity," "performance," "power" and "simplicity." For 2013, we have formulated four key themes, the HR Big 4, which translate our HR vision and strategic directions into more specific terms.

- **Productivity** – We want to boost the productivity and commitment of our workforce. In 2013, we focused on careful management of the internal and external workforce structure (HR Big I).
- **Performance** – We are keen to encourage each individual to develop and to accept responsibility. In the year under review, we concentrated on developing inspiring leadership principles to encourage and reward top performance (HR Big II).

- **Power** – The organization must become more fluid, and strengthen its individual members. Devising modern work environments where professional experience and knowledge can be shared and enhanced was therefore a priority (HR Big III).

- **Simplicity** – We have an ongoing commitment to ensure that HR issues are clearly and simply implemented. Attention therefore focused on refining our HR processes and products (HR Big IV) in the reporting year.



[www.telekom.com/hr-report](http://www.telekom.com/hr-report)

We continued to successfully implement our HR strategy in 2013. Selected examples of our successes in each of the four strategic directions are outlined below.

**IMPLEMENTATION OF THE HR STRATEGY.**

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**Implementation of the HR strategy.**

Highlights of 2013			
Productivity	Performance	Power	Simplicity
Total Workforce Management Health and safety	Leadership Employee satisfaction HR development Awards	Workplace of the future Diversity Women's quota Demography management Work-life balance	Optimization of the HR portfolio Optimized cooperation



Glossary,  
PAGE 257 ET SEQ.

**HR BIG I – PRODUCTIVITY.**

**Total Workforce Management.** We continued our strategic HR planning approach known as Total Workforce Management in the reporting year. By controlling the structure of our internal and external workforce in terms of cost, capacity and skills, we are able to identify future effects on our HR situation early on and initiate suitable measures, for example in connection with **integrated network expansion**: between 2013 and 2015 we expect to offer up to 5,800 in-house trainees employment in Germany, including more than 1,000 positions in broadband expansion. This junior staff will work closely with more experienced colleagues to expand the network.



Sustainability at  
Deutsche Telekom





Sustainability at  
Deutsche Telekom



Sustainability at  
Deutsche Telekom



Sustainability at  
Deutsche Telekom

Our External Workforce Management program enables us to manage the efficient use of our partners, suppliers and service providers across the Group, so as to avoid sudden peaks in workload and dedicate additional specialists to focus on innovative topics. Targeted workforce management has netted us significant short-term cost savings in the deployment of external employees.

**Health and safety.** We adopt a systematic, overarching approach to the health and safety of our employees. This includes designing a uniform Group-wide framework for occupational health and safety as well as fire protection to comply with statutory requirements, and making continuous improvements to employee safety. We go far beyond the minimum required by law and offer a wide range of services and products to boost employees' health competency and awareness. These include diverse offerings ranging from stress prevention seminars to internal prevention and health promotion programs such as flu jab programs, colon cancer screening, information and campaigns on nutrition, exercise and relaxation, and comprehensive check-ups with the company physician. All the activities of our Health & Safety Management team are dedicated to the health and well-being of our employees, and are designed to strengthen their physical and mental fitness at every phase of their lives.

Company physicians and health and safety specialists are on hand to answer our employees' questions on every aspect of health and safety. Free, confidential counseling on psychosocial issues is also available.

We want our managers to play a key role in promoting health and prevention. In direct contact with their team members, they should act as ambassadors for healthy living, and provide guidance as part of their obligation to ensure the welfare of employees. We support our managers with a range of dedicated counseling services, seminars and workshops. Following a successful pilot phase with our senior managers, our innovative "Leadership and health – opportunities and limits" concept has now been rolled out. This concept helps managers to take stock of their own health, while at the same time training them in how to sensitize team members to health issues. We are incorporating ever more modules from the company health management portfolio into our executive development programs.

Our health and safety philosophy follows a Group-wide approach, supported by a uniform international management system. 30 national companies have already been integrated into this program, and a further two (out of a total of 40) will be linked in 2014. This has paved the way for uniform Group-wide standards in occupational health and safety, based on the international standards OHSAS 18001 and ISO 14001 on health, safety and environmental protection. We have also defined uniform indicators, e.g., for measuring the number of days lost. Minimum standards and related indicators create greater transparency and facilitate comparability at international level. The system is also designed to help us maintain our global telecommunications infrastructure in the event of a crisis. For example, downtimes must not impair the operation of relevant corporate units.

## HR BIG II – PERFORMANCE.

**Leadership.** Group-wide leadership principles were adopted for the first time in 2013, along with further improvements to our performance development systems. Building on this, we are aiming to introduce a new performance development philosophy and support system for senior and middle management to encourage an even more entrepreneurial mindset.

**Employee satisfaction.** Our image as an attractive employer continues to grow, and our employees consistently reward us with high marks. In the latest global employee survey, our scores in the key areas of commitment, leadership and health improved significantly, with double-figure percentage increases in some cases. The most recent employee survey, the fifth for the Group as a whole since 2005, was conducted in 2012. In 27 countries and 18 languages, we invited feedback from 195,000 employees; almost 150,000 (76 percent) of whom participated worldwide.

We were particularly delighted with our high Group-level score of 4.0 for employee satisfaction on the commitment index (on a scale of 1.0 to 5.0). With our pulse surveys in mid- and late-2013, we once again collated anonymized feedback from our employees in order to gauge the current employee morale and see what progress had been made in the identified areas for improvement. This compact survey revealed that at Group level, our development had been consistently positive.

**HR development.** We view our employees' development as an ongoing task. Under the heading of "lifelong learning," we are therefore committed to an integrated, permeable educational chain, which includes a growing number of practical, informal training courses, most of which can be independently structured. For us, best-in-class training incorporates the following aspects:


- **Media:** The worlds of education and work are becoming increasingly intertwined. Our portfolio of development measures reflects this, with a growing emphasis on media such as simulations, learning apps and online booklets. A stronger focus is being placed on e-learning formats for our employees, as they improve the effectiveness and availability of our training courses on a lasting basis. The number of e-learning measures grew in the reporting period from around 700,000 to some 930,000.
- **Methods:** We believe that knowledge should be acquired in a work environment where the latest know-how is available, and from those who have this kind of know-how. This is why we rely on trainers and experts with industry experience who are at the forefront of their fields and also have excellent teaching skills. As well as face-to-face learning, employees can also make increasing use of specialist Group-wide networks, supported by our Telekom Social Network.




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■ **Formats:** Self-guided learning is complemented by an extensive range of target group-specific educational formats. CAMPUS, our Group-wide expert development program, is regarded as a particularly comprehensive and target group-oriented training measure. CAMPUS accompanies experts on their journey through different training levels over the course of their careers, thanks to uniform training standards and courses. In the period under review we invested some 480,000 training days in the technical and personal development of our employees. This equates to an average of 4.0 training days per employee in Germany. Ambitious university graduates can join our Group-wide entry program Start-up!, which offers project placements in Germany and internationally, together with mentoring by experienced managers. Graduates of Start-up! gain a comprehensive insight into the Group and build their own interdepartmental network of contacts. Our training portfolio also includes work-linked vocational training programs and cooperative degree courses. In the reporting year, Deutsche Telekom opened up some 3,200 places to apprentices, students on cooperative study programs and full-time students at the Group's HfTL University of Applied Sciences in order to give young people a good start to their career with valuable training. Nationwide, competent young people can train in eleven different training programs and nine cooperative study programs in cooperation with ten partner universities. In training year 2013/2014, we had more than 9,100 apprentices and students on cooperative degree courses overall. This includes more than 7,700 apprentices, around 1,300 students on cooperative degree courses, and some 100 participants in Deutsche Telekom's integrative entry-level training scheme which helps disadvantaged young people prepare for an occupation. In addition, since 2009 around 700 employees have opted to start studying alongside their job, supported by our Bologna@Telekom initiative. Each year, we offer 200 Bologna scholarships across 27 bachelor's and master's degrees at nine universities which are designed to provide financial backing and flexibility with their time for employees studying part-time while they work.

■ **Structures:** Successful HR development needs powerful structures as well as intelligent training courses. We therefore intend to establish the Group's own HfTL University of Applied Sciences in Leipzig as a link in our academic education chain. The academic courses offered at HfTL are a key element of higher education and professional development courses, particularly in the technology sector. In the year under review, around 50 percent of the 412 graduates from our on-campus and cooperative study programs at all cooperating universities were subsequently offered positions within the Group, including 70 graduates from HfTL alone. From 2014 onward, we will be practicing uniform management of all our educational services to ensure the maximum possible benefit for employees and for the Group.

■ **Commitment:**  We support and encourage all employees wishing to get involved in voluntary work. We know that this creates positive effects – such as broadening their social skills and strengthening their team player abilities – which we can then channel into our own HR development. The range of voluntary social commitments helps our employees to become more empathetic and learn to share knowledge in a practical and target group-appropriate manner.

Workshops where our employees teach disabled people to use a cell phone are one such example. We also give our employees an opportunity to experience fresh impetuses and viewpoints outside of their familiar environment, for example within the context of a Social Day. Another example is the "Yes, I can!" initiative, set up by our employees, in which we help children and young people from disadvantaged backgrounds to develop their skills. 

#### Awards.

We have received numerous awards in recognition of our successful HR work. Here are just a few examples:

- **Outstanding HR projects:** As well as countless nominations in the **Human Resources Excellence Awards**, we were also proud to receive three awards from Human Resources Manager magazine for three exceptionally innovative HR projects: "Telekom Challenge," "Blind Applying" and "Diversity in recruiting with personal diagnostic-based video interviews." These awards are widely respected, not just among HR experts.
- **Recruiting:** We were also ranked 2nd in the **Female Recruiting Award** for the second time in succession, for consciously appealing to female applicants.
- **Customer-centric HR communication channels:** Our 2nd place ranking in the **Online Talent Communication** study proves that our high quality standards extend to all communication channels. Both our career website Telekom Jobworld and our social media presence are considered pioneering in this respect. Our in-house HR portal – with over three million hits per annum – was awarded a silver medal in the **Annual Multimedia Award 2013**.
- **Attractive employer:** This year, our standing as employers netted us a further clutch of highly sought-after prizes in Germany and internationally. For example, the **Trendence Graduate Barometer Germany** ranked us among the Top 20 employers in the IT sector. Our national companies have also been singled out as attractive employers: T-Systems Netherlands was accorded the **TOP Employer Award 2012 – 2013** and T-Systems Malaysia received the **Gold Award for Employer of Choice** in 2013.

#### HR BIG III – POWER.

**Workplace of the future.** The telecommunications industry is in a state of flux: technologies, business models, products and services are constantly evolving. In recent years, we have seized this opportunity to make our processes more efficient. We also develop sustainable solutions for the world of the future, both professional and private; this includes new forms of internal and external collaboration, agile work models, a tighter focus on innovation and service, as well as measures for promoting entrepreneurial thinking and action.

At our location in Darmstadt (Germany), we have successfully completed a pilot known as Future Workplace, and developed a concept which incorporates architectural requirements and the necessary IT infrastructure, whilst also fostering a culture of collaboration. HR, Group Real Estate Management and IT have also collaborated closely at various Group sites to develop office spaces that address the above





For details on our commitments, please refer to the section "Corporate responsibility," **PAGE 110 ET SEQ.**



**Sustainability at Deutsche Telekom**

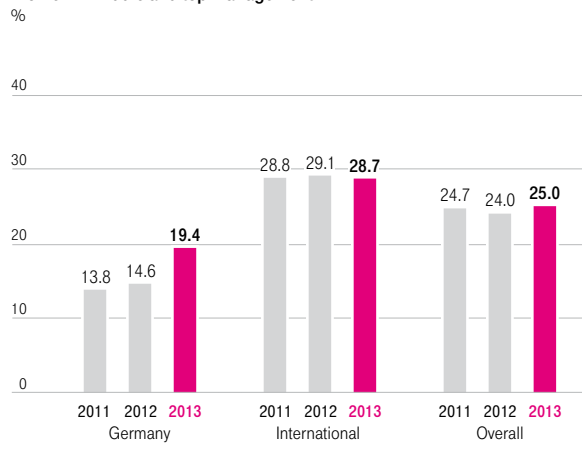
concerns. These will serve as pilots across the Group. Future efforts to redesign the Group's office space will focus on creating a modern office environment which provides optimum support for employees' individual work situations.


**Diversity.**  Our Group brings together numerous cultures, attitudes, and talents from around the world. We encourage and use this diversity as a source of creativity and agility. We see living diversity as the precursor to greater innovation and customer orientation, and as the driving force behind the transformation of our corporate culture toward an open, flexible company. In order to continue operating successfully with ever more international, heterogeneous teams of different ages, genders and cultures, we pay constant attention to broadening the diversity of our workforce and monitor this with our diversity management system. In the year under review, we received a number of awards for our diversity activities. We were nominated in two categories (most diverse employer and company with the best diversity image) for the German Diversity Prize. This puts us among the top three corporations in Germany in the categories "most diverse employer" and "company with the best diversity image." At international level, the KEN Award, an internationally respected distinction for outstanding social commitment, was presented to us in recognition of our gender work.


**Women's quota.**  We campaign for higher proportions of women in management, and introduced a women's quota in 2010. By the end of 2015, we want at least 30 percent of senior and middle management positions worldwide to be held by women. We believe this quota will help bring about a deep-seated cultural transformation within the Company in terms of diverse teams and diverse life phases. We now have a global program in place to ensure that this quota is implemented at every stage of the talent pipeline, from recruitment and executive development programs through to assessment centers. Overall, the proportion of women in management positions has shown a positive development since 2010. Group-wide, it has risen from 19 percent in February 2010 to 25 percent in December 2013. Since 2010, we have also consistently increased the proportion of women in our supervisory boards, particularly the employees' representatives. In 2010, women accounted for 17.7 percent of supervisory board members in Germany, rising to 28.1 percent by the end of 2013. Over the same period, we achieved an equally positive effect with the proportion of female employers' representatives in our international supervisory boards, with the proportion of women on supervisory boards rising from 7.4 to 17.1 percent. Furthermore, two out of seven Board of Management positions have been held by women since 2012. The number of women in our Business Leader Team, the international management team below the Group Board of Management, increased from two in February 2010 to nine in December 2013.

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### Women in middle and top management.



**Demography management.**  Demographic change and the associated shifting ratios between young and old means a shrinking, aging population in Europe. Germany is particularly affected by this development, and already has a high proportion of older people and fewer younger people. If the shrinking population and, as a result, the decrease in the working population cannot be compensated for through migration or by activating unused potential (such as women and older people), there will be fewer employees available to companies in Germany in future, and their average age will be significantly higher than at present. Deutsche Telekom is no exception. In order to meet the challenges of a changing labor market and an aging, multi-generational workforce, in 2013 we set up a Competence Group to identify key action areas and requirements of systematic demographic management based on academic findings. Furthermore, the strategic HR project Demography as a Chance is working on a number of specific products and measures for implementation during 2014.

**Work-life balance.**  Enabling our employees to achieve a good work-life balance will remain an important part of our corporate culture in future. We want our employees to enjoy an even better balance between their work and private lives. For example, 13 percent of our employees in Germany already take advantage of the many different forms of part-time employment available. Once again, we are blazing a trail with our family-friendly approach: we were one of the first German companies to grant employees who sign a new part-time contract a right of return. As of 2014, our employees have the right to return to their original weekly working hours, giving them a significant boost in terms of flexibility and job security.

In 2013, we continued to broaden our range of childcare offers. In our Germany offices, the number of company childcare places has increased significantly since 2010, and now totals some 550. We also offer a total of 300 subsidized places at ten facilities in four different cities for children during the school holidays. At the same time, we now also have 18 parent-and-child offices to cushion any childcare shortfalls. Employees can also take advantage of nationwide assistance from one

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of our cooperation partners to help find local childcare places, child minders, external childcare during the school holidays and emergency child-minding, for example. Advice and placement services for home help and nursing care are also available to assist employees with sick family members. Employees can apply for funding from the Deutsche Telekom Family Fund to assist with projects and measures to help them combine their work and home life.

#### HR BIG IV – SIMPLICITY.


**Optimization of the HR portfolio.** Our HR processes, offerings, and products are clearly and simply structured, in the interests of our employees. With the “Fix the basics” initiative, we are working tirelessly to offer an improved service and reduce complexity. We want to make our portfolio of HR services even leaner by structuring it more effectively. This means a better overview of HR services for our employees, and the chance to work even more efficiently for the HR unit.

Further improvements focus primarily on HR processes, with faster, better quality service as a result of pooling and streamlining activities. New products and product refinements designed to make work easier are another top priority. A new in-house information platform (currently being tested) contains a wealth of useful information about disruptive technologies, market innovations and personal skills. Meanwhile, a new intranet homepage makes it faster and easier for employees to access career development information, such as which skills will be highly sought after in future.

**Optimized cooperation.** In 2013, our Way We Work project improved working methods and processes in the HR unit to promote simplified, customer and result-centric cooperation.

#### HR STRATEGY 2014.

The approach that we started with our HR strategy is something that we will continue to pursue in line with and in support of our “Leading Telco” Group strategy as our successes show that we are on the right track.

In addition to the “Encourage leadership & performance development” element of the new Group strategy, in 2014 we will also turn our attention to the topics “Foster employability of our workforce,” “Increase organizational effectiveness,” and “Continue business driven total workforce management.” 

#### HEADCOUNT DEVELOPMENT.

The relentlessly fierce competition in our industry, coupled with a continuing difficult economic situation in some of our core markets, necessitated further staff restructuring in 2013. The principal developments are as follows:

The Group's headcount fell by 0.5 percent year-on-year.

The headcount in our **Germany** operating segment decreased by 1.1 percent year-on-year as a result of our socially responsible staff reduction and restructuring programs. In the first half of 2013, the special severance package Lean Admin helped us to trim our cross-sectional and management functions. This program gave employees the option of volunteering for severance pay, early retirement or an in-Group transfer. Consistent implementation of our integrated network strategy led us to hire new junior staff, which partially canceled out the aforementioned staff cuts as well as resulting in a reduction in the use of external workforce at our service companies.

In our **United States** operating segment, the headcount showed a year-on-year increase of 22.4 percent, driven primarily by the nearly 3,400 MetroPCS employees joining the T-Mobile US workforce following the completion of the business combination in the second quarter of 2013. Upsizing was also implemented with a view to further improving customer service.

In our **Europe** operating segment, the headcount had decreased by 8.2 percent as per the end of the reporting year. Downsizing programs, especially in Greece and Romania, within the context of efficiency-boosting measures contributed to this decrease. In November 2013, OTE adopted a new severance program, which offers the best possible solution for employees in the company's transformation phase, given the tense situation of the Greek economy. This program, aimed primarily at employees approaching retirement age, will allow OTE to implement essential restructuring measures in a socially considerate manner. The sale of our national companies in Bulgaria also reduced the headcount, while the acquisition of DIGI Slovakia had an offsetting effect.

In our **Systems Solutions** operating segment, the headcount decreased by 4.8 percent. The decrease was primarily the result of staff restructuring measures in Germany, coupled with the reorganization of business activities in Italy and France. Around 830 employees left the Group following the sale of T-Systems Italia and the Systems Integration unit of T-Systems France.

As a result of the realignment of the Group's central management and service functions, the green light was given for our new Group Headquarters and the newly formed Group Services on January 1, 2013. The headcount in the **Group Headquarters & Group Services** segment was up 0.6 percent against the previous year, primarily as a result of upsizing at DBU and the pooling of our Group Services. A reduction in the headcount at Vivento had an offsetting effect.



For more information on our Group strategy, please refer to the section “Group strategy,” **PAGE 65 ET SEQ.**

## WORKFORCE STATISTICS.

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### Headcount development.

Employees in the Group	Dec. 31, 2013	Dec. 31, 2012 <sup>c</sup>	Dec. 31, 2011 <sup>c</sup>	Dec. 31, 2010	Dec. 31, 2009
<b>TOTAL</b>	<b>228,596</b>	<b>229,686</b>	<b>235,132</b>	<b>246,777</b>	<b>259,920</b>
Of which: Deutsche Telekom AG <sup>a</sup>	29,577	30,637	33,335	35,855	49,122
Of which: civil servants (in Germany, with an active service relationship)	20,523	21,958	23,516	25,570	29,188
Germany operating segment	66,725	67,497	69,574	70,902	81,336
United States operating segment	37,071	30,288	32,868	37,760	40,697
Europe operating segment	52,519	57,196	58,794	63,338	71,163
Systems Solutions operating segment	50,286	52,847	52,170	51,742	46,021
Group Headquarters & Group Services	21,995	21,858	21,726	23,035	20,703
<b>BREAKDOWN BY GEOGRAPHIC AREA</b>					
Germany	116,643	118,840	121,564	123,174	127,487
International	111,953	110,846	113,568	123,603	132,433
Of which: other EU member states	63,939	63,244	64,257	68,941	76,196
Of which: rest of Europe	3,238	9,422	9,736	9,991	10,061
Of which: North America	37,856	31,037	33,511	38,467	41,235
Of which: rest of world	6,920	7,143	6,064	6,204	4,941
<b>PRODUCTIVITY TREND<sup>b</sup></b>					
Net revenue per employee thousands of €	262	250	244	247	251

<sup>a</sup> On account of the spin-off of the fixed-network business in 2010, these figures are not comparable with the figures for the previous year.

<sup>b</sup> Based on average number of employees.

<sup>c</sup> Figures for prior-year periods in the Europe operating segment and the Group Headquarters & Group Services segment have been adjusted.

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### Personnel costs.

billions of €

	2013	2012	2011	2010	2009
Personnel costs in the Group	15.1	14.7	14.8	15.1	14.3
Special factors <sup>a</sup>	1.4	1.2	1.2	1.0	0.5
Personnel costs in the Group adjusted for special factors	13.7	13.5	13.6	14.1	13.8
Net revenue	60.1	58.2	58.7	62.4	64.6
<b>ADJUSTED PERSONNEL COST RATIO</b> %	<b>22.7</b>	<b>23.2</b>	<b>23.1</b>	<b>22.5</b>	<b>21.4</b>
<b>PERSONNEL COSTS AT DEUTSCHE TELEKOM AG UNDER GERMAN GAAP<sup>b</sup></b>	<b>3.1</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>4.0</b>

<sup>a</sup> Expenses for staff-related measures. 

<sup>b</sup> On account of the spin-off of the fixed-network business in 2010, these figures are not comparable with the figures for the previous year.



For detailed information, please refer to the section "Development of business in the Group."

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## SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD.

**Agreement on the acquisition of spectrum licenses in the United States.** In January 2014, T-Mobile US entered into a purchase agreement with Verizon Wireless for the acquisition of 700 MHz A-block spectrum licenses for approximately USD 2.4 billion in cash and the exchange of certain Advanced Wireless Service (AWS) and Personal Communication Service (PCS) spectrum licenses. The acquired spectrum covers more than 150 million people in 23 markets, which corresponds to approximately 50 percent of the U.S. population or 70 percent of T-Mobile US's existing customer base. The transaction is subject to regulatory approval and expected to result in a non-cash gain upon closing in mid-2014.


**T-Mobile US Un-carrier strategy 4.0.** In the latest move of its Un-carrier strategy in January 2014, T-Mobile US launched phase 4.0 of its Un-carrier value proposition, which reimburses customers' early termination fees when they switch from other carriers.

**Agreements on the sale of the Scout24 group.** In November 2013, we agreed to sell 70 percent of the shares in Scout24 Holding GmbH to Hellman & Friedman LLC (H&F) on the basis of an enterprise value of EUR 2.0 billion. The relevant authorities gave their approval on January 24, 2014. In future we will continue to hold a share of 30 percent in the Scout24 group, which is assigned to the Group Headquarters & Group Services segment, and, as such, will go on profiting from Scout24's future value accretion. The transaction was completed on February 12, 2014.

Irrespective of this, by acquiring 100 percent of the shares in Scout24 International Management AG, Ringier Digital AG took over effective January 23, 2014 the 57.6 percent stake in Scout24 Schweiz AG that was held indirectly by Scout24 Holding GmbH.

These disposals are expected to generate cash inflows totaling approximately EUR 1.6 billion and book profits of around EUR 1.7 billion.

**Acquisition of residual non-controlling interest in T-Mobile Czech Republic.** On February 7, 2014 we signed a purchase agreement for the acquisition of the remaining 39.23 percent of shares in T-Mobile Czech Republic, which we did not yet own, for a purchase price of EUR 0.8 billion. This transaction furthers our development to become the leading pan-European integrated telecommunications provider. T-Mobile Czech Republic had already been fully consolidated in the Europe operating segment. This transaction is not subject to regulatory approval. The transaction is scheduled to be completed at the end of February 2014.

For details on the developments in January 2014 regarding changes in the claims for damages due to the price squeeze and MetroPCS, please refer to the section "Risk and opportunity management." 

## FORECAST.<sup>1</sup>

### ECONOMIC OUTLOOK.

The stimulus plans of the European Central Bank (ECB) and the U.S. Federal Reserve (Fed) calmed the global capital markets and the real economy again in 2013. Provided the sovereign debt and banking crisis does not deteriorate again, the expansion of the global economy could accelerate in the course of 2014 and 2015, supported primarily by increased growth in the industrialized countries.

The International Monetary Fund, the World Bank, the OECD, and economic researchers in the core EU member states agree on the prognosis for Europe: The downward trend is over and the many years of weak growth will be overcome in 2014 and 2015. That being the case, the economic outlook for our key markets is more positive than one year ago:

- Development in Germany is expected to be more positive in the coming years following the moderate growth of 2012 and 2013. The situation on the labor market is likely to improve further on the back of the economic recovery, leading to a slight rise in employment levels again in 2014 and in 2015.
- Some of the core countries of Eastern Europe are expected to record strong growth rates in 2014 and 2015.

For the United States, leading banks and institutions forecast that the economy will grow far faster in the coming years as the negative effect caused by the consolidation of the budget is expected to ease and, as a result, domestic demand is expected to rise. The labor market is also expected to improve further.

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### GDP forecasts for 2014 and 2015.

	2014 compared with 2013	2015 compared with 2014
Germany	1.6	1.7
United States	3.1	3.2
Greece	(0.5)	1.7
Poland	2.8	3.4
Hungary	2.2	1.7
Czech Republic	2.2	2.9
Croatia	0.8	2.1
Netherlands	0.3	0.8
Slovakia	2.0	3.5
Austria	1.5	1.9
Romania	1.9	2.5
United Kingdom	2.6	2.4

Source: Oxford Economics, January 2014.



Please also refer to  
PAGE 148 ET SEQ.

## MARKET EXPECTATIONS.

### GERMANY.

Overall, we expect the downward trend in the telecommunications market in Germany to continue in 2014 and 2015. In addition to the intense competitive environment, this is also due to the change in customers' usage patterns. They are shifting their communication activities to social networks such as Facebook or Google+, or to IP messaging applications such as Joyn or WhatsApp.

Traditional voice revenues in the fixed and mobile networks continue to fall due to the bundling of voice telephony with other telecommunications products and the price reduction that this entails, for example in the form of flat rates.

We also expect mobile service revenues to decrease further, mainly as a consequence of the substitution of text messaging by integrated rate plans and the use of IP messaging services, which are mostly free of charge. Expected regulatory price cuts serve to increase the negative trend in revenue – for example the price cuts for roaming within the European Union from July 2014 and for national termination from December 2014.

The popularity of mobile data services continues to rise, which has a positive impact on data revenues and compensates the decrease of mobile service revenues. The increasing spread of smartphones and tablets will have a positive impact on mobile data and Internet usage in the coming years – and therefore also on the sale of data flat rates.

In the fixed-network broadband market, we expect cable network operators to continue to grow. We expect growth predominantly in neighboring market segments such as television, intelligent networks, De-Mail, cloud services, machine-to-machine (M2M) services, mobile payment, and cyber security (protection against online crime). Demand for integrated telecommunications products continues to rise among small and medium-sized companies, particularly for secure data transmission in the form of cloud applications. We also expect to see takeovers and mergers on the German telecommunications market.

### UNITED STATES.

The U.S. mobile market continues to be characterized by intense competition among the major mobile carriers – wireless pricing plans have been dynamic in 2013, and customer investments have risen. Data continues 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 2014 and 2015, which is expected to offset declining revenues from voice and text services. "No-contract" product offerings are also expected to grow in popularity.

### EUROPE.

Our European markets (excluding Germany) are dominated by tough competition between market players from the traditional telecommunications industry, alternative broadband providers such as cable and optical fiber network operators, and providers of Internet-based over-the-top services such as text messaging (e.g., WhatsApp) and Internet TV (e.g., Watchever).

We expect decisions by national regulatory authorities and the European Union to continue to put the markets under pressure and have a negative impact on mobile revenues in future. Our growth areas will only partially be able to compensate for decreased revenue from traditional telephony. These include mobile data services, television, broadband fixed network, ICT services, and adjacent business areas such as energy, Internet services, and handset insurance. On top of that, the strong growth in the popularity of smartphones and tablets will lead to heavy demand for higher bandwidths.

The macroeconomic conditions in some of our Southern and Eastern European footprint markets remain tough. There is a possibility that the governments in some of the countries within the Europe operating segment may look to improve their financial situation by imposing fiscal measures on the telecommunications market.

### SYSTEMS SOLUTIONS.

Due to the anticipated recovery in the global economy, we expect the growth trend in the ICT market to increase again in 2014 and 2015. We anticipate that the ICT market will continue to be dominated by ongoing cost pressure and strong competition. Overall demand is constantly changing. The following aspects in particular change the market: cloud services, big data (storage, preparation, processing, and analysis of large volumes of data), intelligent networks (Industry 4.0, Internet of Things, M2M), and mobilizing business processes (use of mobile devices in a company's business processes).

We expect the markets in our market segments to develop in different ways:

**Telecommunications:** Various factors are generating new challenges in the hotly contested telecommunications market: innovative change, the increasing intensity of competition, the continued price erosion and intervention by state regulatory authorities. Business with mobile data services will continue to grow in the coming years, whereas business with fixed-network voice telephony will decrease. The macroeconomic trend has only a slight impact on the telecommunications market.



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**IT services:** After only low-level growth in the reporting year, the market for IT services is expected to recover strongly in the following years. 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 the price competition outside Europe, whereas growth in areas such as cloud services, mobility and cyber security may even reach double digits. We will therefore increasingly invest in growth markets such as cloud services, cyber security and intelligent network solutions for the healthcare industry from 2014 onward.

### STATEMENT BY THE COMPANY'S MANAGEMENT ON THE EXPECTED DEVELOPMENT OF THE GROUP.

**The future at a glance.** At our Capital Markets Day in Bonn at the end of 2012, we announced our goal of returning to growth from 2014. On a like-for-like basis, we have already achieved that goal one year ahead of schedule. This positive development is largely due to the revenue growth in our United States operating segment where we changed the business model following the merger of T-Mobile USA and MetroPCS – with great success. The launch of what we call the Un-carrier strategy in combination with the expansion of the handset portfolio to include Apple products already had a noticeable effect on the number of branded postpaid customers in 2013. This improvement in the customer base is expected to have a significant effect on revenues and earnings in subsequent years. We expect to see the following developments in the individual operating segments by 2015:

- We will maintain our position as market leader in our mobile communications and broadband business areas in Germany and stabilize our revenues by 2015.
- In our Europe operating segment, we aim to defend our strong market position in almost all countries and to stabilize our revenues – despite tough regulatory policies and the possibility of state intervention.
- In the United States, we aim to considerably increase our revenue and adjusted EBITDA on the back of our very positive image among customers.
- Our Systems Solutions operating segment is developing a new business model and will build up and expand digital innovation areas. We expect that to lead to increased productivity while revenue is likely to fall initially.

These positive expectations overall are the result of a consistent strategic focus. We are driving ahead the transformation of the Deutsche Telekom Group from a traditional telecommunications company to the first port of call for consumers and business customers as well as for innovation partners in Europe, including Germany. We want to excite our customers with intelligent solutions for home and on the move by combining the quality of our networks, for which we have won several prizes, with innovative internally developed applications or integrating products from partners. We will continue to invest massively in our

networks and build out our broadband infrastructure to achieve this. In Germany, we will be investing considerable amounts in optical fiber and vectoring technology in particular, as well as in the high-speed mobile communications standard LTE, to safeguard our leadership in terms of network technology. In the United States, we will also invest a great deal in the quality and coverage of the mobile communications network. Overall, we aim for a total **investment volume** (excluding spectrum investments) of around EUR 9.3 billion Group-wide in 2014, followed by a slight increase in 2015. However, our investments require a reliable, innovation-friendly regulatory environment in Europe.

To make our growth as profitable as possible, we will implement more cost-cutting measures and initiatives – focusing particularly on indirect costs. Overall, we expect to see the following development in our financial performance indicators:

- We expect revenue to grow slightly year-on-year in 2014, largely as a result of the positive development of revenues in the United States. We expect revenue to grow again in 2015 relative to 2014.
- We expect adjusted EBITDA of around EUR 17.6 billion in 2014 and an increase in adjusted EBITDA in 2015 compared with 2014.
- We expect strong increases in EBITDA and EBIT in 2014 compared with 2013. Book profits from the sale of shares in the Scout24 group and from the agreement on the acquisition of spectrum licenses with Verizon Wireless in the United States will lead to this strong increase in 2014. In addition, we expect the level of our depreciation and amortization to decrease further. In 2015, we expect the non-recurrence of the positive special factors to lead to a marked decrease in EBITDA and EBIT compared with 2014.
- The Group's free cash flow is expected to amount to approximately EUR 4.2 billion in 2014 and to increase slightly in 2015.
- We expect to see an increase in return on capital employed (ROCE) in 2014 and are aiming for a figure of 5.5 percent in 2015.

All year-on-year estimates are based on the assumption of a comparable consolidated group structure and comparable exchange rates.

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, however, 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.

Despite substantial capital expenditure, we want to continue to compensate our shareholders appropriately. Subject to approval by the relevant bodies and the fulfillment of other legal requirements, we intend to pay a dividend of EUR 0.50 per dividend-bearing share for the 2014 financial year. We are considering offering our shareholders the choice once again of having their dividend paid out in cash or converting it into Deutsche Telekom AG shares. We will review our shareholder remuneration strategy again for 2015.

Developments on the international financial markets in 2013 can be described as stable overall. The environment was dominated in many respects by central banks and politics. The budget stalemate in the United States, for example, had the markets holding their breath for months. The stable development went hand in hand with continued low interest rates. The market environment is also initially expected to be stable in 2014.

We continue to enjoy outstanding access to international capital markets and thanks to our continuous issuing activities are in a position at any time to place issues on these markets at short notice. Provided we meet the following targets, defined as part of our finance strategy, we will continue to enjoy flexible access to the international debt capital markets:

- Rating: A- to BBB
- Ratio of net debt to EBITDA: 2 to 2.5 x
- Equity ratio: 25 to 35 percent

Deutsche Telekom (including T-Mobile US) issued bonds and medium-term notes (MTN) with a total volume of EUR 4.1 billion in 2013. Deutsche Telekom AG also sold T-Mobile US bonds for an equivalent value of USD 5.6 billion that had been acquired in the course of the merger of T-Mobile USA and MetroPCS. Repayments totaling EUR 4.5 billion in bonds, medium-term notes, and promissory notes will be due in 2014. We expect interest expense to increase in 2014 compared with 2013 due to the inclusion of MetroPCS for the full twelve months in 2014 – as opposed to only eight months in 2013 – and due to the issue of T-Mobile US bonds as described.

At the end of 2013, 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 secure access to the international financial markets in the future, a solid investment grade rating between A- and BBB is a key element of our finance strategy. Such a rating also helps us to manage our planned capital expenditure flexibly over the next few years and thus to contribute to future growth.

As of the end of 2013, we had a comfortable liquidity reserve of around EUR 22.4 billion. For 2014, too, we plan to maintain a liquidity reserve that is able to cover all maturities of the next 24 months. To maintain our liquidity, we will borrow funds on the capital market in 2014. First and foremost, we will align the timing of our financing measures with the environments of the various international capital markets.

**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, associates, and joint ventures. In other words, the future development of Deutsche Telekom AG's figures is mainly shaped by our subsidiaries' operating results and by the opportunities and challenges they face. Accordingly, in addition to our expectations for the Group, the expectations described on the following pages concerning the operating segments' revenue and profit developments – 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.

Since we intend to pay a dividend of EUR 0.50, income after taxes is a major factor in this connection. Based on the described expectations for our operating segments and the resulting effects for 2014, and taking into account existing retained earnings, Deutsche Telekom AG also expects to distribute a corresponding dividend for the next financial year. We are considering giving shareholders the choice of having their dividend entitlements fulfilled in cash or in the form of shares in Deutsche Telekom AG. We will review our shareholder remuneration strategy again for 2015.

**Expectations up to 2015.** The expectations for the Group and the operating segments up to 2015 are shown in [TABLE 043](#) on the right and assume a comparable consolidation structure and constant exchange rates. Expectations may change if the macroeconomic situation deteriorates further and/or there is any unforeseen government or regulatory intervention. All trends denote year-on-year changes.

To show the intensity and trends of the forecasts we have given, we use the following assessment matrix: strong decrease, decrease, slight decrease, stable trend, slight increase, increase, strong increase.

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## Financial performance indicators.

		Results in 2013	Pro-forma in 2013 <sup>a</sup>	Expectations for 2014 <sup>b</sup>	Expectations for 2015 <sup>b</sup>
<b>REVENUE</b>					
Group	billions of €	60.1	60.9	slight increase	increase
Germany	billions of €	22.4	22.4	slight decrease	stable trend
United States (in local currency)	billions of USD	24.7	26.4	strong increase	increase
Europe	billions of €	13.7	13.5	decrease	stable trend
Systems Solutions	billions of €	9.5	9.0	decrease	stable trend
Of which: Market Unit	billions of €	7.7	7.4	decrease	increase
<b>PROFIT (LOSS) FROM OPERATIONS (EBIT)</b>					
	billions of €	4.9	4.8	strong increase	strong decrease
<b>EBITDA</b>					
	billions of €	15.8	15.8	strong increase	strong decrease
<b>EBITDA (ADJUSTED FOR SPECIAL FACTORS)</b>					
Group	billions of €	17.4	17.6	approx. 17.6	increase
Germany	billions of €	8.9	8.9	approx. 8.7	stable trend
United States (in local currency)	billions of USD	5.1	5.6	approx. 6.1	strong increase
Europe	billions of €	4.5	4.5	approx. 4.3	stable trend
Systems Solutions	billions of €	0.8	0.8	approx. 0.9	increase
<b>ROCE</b>					
	%	3.8		increase	approx. 5.5
<b>CASH CAPEX<sup>c</sup></b>					
Group	billions of €	8.9	9.0	approx. 9.3	slight increase
Germany	billions of €	3.4	3.4	increase	slight increase
United States (in local currency)	billions of USD	4.0	4.2	increase	stable trend
Europe	billions of €	1.7	1.7	decrease	slight increase
Systems Solutions	billions of €	1.1	1.1	stable trend	stable trend
<b>FREE CASH FLOW (BEFORE DIVIDEND PAYMENTS AND SPECTRUM INVESTMENT)<sup>d</sup></b>					
	billions of €	4.6		approx. 4.2	slight increase
<b>RATING</b>					
Rating (Standard & Poor's, Fitch)		BBB+		A-/BBB	A-/BBB
Moody's		Baa1		A3/Baa2	A3/Baa2
<b>OTHER</b>					
Dividend per share <sup>e, f</sup>	€	0.50		0.50	re-visit
EPS (adjusted for special factors)	€	0.63		approx. 0.6	approx. 0.8
Equity ratio	%	27.1		25 to 35	25 to 35
Relative debt		2.2 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> And before AT&T transaction and compensation payments for MetroPCS employees.<sup>e</sup> Additional option for shareholders: choice of cash dividend or dividend converted into Deutsche Telekom AG shares.<sup>f</sup> Subject to approval by the relevant bodies and the fulfillment of other legal requirements.

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**Non-financial performance indicators.**

		Results in 2013	Expectations for 2014	Expectations for 2015
<b>GROUP</b>				
Customer satisfaction (TRI*M index)		64.9	slight increase	slight increase
Employee satisfaction (commitment index) <sup>a</sup>		4.0	stable trend	stable trend
<b>FIXED-NETWORK AND MOBILE CUSTOMERS</b>				
<b>GERMANY</b>				
Mobile customers	millions	38.6	slight increase	increase
Fixed-network lines	millions	21.4	decrease	decrease
Of which: IP-based	millions	2.1	strong increase	strong increase
Broadband lines	millions	12.4	slight increase	slight increase
TV customers (IPTV, satellite)	millions	2.2	strong increase	strong increase
<b>UNITED STATES</b>				
Branded postpaid	millions	22.3	strong increase	increase
Branded prepaid	millions	15.1	strong increase	strong increase
<b>EUROPE</b>				
Mobile customers	millions	56.7	slight decrease	slight increase
Fixed-network lines	millions	9.5	decrease	decrease
Of which: IP-based	millions	2.7	strong increase	strong increase
Retail broadband lines	millions	5.0	increase	strong increase
TV customers (IPTV, satellite, cable)	millions	3.6	strong increase	strong increase
<b>SYSTEMS SOLUTIONS</b>				
Order entry	millions of €	8,259	strong decrease	stable trend
<b>CR KPI</b>				
CO <sub>2</sub> Emissions CR KPI	thousands of tons	3,837	stable trend	slight decrease
Energy Consumption CR KPI <sup>b, c</sup>	MPEI	121	stable trend	slight decrease
Sustainable Procurement CR KPI	%	54	slight increase	2015 target: 75 %

<sup>a</sup> Commitment index according to the most recent employee survey in 2012.<sup>b</sup> Calculated using fact-based estimates and/or extrapolations.<sup>c</sup> MPEI describes electricity consumption in thousands of MWh/revenue in billions of euros.

We are aiming to achieve a slight increase in customer retention/satisfaction in 2014 and 2015 measured based on the TRI\*M index performance indicator.

Having already achieve a high level on the **commitment index** of 4.0 – on a scale of 1.0 to 5.0 – following the 2012 employee survey and the results of the pulse survey performed in 2013, we expect the positive response of our employees regarding our Company to remain stable in the next employee survey.

For detailed information on our CR KPIs and our expectations, please refer to the section “Corporate responsibility.” 

Our plans are based on the exchange rates assumed in TABLE 045.

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**Exchange rates.**

Croatian kuna	HRK	7.58/€
Polish zloty	PLN	4.20/€
Czech koruna	CZK	25.97/€
Hungarian forint	HUF	296.94/€
U.S. dollar	USD	1.33/€

The following TABLE 046 contains a summary of our model calculations and analyses of the key potential external factors.



**Sustainability at Deutsche Telekom**  
Please also refer to  
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**Factors that may impact results.**

Premises	Expected trend	Impact on results
<b>ECONOMY:</b>		
Macroeconomic trends in Europe (incl. Germany)	improvement	+
Macroeconomic trends in the United States	improvement	+
Inflation in Europe (incl. Germany) and the United States	same	○
Development of USD exchange rate	same	○
Development of exchange rates of European currencies	same	○
<b>REGULATORY/STATE INTERVENTION:</b>		
Regulation of mobile communications in Europe (incl. Germany)	intensification	-
Regulation of the fixed network in Europe (incl. Germany) <sup>a</sup>	same	○
Additional taxes (in Europe/the United States)	intensification	-
<b>MARKET DEVELOPMENT:</b>		
Intensity of competition in telecommunications sector in Europe (incl. Germany) and the United States	intensification	-
Price pressure in telecommunications markets	intensification	-
ICT market	improvement	+
Data traffic	improvement	+

positive
 unchanged
 negative

<sup>a</sup> Due to the refocusing of fixed-network regulation to encourage investment in broadband access networks as announced by the European Commission, we expect the trend to improve.

**EXPECTATIONS FOR THE OPERATING SEGMENTS.****GERMANY.**

We intend to safeguard and extend our market leadership in our home market in the coming years. One major topic will be the transformation of our Group to turn it into an integrated provider of purely IP-based broadband access at home and on the move. We offer more and more combined products consisting of fixed-network and mobile elements. Families can book a particular mobile rate plan together with DSL, for example. "Entertain" customers can manage their TV recordings using their smartphones and "Entertain to go" lets them watch TV programs on their tablets at home. We win our customers over with simple, integrated calling plans, the best network, the best service, and the best quality.

We intend to remain the market leader in Germany through 2015 in both mobile communications and the fixed network. In addition, demand for bandwidth for our innovative products, both in mobile communications and in the fixed network, will continue to grow strongly. We will therefore invest considerably more in the coming years in broadband networks, in innovative products and in customer service – and these investments will be reflected in our network quality and the TRI\*M customer satisfaction index. The main points of emphasis are:

- Accelerated roll-out of LTE with transmission rates of up to 150 Mbit/s and covering 85 percent of the population by 2016.
- Build-out of the optical fiber network – not only in metropolitan areas – with the target of being able to offer around 65 percent of households an FTTC line by 2016, including vectoring technology with transmission rates of up to 100 Mbit/s.
- IP transformation: Use of the innovative hybrid technology to bundle the transmission capacities of the fixed- and mobile networks intelligently, making the maximum possible bandwidth available.

While we continue to drive forward investments in new technologies in 2014, we are also reducing investments in old technologies and thus clearly laying the foundation for innovation and growth.

In our Germany operating segment, we expect revenue to undergo a slight decrease year-on-year in 2014. This is mainly due to the continued decrease in voice telephony in both the fixed network and mobile communications to the benefit of bundled products and due to the price- and volume-driven decrease in wholesale business. On top of that are the substitution effects on text messaging through the use of free-of-charge IP messaging services such as WhatsApp. Regulatory price cuts in roaming, termination and the unbundled local loop will also impact revenue negatively. From 2015, we aim to stabilize revenue against the prior year.

We expect the use of mobile data services to continue to progress positively. The increasing spread of smartphones and tablets in particular will have a positive impact on mobile data and Internet usage in the coming years and therefore also on our data revenues. At the same time, we will continue to expand our optical fiber services, i.e., VDSL, FTTH, including the introduction of new business models with new wholesale products such as the "contingent" model and further cooperation activities, for example in the housing sector. We will also offer integrated products consisting of mobile communications, traditional voice telephony, Internet, and attractive, high-definition television. What's more, we will provide new services for our customers in cooperation with partners, such as Spotify.

New growth drivers such as De-Mail, cloud services, terminal equipment rental models and further technical support services will also help stabilize revenue from 2015.

We expect to see a slight decrease in adjusted EBITDA in our Germany operating segment in 2014 due to the slight decrease in revenue and the increase in ongoing costs for the IP transformation and the integrated network build-out. We expect adjusted EBITDA to stabilize and our adjusted EBITDA margin to remain at around 40 percent from 2015 onward.

On our path to becoming an integrated network operator, we will increase our investment in our network infrastructure in the coming years, particularly in the build-out of our optical fiber and LTE networks. That will lead to an increase in our cash capex in the coming years.

## UNITED STATES.

In 2014, T-Mobile US will continue to execute on its Un-carrier strategy to be the simple choice for a better mobile life and the integration of the MetroPCS brand as a result of the business combination that occurred in 2013. Key elements of the Un-carrier strategy include delivering distinctive value for consumers in all customer segments by eliminating customer pain points and providing excellent 4G services through advantaged spectrum and a next-generation LTE network deployment. Additionally, the Un-carrier strategy focuses on attracting and retaining a loyal customer base by providing value-leading offers, driving operational efficiencies, the continued enhancement of network quality, and developing attractive device offerings.

T-Mobile US expects a strong increase in branded postpaid and prepay customers in 2014 and expects that trend to continue for prepay customers in 2015. However, competitive pressures and unforeseen changes in the wireless communications industry 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 local currency – in 2014 and an increase – in local currency – in 2015. Results in 2014 are expected to be positively impacted by the full year results of the MetroPCS brand being included following the business combination in the second quarter of 2013. Additionally, total revenues are expected to benefit from increased customer development and the continued migration of customers to unlimited Value/Simple Choice plans that increase equipment revenues due to lower equipment subsidies.

T-Mobile US also expects a strong increase in adjusted EBITDA – in local currency – in 2014 and 2015. T-Mobile US expects continued focus on cost-saving initiatives and realization of operational and network synergies from the business combination with MetroPCS to lower operating expenses. 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. Additionally, competitive pressures may significantly affect expected revenues and adjusted EBITDA in local currency and exchange rates may significantly affect revenues and adjusted EBITDA in euros in 2014 and 2015.

In January 2014, T-Mobile US entered into agreements with Verizon for the acquisition of 700 MHz A-Block spectrum licenses for USD 2.4 billion in cash and the transfer of certain AWS spectrum and PCS spectrum. Excluding the expenditures relating to those agreements, T-Mobile US expects an increase – in local currency – in cash capital expenditures in 2014 as it continues to roll out its 4G LTE network, and a stable trend for cash capital expenditures in 2015.

## EUROPE.

We expect the tense market situation in our Europe operating segment to continue. Our national companies operate in a highly competitive environment. Most of the markets in this operating segment are virtually saturated and line losses are the order of the day in the traditional fixed-network business. Market prices are pushed down by decisions made by regulatory authorities, such as the repeated reduction in termination charges in mobile communications, and by decisions regarding charges for wholesale services in the fixed-line business. We also expect competition to intensify as a result of the allocation of additional mobile frequencies to new potential market players.

In spite of the tough competitive conditions in most of our footprint countries in this operating segment, we intend to defend our market position in each country. In the case of our integrated companies, we will work on maintaining our market leadership in both the fixed network and mobile communications or on using our strong position in the fixed network to build up our mobile business, depending on the position of the respective company in its market. Some of our companies that to date have been mobile-only are now in a position to offer consumers and business customers a vastly expanded portfolio, for example as a result of the acquisition of GTS Central Europe and the merger between the local business units of T-Systems Czech Republic and T-Mobile Czech Republic.

One of the focal points of our business is on our growth areas. We are convinced that they will help us compensate for the revenue decreases in our traditional telecommunications business. We want to excite our customers in the field of broadband and television in particular with a consistent user experience across all screens, from televisions and computers to tablets and cell phones. We will augment our range of television services both with exclusive premium content and channels of our own and with content from partners. We are increasingly incorporating innovative features such as "TV everywhere," which we have already successfully launched in almost all countries of the Europe operating segment. In our mobile business, we are developing and implementing new products and services, for example the Mobile Wallet, which we have already launched on the market in Poland. In 2014, we intend to launch it in other countries, too. ICT services are another important growth engine. Bearing that in mind, we will offer our high-caliber ICT products in the business-to-business sector not only to large corporations, but also increasingly to small- and medium-sized businesses in our Europe operating segment. We are increasingly working on standardized platforms across all national companies, for instance on a cross-border M2M platform. We will continue to broaden our range of services, particularly for small- and medium-sized businesses, with the provision of secure cloud services. Our adjacent industries business area can be transferred to other countries in our Europe operating segment thanks to the successful example in Hungary. We are planning to offer our customers in Croatia power supply contracts in 2014, for example.



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To be able to realize our plans, we will be transforming our business model to create seamless interaction between all access technologies. We want a simplified and standardized network to establish the foundation for an e-company with a promising future. We will continue to focus our investment on the network infrastructure with the emphasis on consistent migration to IP technology. Detailed migration plans were established at all our integrated companies in 2013 and implementation begun. In the F.Y.R.O. Macedonia, we successfully completed the migration on January 15, 2014, with other companies to follow suit. Another technology milestone is TeraStream – a concept centered around a cloud-based IP architecture. A pilot project began in Croatia in 2012 and was continued in 2013. We plan to carry out similar pilot projects in other countries of our Europe operating segment. In Greece, we have started implementing the Broadband Network Gateway (BNG), which we intend to have in full operation by 2015, as a preliminary stage for TeraStream. Our Hungarian company will also work on the launch of the BNG over the next two years.

We are also planning to make investments to offer our customers the best possible broadband experience. We intend to use various technical options. We are testing what is known as hybrid access in Montenegro, for example, which bundles data streams from the fixed network and mobile communications.

In our mobile business, we are concentrating on the build-out of LTE systems. We have already started with the roll-out in all the countries of our Europe operating segment, except Albania and Poland. Our European national companies have various roll-out targets; we want to cover between 50 and 85 percent of the population with LTE by 2017. To achieve these network coverage targets we may enter into further network cooperation alliances, similar to those currently set up in Poland, the Czech Republic or the Netherlands. We will continue to invest in improving our customer service and our processes. We expect cash capex to decrease in 2014 compared with the prior year. We then expect to see a slight rise in 2015.

Our revenue and earnings may be adversely affected by changes in legislation, for instance in connection with government austerity programs. Special taxes not only in Hungary but also in Greece, for example, will have a negative impact on our earnings and restrict our ability to invest in the respective countries. Exchange rate effects may also adversely affect earnings on a euro basis. We plan to compensate for these potential negative effects in part with cost-cutting measures and strategic initiatives. We will continue to increase productivity and cut costs, which will entail headcount reductions at some companies in our Europe operating segment. We also intend to look into the possibility of more network cooperations with other companies in certain countries of our Europe operating segment.

The composition of our Europe operating segment changed as follows effective January 1, 2014: The local business customer unit of T-Systems Czech Republic, previously assigned to the Systems Solutions operating segment, is being merged with T-Mobile Czech Republic. In addition to mobile and fixed-network business activities, the company now also offers ICT solutions for business customers and public administrations. The local business units (LBUs), which had also been organizationally assigned to the Systems Solutions operating segment until December 31, 2013, have now been brought together and are reported under the Europe operating segment. The LBUs are units in and outside of Europe that predominantly perform wholesale telecommunications services for ICSS (International Carrier Sales & Solutions) as part of the Europe operating segment and for wholesale customers. We expect the reassignment of these activities to have positive effects on revenue and adjusted EBITDA for the Europe operating segment.

In late 2013, we reached an agreement with a consortium of international private equity companies on the acquisition of the GTS Central Europe group (GTS) for a total of EUR 0.5 billion. Our aim with this business combination is to create an even better basis from which to offer innovative telecommunications solutions and integrated products in our key European markets in the future. We aim to close the transaction in 2014, subject to the approval of the relevant authorities.

Based on these parameters, we expect to be able to gain more customers for our combined products in our Europe operating segment, which will be reflected in a strong increase in the number of broadband and television lines in 2015 in particular. We expect the number of mobile communications customers to fall slightly, largely as a result of the potential introduction of a prepaid registration requirement in one of the countries of our footprint. We expect to see an increase in the number of mobile communications customers again in 2015. We also expect the number of fixed network lines to decrease in 2014 and 2015 as a result of substitution by mobile business and of continuing competition.

Based on these assumptions and parameters and excluding GTS Central Europe, we expect to record a decrease in revenues and a decrease in adjusted EBITDA in our Europe operating segment in 2014 compared with 2013 on a like-for-like basis, i.e., assuming constant exchange rates and based on assumptions relating to regulation, new market players, spectrum auctions, and unchanged organizational structures. In 2015, including GTS Central Europe, we expect revenues and adjusted EBITDA to remain stable.

## SYSTEMS SOLUTIONS.

As described in the expectations for the Europe operating segment, the composition of our Systems Solutions operating segment has changed, partly through the merger of the local business customer unit of T-Systems Czech Republic with T-Mobile Czech Republic and partly through the combination of the local business units (LBUs) in the Europe operating segment.

The T-Systems Market Unit focuses on the ICT services growth market, offering solutions for corporate customers. We once again signed big deals with major companies and institutions in Germany and abroad in 2013, such as RWE, the European Commission, Deutsche Rentenversicherung (German statutory pension insurance), the Finnish company KONE, the Swiss National Railways, and car manufacturer BMW. In addition, our standard solutions in the growth area of cloud computing succeeded in the face of strong competition, winning us contracts with many of our corporate customers, for example the conclusion of a contract with the Pioneer Europe electronics corporation. Accordingly, we again expanded our dynamic resources from the cloud in the reporting period, which will pay off for our customers in future. They will be able to call up bandwidth, computing power, storage, and software as they need them; they will share infrastructure and only pay for what they actually use.

The T-Systems Market Unit continues to work on its business model and will invest in new digital innovation areas to support customers in the ongoing digitization of their business. In addition to traditional IT and telecommunications business, the focus is therefore also increasingly on platform-based services and cloud services, including issues such as security, M2M, and big data as well as the further build-out of intelligent networks. The transformation to focus on the digital innovation areas is expected to take two years. Growth in these areas is then intended to compensate for lower-margin business with traditional outsourcing.

As a service provider for the Group, Telekom IT constantly develops the Deutsche Telekom Group's IT landscape, thus making an important contribution to our Company's competitiveness and success in the market. Standardized and optimized systems and processes contribute significantly to our systematic efficiency management and to reducing the Group's IT costs further. The consistent reduction of IT expenditure for the Deutsche Telekom Group is reflected in falling revenues. We therefore expect revenues at Telekom IT to continue to fall in subsequent years.

Overall, we expect adjusted EBITDA in the Systems Solutions operating segment to increase in 2014 despite the decrease in revenue. We will consistently expand and review our business model to ensure sustainable, profitable growth in the future. We will push ahead with various transformation programs with the aim of generating growth with scalable, cloud-based services, changing traditional ICT elements to make them more profitable and to identify services that we can no longer perform ourselves. These measures will reduce the revenue of the Market Unit in the short term to the benefit of sustainable, profitable growth. Revenue is expected to stabilize in 2015 compared with 2014. We expect adjusted EBITDA to increase. Revenue at the Market Unit is expected to decrease in 2014 due to the developments described and then increase again in 2015. Order entry is expected to decrease in 2014 to begin with and then become stable again in 2015. We expect cash capex to remain stable year-on-year in 2014 and 2015.

## GROUP HEADQUARTERS & GROUP SERVICES.

Having started in the 2013 financial year, we will continue our cost management efforts in 2014 and 2015, which will contribute to improving our results. Investment in innovative growth areas at the Digital Business Unit (e.g., cloud services and payment) will have an offsetting effect in 2014. Following the sale of a 70 percent stake in the Scout24 group, the earnings generated by the remaining 30 percent stake will be reported under profit/loss from financial activities (share of profit/loss of associates and joint ventures accounted for using the equity method). This is likely to lead to a marked reduction in adjusted EBITDA compared with 2013. We expect adjusted EBITDA in 2015 to improve compared with 2014 as a result of the continuation of our cost-cutting measures at Group Services and greater value from the DBU.

<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 137 ET SEQ. of the combined management report, and the "Disclaimer," PAGE 264 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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## RISK AND OPPORTUNITY MANAGEMENT.

- Risk early warning system
- Identification of 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. A functioning risk and opportunity management system is therefore a central element of value-oriented corporate governance.

In addition to business management requirements, a risk management system is required by regulations and by law (for example by § 91 (2) of the German Stock Corporation Act (Aktiengesetz – AktG) and the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz – BilMoG)), which translated the requirements of the 8th EU Directive (as well as those of the 4th and the 7th) into national law). BilMoG obliges the Audit Committee to monitor the effectiveness of internal control systems and of risk management.

Our Group-wide risk and opportunity management system covers all external, strategic, operational, financial, and reputational risks and 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 (see GRAPHIC 51). 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/seizing opportunities). The associated action plan is implemented, monitored and evaluated by the respective risk owners. All steps are repeatedly traversed and modified to reflect the latest developments and decisions.

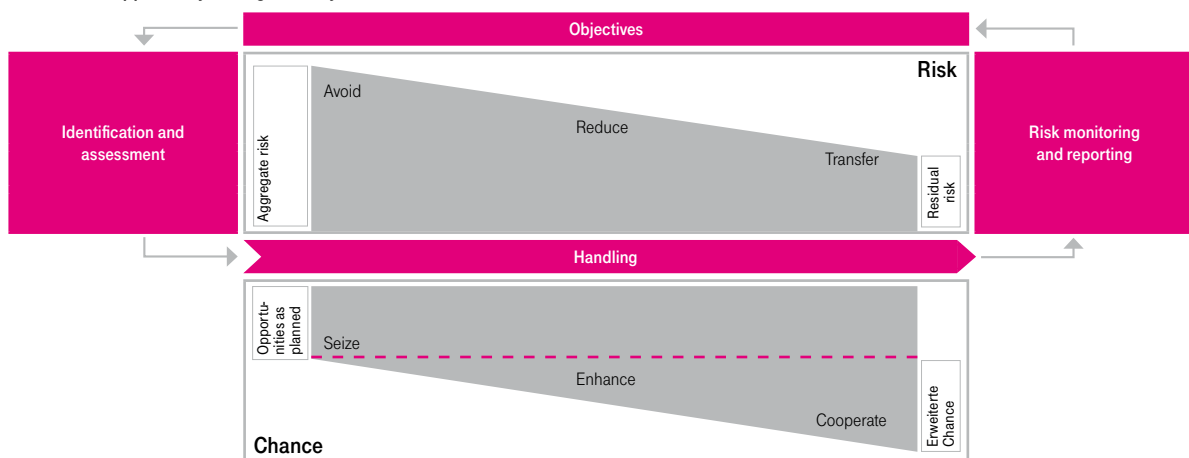
Deutsche Telekom's risk and opportunity management system is based on the globally applicable risk management standard of the International Standards Organization (ISO). ISO standard 31 000 "Risk management – Principles and guidelines" is regarded as a guideline for internationally recognized risk management systems.

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. The 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 has established a series of Group guidelines and processes for the planning, budgeting, financial management and reporting of investments and projects. This guideline guarantees the necessary transparency during the investment process and the consistency of investment planning and decisions in our Group and operating segments. It also provides decision-making support for the Board of Management and the Board of Management Capital Expenditure Committee. This process also includes the systematic identification of strategic opportunities and risks.

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#### The risk and opportunity management system.

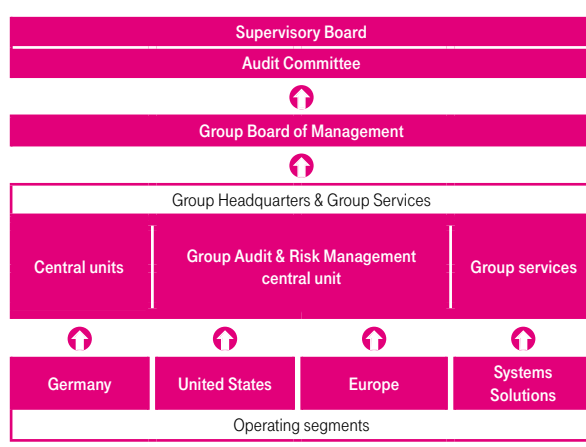


## ORGANIZATION OF RISK MANAGEMENT.

The Group Risk Management & Insurance, Europe unit has central responsibility for the methods and systems used in an independent risk management system that has been standardized across the Group and for the associated reporting. The 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 our segments and central Group units are responsible for managing and reducing risks.

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### Risk management.



## RISK 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 also includes a series of 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 the same forecast period as that of the company-specific forecast.

This information forms the basis for the Group risk report to the Board of Management which presents the main individual risks in a portfolio. The Board of Management informs the Supervisory Board. The Audit Committee of the Supervisory Board also examines the risk 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 our risk cockpit, which we developed in response to the financial and sovereign debt crisis and constantly refine, as an additional tool for monitoring and analyzing risks. This tool collects a large number of early warning and economic indicators each quarter, e.g., on macroeconomic, political and legal developments in our core countries. When analyzing economic indicators, we use leading, coincident and lagging indicators. The OECD's composite leading indicators, for example, as the product of several upstream sub-indicators, can map economic developments overall. Being generated on a monthly basis, they offer a more up-to-date view of economic activity than a quarterly publication of gross domestic product ever could.

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### Sample extract from the risk cockpit – economic trends.

Economic trends.		Germany	United States	Greece	Poland	Hungary	UK
Leading <sup>a</sup>	Composite leading indicator	100.4   100.3	100.9   100.9	101.8   101.7	101.0   100.8	98.7   98.7	101.2   100.9
	Consumer climate	7.1   7.0	75.2   77.5				
	Trend	➡   ➡	➡   ➡	➡   ➡	➡   ➡	➡   ➡	➡   ➡
Coincident <sup>b</sup>	GDP	0.6%   0.0%	1.4%   1.9%	-4.4%   -5.3%	1.2%   0.8%	0.5%   0.6%	1.5%   1.3%
	Consumer spending	1.1%   0.6%	1.8%   2.3%	-8.7%   -9.1%	0.5%   0.0%	1.1%   -0.8%	2.0%   1.2%
	Trend	➡   ➡	➡   ➡	➡   ➡	➡   ➡	➡   ➡	➡   ➡
Lagging <sup>a</sup>	Unemployment <sup>b</sup>	6.8%   6.9%	7.3%   7.6%	28.1%   28.2%	13.7%   13.7%	10.1%   10.6%	7.1%   7.6%
	Consumer prices	1.7%   1.5%	1.6%   1.4%	-1.1%   -0.4%	1.4%   0.6%	1.5%   1.8%	2.7%   2.7%
	Trend	➡   ➡	➡   ➡	➡   ➡	➡   ➡	➡   ➡	➡   ➡

➡	positive development; high overall level	➡	positive development; medium overall level	➡	various developments; low overall level
➡	various developments; high overall level	➡	negative development; medium overall level	➡	negative development; low overall level

Source: OECD, destatis, BEA, Oxford Economics, GfK, Conference Board, Bloomberg.

<sup>a</sup> Current month (corresponding month in prior quarter).

<sup>b</sup> Q3/2013 (Q2/2013) compared with the respective prior-year quarter.

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We establish various scenarios based on the entire system of indicators of macroeconomic parameters and taking into account political and legal developments, and analyze potential effects. With the risk cockpit, we have developed a tool that creates greater transparency about our risks and opportunities, assesses the relevance of these risks, and prioritizes them.

### 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.

Opportunities in our business are identified and recorded throughout the year by our operating segments and Group Headquarters as part of the short-term monitoring of results and medium-term planning processes. While short-term monitoring of results mainly targets opportunities for the current financial year, the medium-term planning process focuses on opportunities that are of strategic importance for the Group. We distinguish between two types of opportunities:

- Opportunities with external causes that cannot be influenced, for example, the revocation of additional taxes in Europe.
- Opportunities created internally, for example by focusing our organizational structure on innovations (e.g., T-Labs and T-Venture), growth areas and products, and business relationships 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, executives, and experts from all business areas intensively discuss the strategic and financial focus of the Group and the operating segments on a daily basis and ultimately produce an overall picture. The identification of opportunities from innovation and their strategic and financial assessment play a major role throughout this phase. During the daily decision-making rounds, the results of this "brainstorming" are either rejected, passed back to the 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." They are then classified as high, medium or low in relation to our business targets. The following assessment yardsticks apply:

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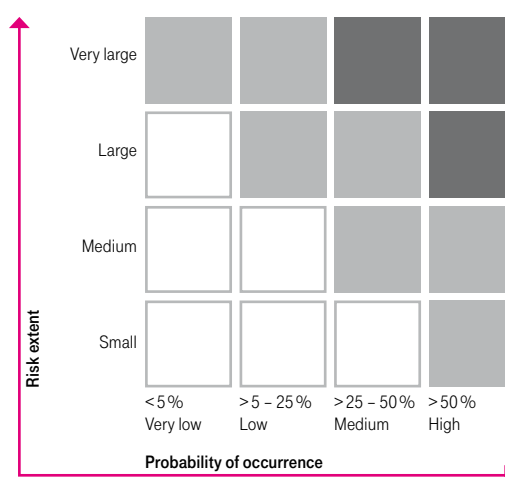
Probability of occurrence	Description
< 5 %	very low
> 5 to 25 %	low
> 25 to 50 %	medium
> 50 %	high

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 can classify them into low, medium and high risks, as shown in GRAPHIC 54.

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#### Risk level.



■ High risk   ■ Medium risk   ■ Low risk

Once risks have been assigned to this portfolio, all risks classified as “high” and “medium” are reported. Exceptions are possible in specific cases, for example, for the sake of reporting continuity, 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, due to uncertainties that cannot be assessed at present and over which we have no influence. Furthermore, risks that are currently unknown to us, or those that we currently consider to be insignificant may affect our business activities in the future due to uncertainties that cannot be assessed at present.

#### RISK CONTAINMENT MEASURES.

**Risk management and insurance.** To the extent possible and economically viable, we will obtain Group-wide insurance cover for insurable risks. Group Risk Management & Insurance, Europe is supported by DeTeAssekuranz GmbH as an insurance broker. DeTeAssekuranz GmbH works for the Group as a wholly-owned subsidiary of Deutsche Telekom AG and supports insurance risk management in the Group in developing and implementing 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, processes, technology, and information. The aim of BCM 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.

To this end, critical business processes and business processes needing protection including any supporting processes, process steps, and assets (employees, business processes, information, and technology) are identified as part of BCM, and appropriate precautionary measures are defined. Specifically, the possible consequences of external and internal threats with relevance for security (e.g., natural disasters, vandalism, sabotage, etc.) need to be analyzed by Security Management in coordination with the relevant units and process owners. Based on an evaluation of the extent of damage and the probability that damage will occur, preventive measures are implemented and emergency plans developed.

Further measures for containing risks are introduced and implemented by risk owners according to their quality and nature. 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 constant operational and infrastructural measures. Our quality management, the related controls and quality assurance are continuously enhanced. 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 disputes 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 assesses and monitors them. Measures to minimize tax-related risks are taken as necessary and coordinated with the Group companies affected. Policies for overcoming or avoiding tax-related risks are also drawn up and communicated.



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## 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' performance, the results of operations, financial position and/or reputation of Deutsche Telekom AG. The majority of the risks are described 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 a segment, this is stated subsequently.

As of the reporting date and the time of preparing the financial statements, there were no risks that jeopardize Deutsche Telekom AG's and key Group companies' continued existence as a going concern.

In order to make it easier to understand and see their effects, 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 since prior year
INDUSTRY, COMPETITION AND STRATEGY				
Risks relating to the macroeconomic environment, Germany	low	small	low	↻
Risks relating to the macroeconomic environment, United States	low	medium	low	↻
Risks relating to the macroeconomic environment, Europe	medium	medium	medium	↻
Risks relating to the market and environment, Germany	medium	medium	medium	↻
Risks relating to the market and environment, United States	medium	medium	medium	↻
Risks relating to the market and environment, Europe	medium	medium	medium	↻
Risks relating to innovations (substitution)	medium	large	medium	↻
Risks relating to strategic transformation and integration, United States	medium	medium	medium	↻
REGULATION	please refer to PAGE 143 ET SEQ.			
OPERATIONAL RISKS				
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	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	medium	medium	↻
Procurement	low	small	low	↻
Data privacy and data security	medium	medium	medium	↻
BRAND, COMMUNICATION AND REPUTATION				
Brand and reputation (reporting in the media)	low	small	low	↻
Sustainability risks	low	small	low	↻
Health and environment	low	medium	low	↻
LITIGATION AS WELL AS ANTI-TRUST AND CONSUMER PROTECTION PROCEEDINGS	please refer to PAGE 148 ET SEQ.			
FINANCIAL RISKS				
Liquidity, credit, currency, interest rate risks	low	small	low	↻
Tax risks	please refer to PAGE 153			
Other financial risks	please refer to PAGE 153			

↻ improved   ↻ unchanged   ↻ deteriorated

## RISKS AND OPPORTUNITIES FROM INDUSTRY, COMPETITION AND STRATEGY.

**Risks and opportunities relating to the macroeconomic environment.** Thanks to the expansive monetary policy of the European Central Bank (ECB) and the U.S. Federal Reserve (Fed), the capital markets continued to stabilize in 2013. However, the sovereign debt crisis slowed down the expansion of the global economy. The sovereign debt crisis remains the biggest economic risk for our core countries. Uncertainty is attached to both the long-term development of sovereign debt as well as the performance of national economies, especially in the European crisis states. If the euro crisis were to flare up again or individual countries were to leave the eurozone, the capital markets and the real economy could be adversely affected. Risks to economic development could manifest themselves in different ways in some of our core countries, where consumers and business customers could restrain their consumption if the economy slows again sharply and uncertainty continues to rise. Government austerity measures could also lead to further negative effects on telecommunications consumption – caused by reduced public demand and lower disposable incomes in the private sector. In view of national efforts at consolidation, our operational business also faces the risk of further, unannounced tax rises or special taxes, particularly in our Southern and Eastern European markets. Furthermore, the risks arising from the sovereign debt crises also give rise to volatile exchange rate fluctuations.

By contrast, a clear improvement in the economic situation in our core countries can lead to a further increase in consumer and business confidence and, as a result, to a moderate increase in demand for telecommunications services from consumers, business customers, and the public sector.

**Risks relating to the market and environment.** The main market risks faced by Deutsche Telekom are the 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.


Competitive pressure will increase further, especially in the fixed network in Germany and Europe. In the broadband market, we continue to observe a growing dominance of cable network operators in the new customer business, especially in Germany. They provide private homes and smaller companies throughout Germany with telecommunications products that neither require them to build out a network nor to lease unbundled local loop lines from Deutsche Telekom. In addition, regional telecommunications carriers will further increase their market coverage. The trend of mobile communications replacing fixed-network communications is also unbroken. 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 rather 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.

We also expect prices in mobile voice telephony and mobile data services to decline further, which could adversely affect our mobile revenue. Among the main reasons for the decrease in prices are discount operators that are expanding in Germany and elsewhere in Europe. Our national companies in Europe in particular operate in a highly competitive environment. We expect competition to intensify as a result of the allocation of additional mobile frequencies to new potential market players. During the reporting year, we were the smallest of the four national mobile providers in the United States. Our relative market position in the United States entails particular risks, especially in connection with our market shares, brand positioning, network coverage, and network quality. We expect joint ventures, mergers, acquisitions and strategic business combinations in the U.S. mobile industry to result in increased competition in the U.S. market. Thanks to their market position and market shares, our three strongest competitors (Verizon, AT&T, Sprint) can react faster and more effectively to market opportunities and invest more in customer acquisition. Thanks to the transaction with MetroPCS, T-Mobile US has achieved a better market position and can tackle the challenge of winning over customers head-on through new product and service quality and attractive pricing.

Our Systems Solutions operating segment also faces challenges; after all, the ICT market is dominated by continued strong competition, price erosion, long sales cycles, and restrained awarding of projects. This creates a potential risk of revenue losses and declining margins for T-Systems.

**Opportunities relating to the market and environment.** Below we present opportunities for each business segment, 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.

The telecommunications and IT market is highly dynamic and marked by intense competition. 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." 

One opportunity in the German market could result from the intention formulated in the coalition agreement between the CDU, the CSU and the SPD to further develop the broadband strategy. The forward-looking project Industry 4.0 could create opportunities for Deutsche Telekom, especially with regard to the topic Internet of Things (merging of the real and virtual worlds, driven by the Internet). Furthermore, in the markets in which we are positioned as an integrated provider, we expect consumer demand for integrated products to grow in the future. Integrated products refer to a combination of voice, data, television, and mobile communications.



Please also refer to the section "Forecast," PAGES 128 and 129.

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In systems solutions, we see huge opportunities for “intelligent networks” especially in the healthcare, energy, and automotive sectors. Further opportunities could arise through targeted acquisitions, e.g., in the area of healthcare with BrightOne GmbH, a provider of hospital information systems, as well as through innovative solutions in all new business areas. Increased demand for our cloud computing and big data products and services, as well as network capacities can also have positive effects. Discussions on the subject of data security also suggest an increase in demand for our security solutions.

It is possible that Europe, excluding Germany, will recover from the economic crisis more quickly than previously anticipated. This would produce a positive development in the telecommunications and IT industry. We believe this trend could boost market growth due to increased use of data services by our customers.

The aggressive market approach – based on the Un-carrier strategy – in the United States could also lead to above-expectation revenue growth. The Un-carrier strategy includes elements such as innovative products offering more flexible contract terms, network modernization and significant improvements in the cost structure.

**Risks relating to innovations.** Ever shorter innovation cycles confront the telecommunications sector with the challenge of bringing out new products and services at shorter and shorter intervals. Technological progress means that technologies and products may to some extent substitute one another. This could lead to lower prices and revenues in both voice and data traffic. In future, the effects of new technological developments, such as WebRTC (Web Real Time Communication) could have a significant impact on the telecommunications market, in that, for example, customers may only demand pure data rates. At present, these substitution risks could impact our revenue and earnings above all in the Europe and United States operating segments.

**Risks relating to strategic transformation and integration.** We are in a continuous process of strategic adjustments and cost-cutting initiatives. The merger with MetroPCS gives rise to a transformation and integration risk for our United States operating segment if these measures cannot be implemented as planned. This means the benefits could be less than originally estimated, or they could arrive 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.

**Opportunities relating to strategic initiatives, innovations and partnerships.** To follow, we present the 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. We see these opportunities in particular in view of the efficient involvement of our partners across all business areas. In the future, we want to offer our partners the simple, fast, and flexible opportunity of

partnership with fast market access by means of the Easy-to-Partner principle. One example from our innovative partnering strategy is the partnership with the leading music streaming service Spotify. In the TV business, the Sky partnership means not only that we were able to fulfill our promise of continuing to offer the Bundesliga soccer matches via Entertain, but also that we could extend our program to include the complete Sky Deutschland offering. This was also followed by the still missing HD channels from the RTL group as well as countless other special-interest channels in high definition. In addition, we crucially extended our offering in particular to include the new public-service broadcasting HD channels. We have more than 90 HD channels, making us the leading HDTV provider in Germany.

Innovation is a key factor for our growth targets. In order to be innovative and win and retain customers, we need attractive products and services. The speed of innovation is particularly fast in the telecommunications and IT industry. Companies wanting to impress in this regard have to strategically complement their own developments and ideas with external partners. Other global players such as Google and Facebook have already had great success with their partner strategies. We also want to increasingly implement new ideas and developments via partnerships, as this is the only way to profit from the agility and innovative power of start-ups and Internet companies. In return, we offer our market strength, our customer base and our production environment.

We also see further opportunities in systematically focusing Deutsche Telekom on the Business Customers segment. The acquisition of GTS Central Europe in particular has helped strengthen our position in the market for multinational customers. New opportunities are opened up by T-Systems' increased focus on standardized products and services in the business-to-business area. Our increased marketing of innovative products, such as cloud services, to medium-sized enterprises is another component for improving penetration of the business customer segment.

## REGULATION.

In the following section, we describe our main regulatory and political risks and opportunities which, as things currently stand, could affect our results of operations, financial position or cash flows, and/or 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 intensify existing price and competitive pressure.

There are concerns that regulatory interventions in Germany and other European countries may continue to impact the revenue trend in the fixed-network and mobile market in the medium and long term.



Please also refer to the section "The economic environment,"  
PAGES 76 and 77.



Please also refer to the section "The economic environment,"  
PAGES 76 and 77.



Please also refer to the section "The economic environment,"  
PAGES 76 and 77.

We are always subject to strict regulation in cases where national regulatory bodies consider us to have "significant market power" in the relevant telecommunications market. We thus offer our competitors wholesale services at prices set by the regulatory authority on the basis of a strict cost review. We are subject to a strict cost review as part of "ex-ante" regulation for products such as for access to unbundled local loop lines or fixed-network and mobile termination.

Rate measures by Telekom Deutschland GmbH for bitstream products are subject to "ex-post" price regulation by the Federal Network Agency, to whom they must be announced before they take effect. Accordingly, in September 2013, Telekom Deutschland GmbH announced rate measures on the IP bitstream market in connection with planned partnerships for broadband roll-out. The Federal Network Agency reviewed the pricing measures and found no evidence of anti-competitive behavior in connection with these measures. As such, the pricing measures may be implemented. However, the European Commission has not yet announced the Federal Network Agency's decision. There is still the option within the scope of ex-post price regulation for the Federal Network Agency or the German Federal Cartel Office to carry out a formal review at a later date.

Furthermore, the European Commission is issuing regulations to be applied directly by the member states, and recommendations which are not immediately binding, but do have to be taken into account by the national regulatory authorities.

- According to "European Commission Recommendation of May 7, 2009 on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU" (2009/396/EC), termination rates across the European Union are to be set on the basis of a new costing approach from January 1, 2013. This exposes us and our European subsidiaries to the risk that termination rates will be reduced further.
- On September 11, 2013, the European Commission adopted a recommendation to the national regulatory authorities "on consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment." The application of this recommendation in the individual member states can entail both risks in terms of an increase in regulatory obligations in the area of non-discrimination, and opportunities for greater stability of regulatory requirements as well as greater freedom in setting prices for regulated wholesale products offered in fiber-optic networks.
- In the second half of 2014, the European Commission will adopt a revised version of its recommendation on relevant markets, which contains the product markets in which regulation is to apply in principle. The revision offers the opportunity for deregulation, especially of the telephony service markets (retail rates for the telephone line as well as wholesale products, such as Call by Call). A corresponding EU order would in the medium term save the costs incurred in this area by regulatory procedures. Current proposals by the Commission would also allow the waiving of an obligation

to "physically unbundle" access networks in favor of more efficient "active" upstream products in fiber-optic networks. At the same time, the revision carries the risk of an increase in regulation for individual wholesale services for business customer markets.

- The roaming regulation, which entered into force on July 1, 2012, increases regulation through additional requirements, in particular the unbundling of services to be implemented by July 2014. 
- The draft regulation by the European Commission on the internal telecommunications market  also provides for more extensive regulation of international roaming, including the abolition of charges to be paid by end customers for incoming calls, which may lead to revenue losses. In addition, the proposed new regulations could make obsolete investments already made to implement the requirements of the most recent Roaming Regulation, which only took effect on July 1, 2012. The discussion of the Commission's proposal in the European Parliament could furthermore lead to an overall abolition of roaming premiums compared with national prices from July 2016.

**Net neutrality.** Both the European legislator and the Federal Ministry of Economics are currently developing rules to secure Net neutrality. Depending on what form they take, such regulations could substantially limit our degree of product design freedom. At EU level, the rules on Net neutrality are set down in the draft regulation by the European Commission on the single market for electronic communications.  The rules currently allow in particular special services as well as data traffic management to be offered in certain, defined cases, but prohibit optional rates in mobile communications that restrict access to certain Internet services and applications. In mobile communications in particular, there is a risk that other business models that differentiate between services and applications can no longer be legally offered.


**Assignment of frequencies.** In terms of risks and opportunities regarding spectrum regulation and policy, particular note should be made of the spectrum allocation proceedings and license extension negotiations currently in preparation in some countries and in planning in many others. While the discussion of license extensions presently relate in particular to the current GSM spectrum in the 0.9 GHz and 1.8 GHz ranges, the allocation procedures mainly relate to the auctioning of new mobile spectrum in the 0.8 GHz and 2.6 GHz ranges as well as residual spectrum in the 1.8 GHz and 2.1 GHz ranges.

Risks could arise from the fact that inappropriate auction rules and frequency usage requirements, excessive launch price demands and annual spectrum fees can jeopardize the acquisition of our target spectrum. By contrast, there is an opportunity in the fact that via such spectrum allocation procedures, mobile operators can acquire sufficient spectrum that is ideal for their purposes to be equipped for further growth, the introduction of new mobile broadband technologies as well as new developments, and to stay competitive in the long run. Allocation procedures are currently being prepared in Montenegro, Poland and Hungary, which are expected to start in spring 2014. In the medium

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term, spectrum will also be allocated in Germany, Albania, Greece, and the Netherlands. At European level, the proposed regulation for a single market for electronic communications offers an opportunity in the medium term for improving coordination of frequency policy as well as synchronizing the awarding of frequencies, which will improve the general conditions for awarding frequencies at a national level.

**Termination rates.** According to regulatory decisions or preliminary drafts by the competent regulatory authorities, mobile termination rates will be reduced further in 2014 in all countries in which our subsidiaries operate. This is mainly due to a recommendation by the EU Commission enforcing changeover to a cost standard that rules out the previous recognition of costs that can only be allocated indirectly. The EU Commission had announced that in the event of non-compliance with the recommendation to change the cost standard, it would consider legal action with regard to the final decisions by the Federal Network Agency on the mobile and fixed-network termination rates.

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. The regulatory authority must then 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.

## OPERATIONAL RISKS AND OPPORTUNITIES.

**Personnel.** In 2013, 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 Vivento, especially in the public sector. Staff restructuring will continue in the coming financial year. If it is not possible to implement the measures as planned or at all, this may have negative effects on our financial targets and profitability. 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 2,400 civil servants who are entitled to return to Deutsche Telekom in this way (as of December 31, 2013). On the assumption that all these civil servants had returned to us in 2014, the maximum risk would be around EUR 0.1 billion per year. This risk could be reduced by compensation payments, for example, but not completely eliminated. 

**Risks relating to IT/NT network operations.** We have a complex information/network technology (IT/NT) infrastructure. Technical infrastructure outages cannot be completely ruled out. Any such disruptions could result in revenue losses or increased costs, since our

IT/NT resources and structures are the organizational and technical backbone 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 process, 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. Our Computer Emergency Response Team (CERT) at T-Systems provides security for our corporate customers' servers. In cloud computing, all data and applications are stored at a data center. Deutsche Telekom's 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 or reduce any damage. Furthermore, we have Group-wide insurance cover for insurable risks.

**Risks relating to existing IT architecture.** T-Mobile US is exposed to risks in relation to its IT architecture: The systems that support our customer sales and service channels have become less efficient over time, leading to interruptions or outages. For as long as it takes to upgrade our IT capabilities, we will have to continue to expect limitations in the sales process and service provision for both our current and our planned customer demand.

**Future viability of the IT architecture.** 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 or we will face challenges in implementing our business strategy. System failures, security breaches, data protection violations, disruption of operations, and unauthorized use of or interference with our network and other systems could damage our reputation and adversely impact our financial situation.

**Opportunities arising from the IP transformation and simplified network architectures.** We can see that demand for applications, services, and social networks is rising steadily and with it, the demand for ever faster speeds on the information highway – both at home and on the move. This requires both fixed-network and mobile broadband networks that offer ever higher performance. Not least the latest network benchmarking by reputable institutes and information media have once again confirmed the superiority of our networks over those of our competitors. Nevertheless, against the trend in our industry, we continue to invest in modernizing our networks. Our clear commitment to innovative infrastructures allows us to serve our customers any time, anywhere, to the best of our abilities, and to offer them the services they require to the corresponding level of quality. The systematic implementation of our technology strategy with the core areas of capacity



For detailed information on administrative court proceedings, please refer to **PAGE 149.**



For information on major litigation in connection with personnel, please refer to the section "Litigation," **PAGE 148 ET SEQ.**



and quality management, radical network simplification, streamlined production and service differentiation, as well as monetization of the Bitpipe all pave the way for integrated IP-based networks. In addition, we capitalize on the strengths of our partnerships and alliances to transform decisions that could contribute towards the positive development of our business into sustainable successful innovations.

**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 as a direct result of the economic crisis. We employ organizational, contractual, and procurement strategy measures to counteract such risks.


**Data privacy and data security.** 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 customer 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 support the view that European data protection rules should be made mandatory where a company offers its services on the European market. This would provide consumers with the same rights all over Europe. Loopholes in data protection in Europe could also be closed and uniform competitive conditions created.

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. The information we obtain from these sensors is exchanged with public and private bodies to enable new attack patterns to be detected and new protection systems to be developed.

Cyber crime and industrial espionage are on the rise. We are addressing these risks with comprehensive security concepts, and we are increasingly doing so in partnerships, for example with public and private organizations. This allows us to create greater transparency and thus be better able to tackle the threats. With Security by Design we

have established security as a fixed development component 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 website. 

## **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, our standing 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 revenue and brand value. In order to avoid negative reports, we seek out a constant, intensive and constructive dialog, in particular with our customers, the media and the financial world. Keeping our stakeholders happy and thereby upholding our reputation is a top priority for us.

**Ongoing media reports concerning the surveillance of Internet traffic by intelligence agencies.** In light of the ongoing public coverage of the monitoring of Internet traffic by secret services, surveys from Germany show that the German public's trust in Internet services has been undermined. For network operators, indirect damage to their reputation and therefore commercial risks cannot be ruled out since, like all network operators, Deutsche Telekom is obliged to cooperate with national security agencies.

On the other hand, this does present the opportunity for Deutsche Telekom to develop a position with proposals and initiatives to promote security, such as "E-Mail made in Germany" and Deutsche Cloud (German cloud), and to generate further opportunities that we feel promise above-average market growth and may be of major significance to our future results of operations or financial position. It was with this in mind that T-Systems set up the Cyber Security business unit, where the corporate customer arm of Deutsche Telekom pools the entire IT security portfolio in order to strategically drive forward the development of new products. In view of the threat situation, the focus is on a trust-based dialog between experts and management beyond our Company and industries. The findings are incorporated into new products and defense strategies. This new quality of transparency reduces the advantage of attackers and sometimes increases the costs of attacks for cyber criminals thanks to improved defenses. Identifying attacks before they can take full effect – that is the Group's aim, which it is pursuing with its program "Advanced Cyber Defense by Telekom." T-Systems is joining forces with a partner to set up a next-generation service operation center. "ACD by Telekom" combines modern IT security technology, expertise and access to data sources such as the Group's own early warning systems (honeypots) for active cyber security management, which manages a company's IT security and can react dynamically to attacks.



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The findings from this program are also reflected in products for medium-sized enterprises. Modern security services from the Telekom Cloud are a central action area. Another focus is security innovations through start-ups and generating risk capital more quickly for the market. Developing new business models is a clear task: the business unit is currently driving forward the issue of encryption and cloud with the Californian company CipherCloud, in which T-Venture holds a stake. As the leading cloud provider in Europe, T-Systems has a particular responsibility to the issue of security.

**Sustainability.** For us, comprehensive risk and opportunities management also includes considering the risks and opportunities of corporate responsibility (CR). As part of our CR management, we pursue a strategy in which the different stakeholder groups are systematically involved in identifying current and potential risks and opportunities. To this end, we participate in a number of committees and initiatives. Continuous monitoring of CR topics enables us to systematically identify stakeholder positions on relevant sustainability issues. To this end, we use, for example, our NGO Radar, which summarizes the activities, research projects, publications and opinions of relevant NGOs and assesses them for Deutsche Telekom. In addition, we ask our stakeholders on an annual basis as part of our CR reporting which sustainability issues are important to them.

■ **Climate protection.** At present, we do not see any severe risks to the achievement of our climate protection targets within our reference period. Deutsche Telekom sees climate protection above all as an opportunity: ICT products and services have the potential to save seven times as many carbon emissions in other industries as the ICT industry emits itself (SMARTer2020 study). Examples of resulting external opportunities include changed customer expectations, political measures to implement the energy revolution, the growing consideration of sustainable criteria in tenders and in procurement, as well as the interest of sustainable investors (socially responsible investment – SRI). The Carbon Disclosure project, for example, manages 722 institutional investors (approx. USD 87 trillion), selecting investments in climate-friendly assets. Opportunities that Deutsche Telekom can develop itself are the continuous reduction in its own electricity consumption and emissions, as well as a reduction in carbon emissions by means of climate-friendly products and services, thus also tapping into new target groups.

■ **Suppliers.** As part of our global procurement activities, we can be exposed to country- and supplier-specific risks. These include, for example, the use of child labor, the conscious acceptance of environmental damage or inadequate working and safety conditions in the local supplier factories. However, the reporting of NGOs or media can give rise to risks to the Company's reputation, but also to supply risks. We reduce this risk by systematically reviewing suppliers.

In the important sustainability ranking SAM, Deutsche Telekom was rated very positively for its supplier management in the last few years. In 2013, we improved further (from 83 points in 2012 to 88 points). Our partnerships with suppliers that comply with international sustainability standards ensure a high level of product quality and reliability in 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 mobile networks and the use of mobile terminal devices. In the fixed network, it affects sales of traditional DECT (digital cordless) phones and devices that use WiFi technology. Apart from legal risks (e.g., reduced thresholds), regulatory interventions are also possible, such as 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 the use of mobile technology is safe based on current scientific knowledge. In 2011, despite a lack of scientific evidence, the International Agency for Research on Cancer (IARC), a WHO agency, classified high-frequency electromagnetic fields as "possibly carcinogenic" on the basis of isolated indications. This is the weakest category indicating a potential carcinogenic effect. Drinking coffee is also included in the same category. The classification provoked an increase in media coverage, as well as controversy among experts. The German Commission on Radiology Protection, for example, criticized this classification on the basis that there is insufficient scientific evidence for it in the Commission's view. There is agreement among all institutions and expert committees on the need for more research into this issue and that there is no scientific evidence of a health risk from electromagnetic fields.

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 recognized bodies. The basis of our responsible management of mobile communications is our EMF Policy. With this policy we are committing ourselves to more transparency, information, participation, and financial support of independent research on mobile communications, 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.



Sustainability at  
Deutsche Telekom



Please refer to the  
section "Forecast,"  
PAGE 127 ET SEQ.



Please also refer to  
the section "Corporate  
responsibility,"  
PAGE 110 ET SEQ.

## 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 Deutsche Telekom's point of view.

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### 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 for damages due to price squeeze
Claims relating to charges for shared use of cable ducts
Litigation concerning decisions by the Federal Network Agency
Monthly charges for the unbundled local loop
Spectrum allocation (auction of LTE frequencies, extension of GSM frequency usage)
Reduced pay tables
Claim for compensation against Slovak Telekom
Claim for compensation against OTE
MetroPCS
LTE frequency allocation auction, T-Mobile Austria
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. 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 new 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. The proceedings are to continue in spring 2014.

■ **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 already 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. As a result, there is no basis for holding Deutsche Telekom AG liable. These decisions are not yet final and legally binding. In both model proceedings, the parties have filed appeals ("Rechtsbeschwerdeverfahren") with the Federal Court of Justice.

■ **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 planned market share. Also in 2005, Deutsche Telekom AG received a claim for damages of approximately EUR 329 million plus interest from Dr. Harisch. 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. The complainant 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 have appealed against the rulings. A further claim for approximately EUR 14 million plus interest was filed in 2006 by klickTel AG, which is now part of telegate AG, on the grounds that the company had lost substantial profits because, without the allegedly excessive prices, it would have launched online directories as early as in 1999. The Cologne Regional Court dismissed the action in its ruling on November 27, 2012, too. In its ruling on December 11, 2013, the Düsseldorf Higher Regional Court dismissed the appeal filed by the complainant against this.

■ **Claims by partnering publishers of telephone directories.** Several publishers that edit and publish subscriber directories together with DeTeMedien GmbH, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The complainants are claiming damages or refund of approximately EUR 97 million plus interest in total from DeTeMedien GmbH and to a certain extent from Deutsche Telekom AG as joint and several debtor next to DeTeMedien. The complainants base their claims on allegedly excessive charges for the provision of subscriber data.

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- **Claims for damages due to price squeeze.** Various competitors have filed actions 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 a squeeze was identified by the European Commission in 2003 as part of a decision to impose fines. Proceedings still pending in early 2013: In the proceedings brought by EWE Tel GmbH (approximately EUR 82 million plus interest) and NetCologne GmbH (approximately EUR 73 million plus interest) against Telekom Deutschland GmbH, the Cologne Regional Court found there to be a liability for damages on the merits of the case in a ruling dated January 17, 2013 without ruling on the amount of said liability, but rejected part of the claims as barred under the statute of limitations. Both EWE Tel GmbH and Telekom Deutschland GmbH have appealed to the Düsseldorf Higher Regional Court against the ruling of the Cologne Regional Court. In the appeal proceedings launched by EWE Tel GmbH, the Düsseldorf Higher Regional Court issued a ruling on January 29, 2014 revising the ruling of the Cologne Regional Court, particularly with regard to the scale of the claims that had lapsed and referred the case back to the Cologne Regional Court due to the amount of compensation awarded. NetCologne GmbH withdrew its complaint on October 24, 2013 following a settlement agreed with Telekom Deutschland GmbH. DOKOM GmbH withdrew its complaint (demanding around EUR 4.5 million plus interest) on July 10, 2013. In its ruling of July 24, 2013, the Düsseldorf Higher Regional Court also dismissed Versatel's appeal (demanding approximately EUR 70 million plus interest) and did not allow the appeal before the Federal Court of Justice. Versatel has filed a complaint against the non-allowance of appeal with the Federal Court of Justice.
- **Claims relating to charges for shared use of cable ducts.** With an action filed on June 14, 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) 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 quantifies 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. KDG has appealed the decision. On January 23, 2013, Telekom Deutschland GmbH also received a claim filed by Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH, and Kabel BW GmbH, demanding that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. Unitymedia Hessen GmbH & Co. KG is also 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 for allegedly excessive charges paid since 2009 through 2012 for the shared use of cable ducts. 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 Deutsche Telekom's point of view:
  - **Monthly charges for the unbundled local loop.** With the exception of the approval of one-time charges from 1999, approvals for monthly charges of unbundled local loop lines (ULLs) are not binding for all companies demanding ULLs, because they have applied to have them revoked by the competent courts. Individual approvals have been revoked with final and binding effect, so the Federal Network Agency has to decide again on the charges. So far, this applies specifically to the rate approvals of the ULL monthly charges from 1999, 2001, 2003, 2005, and 2007, and of the ULL one-time charges from 2001 to 2005, and to the new ruling on the ULL one-time charges from 2002 with regard to the cancellation charges. Individual competitors again filed actions against the new rulings on the ULL one-time charges from 2001 to 2005, which only applied to the former complainants.
  - **Spectrum allocation.** A number of appeals are pending against the decisions by the Federal Network Agency on the allocation of certain frequencies to individual mobile carriers, including Telekom Deutschland GmbH.
  - **Auction of LTE frequencies.** In 2010, the Federal Network Agency auctioned off additional frequencies in the 800 MHz, 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 rulings of the Federal Network Agency with regard to the auction. After the final and binding dismissal of the appeals of broadcasting and cable network operators, the appeal of one telecommunications company is still pending. All complainants have also appealed against the allocation of frequencies to Telekom Deutschland GmbH, however this has not yet been ruled upon.
  - **Extension of GSM frequency usage.** In July 2009, the Federal Network Agency extended the usage period of the GSM frequencies assigned to T-Mobile Deutschland GmbH (today Telekom Deutschland GmbH), which were originally assigned until December 31, 2009, until December 31, 2016. Several companies appealed to the Federal Network Agency against this decision. Telefónica and E-Plus withdrew their objections; the Federal Network Agency dismissed the objection of Airdata. Airdata appealed against this. On November 28, 2013, the Cologne Administrative Court dismissed this complaint. The ruling is not yet legally binding.

- **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 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.
- **Claim for compensation against Slovak Telekom.** In 1999, an action was filed against Slovak Telekom based on the accusation 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 case of a final and legally binding court ruling against Slovak Telekom, Deutsche Telekom AG can assert recourse claims against third parties for a part of the sum demanded.
- **Claim for compensation against OTE.** In May 2009, Lannet Communications S.A. filed an action against OTE claiming compensation for damages of 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.
- **MetroPCS.** In connection with the agreed business combination of T-Mobile USA with MetroPCS Communications, Inc., Deutsche Telekom AG had received notice in October 2012 and thereafter of several class actions filed in the United States against this business combination. Once the MetroPCS shareholders had given their approval for the – already closed – business combination with T-Mobile USA, the class actions filed in the U.S. states of Delaware and Texas were focused on claims for damages, in particular reimbursement of litigation costs. The class action filed in the U.S. state of Delaware was withdrawn after a settlement was reached with the plaintiffs in January 2014 on the reimbursement of litigation costs. Another action filed in New York seeking damages from MetroPCS (now: T-Mobile US) and individual members of management has been resolved by the conclusion of a settlement.
- **LTE frequency allocation auction, T-Mobile Austria.** On December 6, 2013, T-Mobile Austria filed a complaint with the Austrian Administrative Court and the Austrian Constitutional Court against an assignment and payment notice from the Austrian regulatory authority TKK. In the notice, the regulatory authority assigned the spectrum won in the frequency auction on October 21, 2013 to T-Mobile Austria and set down the charge to be paid. With its complaint, T-Mobile Austria is seeking an annulment of the notice, which would lead to the LTE frequency auction being held again. T-Mobile Austria bases its complaint on gross procedural violations in the execution of the auction, as well as on constitutionally illegal interference in the existing frequency usage rights of T-Mobile Austria. A request submitted to the Administrative Court at the same time for the appeal to have a suspensive effect with the aim of initially suspending the payment obligation, was rejected. A decision on the annulment is not expected before the second half of 2014.
- **Patents and licenses.** Like many other large telecommunications and Internet providers, Deutsche Telekom is exposed to a growing number of intellectual property rights (IPR) disputes. There is a risk that we may have to pay license fees and/or compensation; there is also a risk of cease-and-desist orders (relating to the sale of a product, use of a technology, etc.).
- **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 Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechts-gesetz). 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 a claim with the responsible administrative court, asking for reimbursement of a portion of the paid contributions and a reduction of the contributions to be paid in future.

Furthermore, Deutsche Telekom intends to defend itself and/or pursue its claims resolutely in each of these court, conciliatory, and arbitration proceedings.



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## Proceedings concluded.

■ **Eutelsat arbitration proceedings.** As part of the arbitration proceedings that Eutelsat S.A. has been conducting against Deutsche Telekom AG since 2011 in arbitration proceedings initiated at the International Chamber of Commerce, Eutelsat S.A. particularly requested clarification concerning a right to use a certain orbital position and asserted various claims for payment. The parties agreed a settlement to end the proceedings and the arbitral tribunal declared the proceedings closed in a ruling on March 20, 2013. This marks the final conclusion of the proceedings.

■ **Shareholder litigation.** In connection with the two proceedings mentioned in the section "Litigation" on the allocation of LTE spectrum and the extension of GSM frequencies, in 2011 a shareholder had filed a nullity and rescission suit against Deutsche Telekom AG with the Cologne Regional Court, seeking declaration of the nullity of the resolutions passed by the Deutsche Telekom AG shareholders' meeting on May 12, 2011 concerning approval of the actions of the members of the Board of Management and Supervisory Board of Deutsche Telekom AG for the 2010 financial year (items 3 and 5 on the agenda) and of the nullity of the annual financial statements for the 2010 financial year. The complaint was dismissed in the first instance, the appeal against the first-instance ruling was rejected and leave for further appeal was refused. In a ruling on February 20, 2013, the Federal Court of Justice dismissed the complaint against the non-allowance of appeal filed by the shareholder. This marks the final and legally binding conclusion of the proceedings in our favor.

■ **Mobile communications patent litigation.** Deutsche Telekom AG and ICom GmbH & Co. KG signed a license agreement. The license agreement allows the Deutsche Telekom Group to use all current and future patents in the ICom portfolio worldwide. Furthermore, all pending mutual infringement and nullity proceedings were thus ended through withdrawal of the respective actions. This terminates the series of proceedings for claims brought by ICom GmbH & Co. KG against Deutsche Telekom AG, individual members of the Deutsche Telekom AG Board of Management, and against Telekom Deutschland GmbH.

■ **Year-end bonus for civil servants.** In November 2004, the Federal Republic of Germany had passed the first Act to amend the Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz), which abolished the obligation on Deutsche Telekom and other successor companies to Deutsche Bundespost to pay active civil servants an annual year-end bonus under the German Federal Act on Bonus Payments (Bundessonderzahlungsgesetz). Various court instances saw no conflict with constitutional law in this. In December 2008, the Federal Administrative Court decided to refer the standards in dispute to the Federal Constitutional Court for a judicial review pursuant to Article 100 of the Basic Law. In a decision on January 17, 2012, the Federal Constitutional Court ruled that the abolition of the year-end bonus for Deutsche Telekom civil servants is constitutional. The move does not violate the principle of equal pay laid down in Article 3 (1)

of the Basic Law in conjunction with Article 33 (5) of the Basic Law. Taking into account the decision of the Federal Constitutional Court, the Federal Administrative Court then had to rule on the current litigation on claims for payment of the difference between the payment under the Federal Act on Bonus Payments and the reduced payment under the Deutsche Telekom Special Allowance Ordinance. The Federal Administrative Court rejected the appeals by the complainants in April 2013, taking into consideration the ruling by the Federal Constitutional Court dated January 17, 2012. This concludes the legal dispute.

## ANTI-TRUST AND CONSUMER PROTECTION PROCEEDINGS.

Like many other companies, our Group is subject to the regulations of anti-trust law. In individual countries, Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to various proceedings under anti-trust or competition law, or follow-up claims arising under civil law. Deutsche Telekom believes the respective allegations are unfounded. The major anti-trust and consumer protection actions are described below.

**Proceedings by Anti-Monopoly Commission in Poland.** On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It accuses T-Mobile Polska (formerly PTC) and other Polish telecommunications companies of price fixing 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 continues to believe these allegations are unfounded and filed action against the ruling. As a result, the fine is not yet due. 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. The court has not yet made a decision.

**European Commission proceedings against Slovak Telekom and Deutsche Telekom.** The European Commission decided on May 8, 2012 to send a statement of objections to Slovak Telekom and Deutsche Telekom. In this statement of objections, it communicates its preliminary opinion that Slovak Telekom, in which Deutsche Telekom holds a 51-percent stake, has breached European anti-trust law on the Slovakian broadband market. The European Commission intends to hold also the parent company, Deutsche Telekom, liable. The European Commission had initiated proceedings against Slovak Telekom in April 2009 and against Deutsche Telekom in December 2010.

Slovak Telekom and Deutsche Telekom defended themselves against the accusations made in the notification of objections. As a result, the European Commission undertook further investigations in 2013, which are currently ongoing. We continue to 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 with applicable law. Intense competition and the ongoing price erosion on the Slovak broadband market argue against any obstruction of competitors by Slovak Telekom. The statement of objections does not constitute a final decision. Should the European Commission uphold its allegations in the course of the proceedings,

it may impose a fine on Slovak Telekom and Deutsche Telekom. The financial impact of the proceedings cannot be estimated with sufficient certainty at this point in time.

#### Proceedings concluded.

**Search at T-Mobile Netherlands.** With the decision from November 21, 2013, the Dutch competition authorities ACM (formerly NMa) stopped the proceedings against T-Mobile Netherlands (TM NL) and other Dutch mobile providers concerning alleged collusion in violation of anti-trust law in relation to rates and sales channels. Once the statutory waiting period elapsed in January 2014, the decision has been final and legally binding.

#### FINANCIAL RISKS.

With regard to its assets, liabilities and planned transactions, Deutsche Telekom is particularly exposed to liquidity risks, credit risks and the risk of changes in exchange and interest rates. Financial risk management aims to limit these risks through ongoing operational and finance activities. The department performs simulation calculations using different worst-case and market scenarios so that it can estimate the effects of different conditions. Depending on the risk assessment, selected derivative and non-derivative hedging instruments (hedges) are used to mitigate the risks. 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. The following risk areas of liquidity, credit, currency, and interest rate risks are evaluated after implementation of risk limitation measures (for the evaluation, please refer to [TABLE 048, PAGE 141](#)).

**Liquidity risks.** To ensure the Group's and Deutsche Telekom AG's solvency and financial flexibility at all times, a liquidity reserve is maintained in the form of credit lines and cash. The primary instruments

used for medium- to long-term financing are bonds and medium-term notes (MTNs) issued in a variety of currencies and jurisdictions. These are generally issued via Deutsche Telekom International Finance B.V. (DTIF) and are forwarded within the Group as internal loans.

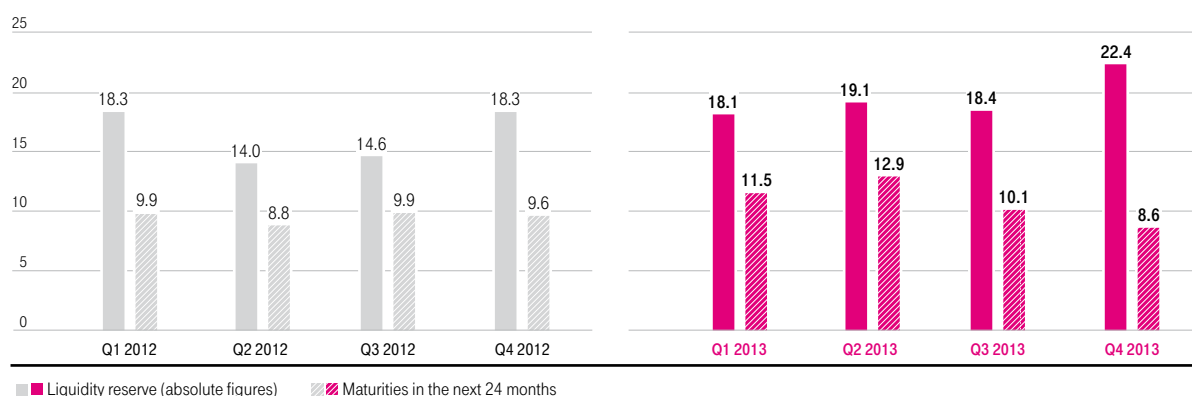
**GRAPHIC 55** below shows the development of the liquidity reserve in relation to maturity dates. As of the end of 2013 and in preceding quarters, we clearly met our targets for the liquidity reserve to cover maturities due in the next 24 months.

As of December 31, 2013, 21 banks had granted Deutsche Telekom credit lines totaling EUR 12.6 billion. From today's perspective, access to the international debt capital markets is not jeopardized.

In January 2013, Deutsche Telekom International Finance B.V. (DTIF) issued a Eurobond with two tranches, an 8-year tranche for EUR 1,250 million and a 15-year tranche for EUR 750 million. In addition, in January and February, DTIF issued private placements for EUR 50 million each, in April a private placement of USD 50 million and, in July a private placement of EUR 80 million – all with a term of 20 years. In October 2013 Deutsche Telekom AG sold bonds in an amount equivalent to USD 5.6 billion that it had taken over in April 2013 as part of the merger between T-Mobile USA and MetroPCS. The bonds were sold successfully to international investors. The transaction increased the Group's liquidity reserve but had no effect on net debt. In August 2013, T-Mobile US issued a bond totaling USD 500 million. The notes have a coupon for 5.250 percent and fall due in 2018. In November 2013, T-Mobile US' wholly-owned affiliate issued USD 2 billion in aggregate principal amount of 6.125-percent senior notes due 2022 and 6.500-percent senior notes due 2024. T-Mobile US also issued 72,765 million shares in November at a price of USD 25 per share.

G 55

**Liquidity reserve and maturities in 2013 compared with 2012.**  
billions of €






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**Credit risks.** Through its operating business and certain financing activities, Deutsche Telekom is exposed to a credit risk, i.e., the risk that a counterparty will not fulfill its contractual obligations. With regard to financing activities, transactions 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. The solvency of the business with corporate customers, especially international carriers, is monitored separately.

For derivative transactions, it was 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. The credit risk arising from derivative transactions is further reduced through the exchange of collateral. For existing receivable balances for existing collateral agreements, Deutsche Telekom receives security from the counterparty in the form of readily available cash, and in return provides such security in the event of liability balances.

**Currency risks.** Deutsche Telekom is exposed to currency risks from its investing, financing, and operating activities. 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 statements 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.

**Interest rate risks.** Deutsche Telekom's interest rate risks mainly result from interest-bearing liabilities and exist primarily in the euro zone and 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. 


**Tax risks.** In many countries, Deutsche Telekom is subject to the applicable legal tax regulations. Risks that affect tax expenses and income as well as tax receivables and liabilities can arise from changes in local taxation laws or jurisdiction and different interpretations of existing regulations.

**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, 2013, 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. If our rating fell below certain defined levels, interest rates for some of the bonds and MTNs issued would rise.

**Sales of shares by the Federal Republic or KfW.** As of December 31, 2013, the Federal Republic and Kreditanstalt für Wiederaufbau (KfW) jointly held approximately 31.93 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. 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.

**Sale of the SI business unit at T-Systems France.** When selling the Systems Integration business unit of T-Systems France in the middle of 2013, a 15-month guarantee had to be issued to the responsible works council. Around 500 employees who have been transferred to the buyer are affected. According to the guarantee, a compensation of up to EUR 63 million in total will be paid to the staff in the event of the insolvency of the buyer.

## MANAGEMENT'S ASSESSMENT OF THE AGGREGATE RISK AND OPPORTUNITIES POSITION.

The assessment of the aggregate risk position is the outcome of the consolidated analysis of all material areas of risk or individual risks. The aggregate risk position did not change fundamentally in 2013 compared with the previous year. Our major challenges particularly include the regulatory factors, intense competition, and price erosion in the telecommunications business. As it stands today, Deutsche Telekom's management sees no risk to the Company's continued existence as a going concern. We are convinced that we will also be able to exploit future opportunities and challenges without having to take on any unacceptably high risks.

We strive to achieve a good balance between opportunities and risks, with the aim of increasing added value for our Company and our shareholders by analyzing new market opportunities.



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 179 ET SEQ.**



For additional explanations, please refer to Note 37 "Financial instruments and risk management" in the notes to the consolidated financial statements, **PAGE 230 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.

The Audit Committee 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 access 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. In this context, the ICS safeguards the quality of internal processes as well as of the interfaces to our customer by means of adequate controls and an internal certification process.

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
- 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, generally by way of external audits. 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. 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.

 The Statement is available to the public on Deutsche Telekom's website ([www.telekom.com](http://www.telekom.com)).

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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 German 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, 2013: around 21 million). The "trust" shares, as they are known, (at December 31, 2013: 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, 2013 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.

**Capital increase.** The resolution on the dividend payout of EUR 0.70 per share for the 2012 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 (2009 authorized capital I) were contributed in June 2013 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.3 billion against contribution of dividend entitlements for this purpose in June 2013. This increased capital reserves by EUR 0.8 billion, the number of shares by 129,855,897.

**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 which the Company has already purchased and still possesses or are to be assigned to it under § 71 d and § 71 e AktG do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can

be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 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.

As part of this authorization, the Board of Management decided on December 18, 2012 to acquire a total of 268 thousand shares. From January 2, 2013 to January 16, 2013, shares were acquired in accordance with the authorization for a total acquisition price of EUR 2,394 thousand (excluding transaction costs) with an average purchase price of EUR 8.92 per share.

Furthermore, a total of 2 thousand shares were reallocated in January and March 2013 as part of the share matching plan and transferred free of charge to the deposits of eligible participants of the share matching plan who are not members of the Board of Management.

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 and conversion rights all expired in the reporting 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.

As a result of the share buy-back, the transfer and the allocation of shares, treasury shares of EUR 48 million were openly deducted from issued capital, capital reserves increased by EUR 48 million, and the retained earnings of the Group decreased by EUR 2 million.



For information on the composition of capital stock in accordance with § 289 (4) HGB, please refer to Note 15 "Shareholders' equity" in the notes to the consolidated financial statements, **PAGES 209 and 210.**

**Authorized capital and contingent capital.** The shareholders' meeting on April 30, 2009 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 non-cash capital contributions in the period ending April 29, 2014. This authorization could be exercised either in full or in one or several partial amounts. The Board of Management was authorized, subject to the approval of the Supervisory Board, to disapply shareholders' subscription rights 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. The Board of Management was also authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares **(2009/I authorized capital)**.

The shareholders' meeting resolved on May 16, 2013 to cancel the 2009 authorized capital I to the extent it still existed, effective the entry of the 2013 authorized capital described below. Following the increase in issued capital against contribution of dividend entitlements, 2009 authorized capital I amounted to EUR 1,843,568,903.68. The cancellation of the remaining 2009 authorized capital I was entered in the commercial register on June 25, 2013.

The shareholders' meeting on April 30, 2009 authorized the Board of Management to increase the share capital with the approval of the Supervisory Board by up to EUR 38,400,000 by issuing up to 15,000,000 no par value registered shares against cash and/or non-cash contributions in the period ending April 29, 2014. This authorization may be exercised either in full or in one or several partial amounts. Shareholders' subscription rights are disappplied. The new shares may only be issued to grant shares to employees of Deutsche Telekom AG and of lower-tier companies (employee shares). The new shares can also be issued to a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG that assumes the obligation to use these shares for the sole purpose of granting employee shares. Where permitted by law, the employee shares may also be issued in such a way that the contribution to be paid in return is taken from the part of the income after income taxes that the Board of Management and the Supervisory Board may transfer to other retained earnings in accordance with § 58 (2) AktG. The shares to be issued as employee shares can also be acquired in the form of a securities loan from a bank or some other company meeting the requirements of § 186 (5) sentence 1 AktG and the new shares used to repay this securities loan. The Board of Management is authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares **(2009/II authorized capital)**.

The shareholders' meeting on May 16, 2013 also 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. This authorization may be exercised either in full or in one or several 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. The Board of Management is also authorized, subject to the approval of the Supervisory Board, to determine the rights accruing to the shares in the future and the conditions for issuing shares **(2013 authorized capital)**.

The shareholders' meeting on May 16, 2013 instructed the Board of Management to enter the 2013 authorized capital described above in the commercial register only when (a) the existing 2009 authorized capital I (in the necessary partial amount) has been utilized to grant the shareholders the possibility described under item 2 of the agenda of the shareholders' meeting on May 16, 2013 to opt for shares (dividend in kind) instead of a cash dividend payment and the related capital increase has been entered, or (b) the dividend has been paid out in full in cash. 2013 authorized capital was entered in the commercial register on June 25, 2013 after the condition specified under (a) had been met.

The **contingent capital II** resolved by the shareholders' meeting on May 29, 2001 was for the fulfillment of subscription rights to shares from stock options issued in the period until December 31, 2003 based on authorization for a 2001 stock option plan as resolved at the same shareholders' meeting. Stock options with such subscription rights no longer exist, meaning that any residual contingent capital II at the time lost its purpose. The shareholders' meeting on May 16, 2013 therefore resolved to cancel the contingent capital II, insofar as any remained.

The share capital was contingently increased by up to EUR 1,100,000,000 as of December 31, 2013, composed of up to 429,687,500 no par value registered shares **(2010 contingent capital)**. The contingent capital increase will be implemented only to the extent that

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a) 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 2, 2015, on the basis of the authorization resolution granted by the shareholders' meeting on May 3, 2010, make use of their option and/or conversion rights or

b) 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 2, 2015, on the basis of the authorization resolution granted by the shareholders' meeting on May 3, 2010, 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 (4) 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.

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.

67 German and 177 foreign subsidiaries are fully consolidated in Deutsche Telekom's consolidated financial statements (December 31, 2012: 68 and 167). 13 associates (December 31, 2012: 12) and nine joint ventures (December 31, 2012: 8) are also included using the equity method. 

#### Business combinations.

Business combinations are presented in the notes to the consolidated financial statements in the section "Changes in the composition of the Group and transactions with owners." 



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," PAGE 186.



Please refer to  
PAGE 182 ET SEQ.

# CONSOLIDATED FINANCIAL STATEMENTS.

We want to become the leading European telecommunications provider. We know how we want to achieve this: We will continue to build out our networks, interconnecting them more closely to offer our consumers and business customers the best network anytime, anywhere. They will benefit from the best customer experience through in-house and partner products as well as outstanding service. Our value-enhancing portfolio and finance management will support this course, just like the culture of innovation we promote within our Company.



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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

T 050

millions of €

	Note	Dec. 31, 2013	Dec. 31, 2012 <sup>a</sup>	Dec. 31, 2011 <sup>a</sup>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>		<b>21,963</b>	<b>15,019</b>	<b>15,865</b>
Cash and cash equivalents	1	7,970	4,026	3,749
Trade and other receivables	2	7,712	6,417	6,557
Current recoverable income taxes	25	98	95	129
Other financial assets	8	2,745	2,020	2,373
Inventories	3	1,062	1,106	1,084
Other assets	9	1,343	1,265	1,537
Non-current assets and disposal groups held for sale	4	1,033	90	436
<b>NON-CURRENT ASSETS</b>		<b>96,185</b>	<b>92,923</b>	<b>106,631</b>
Intangible assets <sup>b</sup>	5	45,967	41,847	50,227
Property, plant and equipment <sup>b</sup>	6	37,427	37,407	41,797
Investments accounted for using the equity method	7	6,167	6,726	6,873
Other financial assets	8	1,362	1,901	2,096
Deferred tax assets	25	4,960	4,712	4,403
Other assets	9	302	330	1,235
<b>TOTAL ASSETS</b>		<b>118,148</b>	<b>107,942</b>	<b>122,496</b>

<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013.

<sup>b</sup> Figures for intangible assets and property, plant and equipment were adjusted retrospectively (please refer to Note 6 "Property, plant and equipment," PAGES 194 and 195).

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millions of €

	Note	Dec. 31, 2013	Dec. 31, 2012 <sup>a</sup>	Dec. 31, 2011 <sup>a</sup>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>		<b>22,496</b>	<b>22,995</b>	<b>24,215</b>
Financial liabilities	10	7,891	9,260	10,219
Trade and other payables	11	7,259	6,445	6,436
Income tax liabilities	25	308	440	577
Other provisions	13	3,120	2,885	3,095
Other liabilities	14	3,805	3,956	3,888
Liabilities directly associated with non-current assets and disposal groups held for sale	4	113	9	–
<b>NON-CURRENT LIABILITIES</b>		<b>63,589</b>	<b>54,416</b>	<b>58,249</b>
Financial liabilities	10	43,708	35,354	38,099
Provisions for pensions and other employee benefits	12	7,006	7,312	6,124
Other provisions	13	2,071	1,857	1,647
Deferred tax liabilities	25	6,916	5,988	8,491
Other liabilities	14	3,888	3,905	3,888
<b>LIABILITIES</b>		<b>86,085</b>	<b>77,411</b>	<b>82,464</b>
<b>SHAREHOLDERS' EQUITY</b>	15	<b>32,063</b>	<b>30,531</b>	<b>40,032</b>
Issued capital		11,395	11,063	11,063
Treasury shares		(54)	(6)	(6)
		11,341	11,057	11,057
Capital reserves		51,428	51,506	51,504
Retained earnings including carryforwards		(37,437)	(29,106)	(25,371)
Total other comprehensive income		(2,383)	(2,176)	(2,326)
Net profit (loss)		930	(5,353)	538
<b>ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>23,879</b>	<b>25,928</b>	<b>35,402</b>
Non-controlling interests		8,184	4,603	4,630
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>118,148</b>	<b>107,942</b>	<b>122,496</b>

<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013.

# CONSOLIDATED INCOME STATEMENT.

T 051

millions of €

	Note	2013	2012 <sup>a</sup>	2011 <sup>a</sup>
<b>NET REVENUE</b>	<b>16</b>	<b>60,132</b>	<b>58,169</b>	<b>58,653</b>
Cost of sales	<b>17</b>	(36,255)	(34,256)	(33,948)
<b>GROSS PROFIT (LOSS)</b>		<b>23,877</b>	<b>23,913</b>	<b>24,705</b>
Selling expenses	<b>18</b>	(13,797)	(14,075)	(14,001)
General and administrative expenses	<b>19</b>	(4,518)	(4,855)	(5,279)
Other operating income	<b>20</b>	1,326	2,968	4,362
Other operating expenses	<b>21</b>	(1,958)	(11,913)	(4,224)
<b>PROFIT (LOSS) FROM OPERATIONS</b>		<b>4,930</b>	<b>(3,962)</b>	<b>5,563</b>
Finance costs	<b>22</b>	(2,162)	(2,033)	(2,325)
Interest income		228	306	268
Interest expense		(2,390)	(2,339)	(2,593)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	<b>23</b>	(71)	(154)	(73)
Other financial income (expense)	<b>24</b>	(569)	(225)	(162)
<b>PROFIT (LOSS) FROM FINANCIAL ACTIVITIES</b>		<b>(2,802)</b>	<b>(2,412)</b>	<b>(2,560)</b>
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>		<b>2,128</b>	<b>(6,374)</b>	<b>3,003</b>
Income taxes	<b>25</b>	(924)	1,516	(2,345)
<b>PROFIT (LOSS)</b>		<b>1,204</b>	<b>(4,858)</b>	<b>658</b>
<b>PROFIT (LOSS) ATTRIBUTABLE TO</b>				
Owners of the parent (net profit (loss))		930	(5,353)	538
Non-controlling interests	<b>26</b>	274	495	120
<b>EARNINGS PER SHARE</b>	<b>27</b>			
Basic	€	0.21	(1.24)	0.13
Diluted	€	0.21	(1.24)	0.13

<sup>a</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013.

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.<sup>a</sup>

T 052

millions of €

	2013	2012 <sup>b</sup>	2011 <sup>b</sup>
<b>PROFIT (LOSS)</b>	<b>1,204</b>	<b>(4,858)</b>	<b>658</b>
Items not reclassified to the income statement retrospectively			
Gain (loss) from the remeasurement of defined benefit plans	48	(1,822)	173
Share of profit (loss) of investments accounted for using the equity method	(17)	0	0
Income taxes relating to components of other comprehensive income	(16)	556	(44)
	<b>15</b>	<b>(1,266)</b>	<b>129</b>
Items reclassified to the income statement retrospectively, if certain reasons are given			
Exchange differences on translating foreign operations			
Recognition of other comprehensive income in income statement	0	4	0
Change in other comprehensive income (not recognized in income statement)	(901)	318	10
Available-for-sale financial assets			
Recognition of other comprehensive income in income statement	0	(227)	0
Change in other comprehensive income (not recognized in income statement)	(4)	33	242
Gains (losses) from hedging instruments			
Recognition of other comprehensive income in income statement	178	9	200
Change in other comprehensive income (not recognized in income statement)	(162)	(219)	(765)
Share of profit (loss) of investments accounted for using the equity method			
Recognition of other comprehensive income in income statement	0	0	0
Change in other comprehensive income (not recognized in income statement)	(37)	22	0
Income taxes relating to components of other comprehensive income	(5)	77	148
	<b>(931)</b>	<b>17</b>	<b>(165)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(916)</b>	<b>(1,249)</b>	<b>(36)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>288</b>	<b>(6,107)</b>	<b>622</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>			
Owners of the parent	197	(6,466)	404
Non-controlling interests	91	359	218

<sup>a</sup> The structure of the statement of comprehensive income was adjusted retrospectively due to the application of IAS 1 (amended) as of January 1, 2013.

<sup>b</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.

T 053

millions of €

	Issued capital and reserves attributable to the owners of the parent					
	Number of shares	Equity contributed			Consolidated shareholders' equity generated	
	thousands	Issued capital	Treasury shares	Capital reserves	Retained earnings including carryforwards <sup>b</sup>	Net profit (loss) <sup>b</sup>
<b>BALANCE AT JANUARY 1, 2011 BEFORE IAS 19 ADJUSTMENTS</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(5)</b>	<b>51,635</b>	<b>(24,355)</b>	<b>1,695</b>
Adjustments for IAS 19 <sup>b</sup>					129	
<b>BALANCE AT JANUARY 1, 2011 AFTER IAS 19 ADJUSTMENTS</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(5)</b>	<b>51,635</b>	<b>(24,226)</b>	<b>1,695</b>
Changes in the composition of the Group				(131)		
Unappropriated profit (loss) carried forward					1,695	(1,695)
Dividends					(3,011)	
Capital increase from share-based payment						
Share buy-back			(1)		(2)	
Profit (loss)						538
Other comprehensive income					103	
<b>TOTAL COMPREHENSIVE INCOME</b>						
Transfer to retained earnings/other adjustments					70	
<b>BALANCE AT DECEMBER 31, 2011</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(6)</b>	<b>51,504</b>	<b>(25,371)</b>	<b>538</b>
<b>BALANCE AT JANUARY 1, 2012</b>	<b>4,321,319</b>	<b>11,063</b>	<b>(6)</b>	<b>51,504</b>	<b>(25,371)</b>	<b>538</b>
Changes in the composition of the Group						
Unappropriated profit (loss) carried forward					538	(538)
Dividends					(3,010)	
Capital increase from share-based payment				2		
Share buy-back						
Profit (loss)						(5,353)
Other comprehensive income					(1,266)	
<b>TOTAL COMPREHENSIVE INCOME</b>						
Transfer to retained earnings					3	
<b>BALANCE AT DECEMBER 31, 2012</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>
<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 depot			(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>

<sup>a</sup> The structure and the prior-year comparatives of the consolidated statement of comprehensive income were adjusted retrospectively as of January 1, 2013 to present the share of investments accounted for using the equity method in total other comprehensive income.

<sup>b</sup> The prior-year comparatives were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013.



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Issued capital and reserves attributable to the owners of the parent						Total	Non-controlling interests <sup>b</sup>	Total shareholders' equity
Total other comprehensive income								
Translation of foreign operations	Revaluation surplus	Available-for-sale financial assets	Hedging instruments <sup>a</sup>	Investments accounted for using the equity method <sup>a</sup>	Taxes <sup>b</sup>			
(2,843)	37	(4)	1,094	28	(329)	38,016	5,012	43,028
						129	(24)	105
(2,843)	37	(4)	1,094	28	(329)	38,145	4,988	43,133
(2)						(133)	(77)	(210)
						0		0
						(3,011)	(497)	(3,508)
						0	(2)	(2)
						(3)		(3)
						538	120	658
67		106	(565)		155	(134)	98	(36)
						404	218	622
	(70)		8	(8)		0		0
(2,778)	(33)	102	537	20	(174)	35,402	4,630	40,032
(2,778)	(33)	102	537	20	(174)	35,402	4,630	40,032
						0		0
						0		0
						(3,010)	(387)	(3,397)
						2	1	3
						0		0
						(5,353)	495	(4,858)
330		(59)	(210)	22	70	(1,113)	(136)	(1,249)
						(6,466)	359	(6,107)
	(3)					0		0
(2,448)	(36)	43	327	42	(104)	25,928	4,603	30,531
(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
	(3)					0		0
(2,603)	(39)	38	343	(12)	(110)	23,879	8,184	32,063

# CONSOLIDATED STATEMENT OF CASH FLOWS.

T 054

millions of €

	Note	2013	2012 <sup>a</sup>	2011 <sup>a</sup>
	31			
<b>PROFIT (LOSS)</b>		<b>1,204</b>	<b>(4,858)</b>	<b>658</b>
Depreciation, amortization and impairment losses		10,904	21,957	14,436
Income tax expense (benefit)		924	(1,516)	2,345
Interest income and interest expense		2,162	2,033	2,325
Other financial (income) expense		569	225	162
Share of (profit) loss of associates and joint ventures accounted for using the equity method		71	154	73
(Profit) loss on the disposal of fully consolidated subsidiaries		(131)	(6)	(4)
Other operating income from the agreement with Crown Castle concerning the leasing and use of cell towers in the United States		-	(1,444)	-
Non-cash transactions in connection with the compensation from AT&T		-	-	(705)
Other non-cash transactions		101	15	27
(Gain) loss from the disposal of intangible assets and property, plant and equipment		138	(83)	28
Change in assets carried as working capital		(1,266)	(24)	690
Change in provisions		(195)	(203)	(135)
Change in other liabilities carried as working capital		696	(406)	(885)
Income taxes received (paid)		(648)	(694)	(778)
Dividends received		273	490	515
Net payments from entering into or canceling interest rate derivatives		290	122	-
<b>CASH GENERATED FROM OPERATIONS</b>		<b>15,092</b>	<b>15,762</b>	<b>18,752</b>
Interest paid		(2,961)	(3,060)	(3,397)
Interest received		886	875	859
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b>13,017</b>	<b>13,577</b>	<b>16,214</b>
Cash outflows for investments in				
Intangible assets <sup>b</sup>		(4,498)	(2,811)	(2,316)
Property, plant and equipment <sup>b</sup>		(6,570)	(5,621)	(6,090)
Non-current financial assets		(667)	(1,028)	(430)
Payments to acquire control of subsidiaries and associates		(48)	(19)	(1,239)
Proceeds from disposal of				
Intangible assets		8	26	20
Property, plant and equipment		245	187	336
Cell towers from the framework agreement with Crown Castle in the United States		-	1,769	-
Non-current financial assets		54	549	61
Proceeds from the loss of control of subsidiaries and associates		650	50	5
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		(701)	219	339
Other		(10)	8	39
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(9,896)</b>	<b>(6,671)</b>	<b>(9,275)</b>

<sup>a</sup> The prior-year comparatives for net cash from operating activities were adjusted retrospectively due to the application of IAS 19 (amended) as of January 1, 2013.

<sup>b</sup> Cash outflows for investments in intangible assets and property, plant and equipment were adjusted retrospectively (please refer to Note 6 "Property, plant and equipment," PAGES 194 and 195).

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millions of €

	Note	2013	2012	2011
Proceeds from issue of current financial liabilities		10,874	22,664	66,349
Repayment of current financial liabilities		(18,033)	(29,064)	(71,685)
Proceeds from issue of non-current financial liabilities		9,334	3,539	3,303
Repayment of non-current financial liabilities		(129)	(171)	(51)
Dividends		(2,243)	(3,400)	(3,521)
Share buy-back		(2)	-	(3)
Repayment of lease liabilities		(172)	(169)	(163)
Stock options of other T-Mobile US shareholders (previous MetroPCS programs)		102	-	-
T-Mobile US capital increase		1,313	-	-
Other		(22)	-	(187)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>		<b>1,022</b>	<b>(6,601)</b>	<b>(5,958)</b>
Effect of exchange rate changes on cash and cash equivalents		(167)	(28)	(40)
Changes in cash and cash equivalents associated with non-current assets and disposal groups held for sale		(32)	-	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>3,944</b>	<b>277</b>	<b>941</b>
<b>CASH AND CASH EQUIVALENTS, AT THE BEGINNING OF THE YEAR</b>		<b>4,026</b>	<b>3,749</b>	<b>2,808</b>
<b>CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR</b>		<b>7,970</b>	<b>4,026</b>	<b>3,749</b>

# 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 Group Headquarters & Group Services.

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/Declaration of Conformity.

The shares of Deutsche Telekom AG are traded on the Frankfurt/Main Stock Exchange as well as on other German 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 electronic Federal Gazette (elektronischer Bundesanzeiger). The annual report is available upon request from Deutsche Telekom AG, Bonn, Investor Relations, and on Deutsche Telekom's homepage at [www.telekom.com](http://www.telekom.com).

The consolidated financial statements of Deutsche Telekom for the 2013 financial year were released for publication by the Board of Management on February 18, 2014.

### 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). However, the consolidated financial statements of Deutsche Telekom as of December 31, 2013 do not fully comply with IFRS as issued by the IASB. In May 2011, the IASB published three new IFRSs (IFRS 10, IFRS 11, IFRS 12) and one revised standard (IAS 28) that govern the accounting for investments in subsidiaries, joint arrangements, and associates (please refer to "Standards, interpretations and amendments issued, but not yet adopted," PAGES 170 and 171). In accordance with an IASB decision, these standards are to be applied for financial years beginning on or after January 1, 2013. Application of the provisions within the European Union is, however, not mandatory before financial years beginning on or after January 1, 2014. The term IFRS is consistently used in the following.

The financial year corresponds to the calendar year. Due to the retrospective application of amended IAS 19 "Employee Benefits," a further comparative year was included in the consolidated statement of financial position to show two prior years. 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 are generally 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 2013 financial year, Deutsche Telekom applied the following IASB pronouncements and/or amendments to such pronouncements for the first time:

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Pronouncement	Title
IFRS 13	Fair Value Measurement
IAS 1	Presentation of Financial Statements
IAS 19	Employee Benefits
IFRS 7	Financial Instruments: Disclosures
Annual Improvements Project	Annual Improvements to IFRSs 2009 – 2011 Cycle
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets

In May 2011, the IASB issued IFRS 13 "Fair Value Measurement." With IFRS 13, the IASB has created a uniform, comprehensive standard for fair value measurement. IFRS 13 provides guidance on how to measure at fair value when other IFRSs require fair value measurement (or disclosure). A new definition of fair value applies which characterizes it as the selling price of an actual or hypothetical transaction between any independent market participants under normal market conditions on the reporting date. The standard is almost universally applicable, with the only exemptions being IAS 2 "Inventories," IAS 17 "Leases," and IFRS 2 "Share-based Payment." While the scope of the guidance remains virtually unchanged for financial instruments, the guidance for other items (e.g., investment property, intangible assets, and property, plant and equipment) is now more comprehensively and/or precisely defined. The established three-level fair value hierarchy has to be applied across the board. Accordingly, the hierarchical level to

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which the asset or liability is assigned in its entirety (Level 1, Level 2, or Level 3) is determined based on the lowest input parameter in the hierarchy. If measurement factors from different levels are used, the asset or liability is to be categorized in its entirety to the lowest level. The highest hierarchical level (Level 1) is assigned to inputs that are quoted prices in active markets and that the entity can access at the measurement date. The second-highest hierarchical level (Level 2) is assigned to inputs that are observable either directly or indirectly or can be derived, other than quoted market prices included within Level 1. The lowest hierarchical level (Level 3) is assigned to assets or liabilities the measurement of which is based at least on one input parameter that cannot be observed. The adoption of IFRS 13 results in additional disclosures in Deutsche Telekom's financial statements. The European Union endorsed the provisions in December 2012. IFRS 13 is effective for financial years beginning on or after January 1, 2013.

In June 2011, the IASB issued amendments to IAS 1 **"Presentation of Financial Statements."** The amendments require that the items listed under other comprehensive income be split into two categories, according to whether or not they will be recognized in the income statement in future periods (recycling). The amendments to IAS 1 are effective retrospectively for financial years beginning on or after July 1, 2012 and were endorsed by the European Union in June 2012.

In June 2011, the IASB also issued amendments to IAS 19 **"Employee Benefits."** The elimination of the corridor method has no relevance for Deutsche Telekom because actuarial gains and losses are already recognized directly and exclusively in equity in their full amount in accordance with the previously applicable version of the standard.

The new standard sets out that plan amendments leading to a change in the defined benefit obligation for employee service in prior periods are no longer accrued over their vesting period but must be recognized immediately. The changes in the recognition of past service cost do not have a material effect because due to the current structure of the pension entitlements, past service cost largely arises in connection with vested benefits.

When calculating net interest income from defined benefit plans, the same interest rate is to be used for the return on plan assets and for the calculation of the present value of the obligation. Two different interest rates were used under the previously applicable version of IAS 19. On account of the comparatively low value of plan assets, there are no material effects with regard to the amount and the presentation of net interest income from defined benefit plans.

The changes in the definition and recognition of termination benefits have material effects on the amounts recognized for personnel provisions and on personnel costs because, under certain circumstances, termination benefits may be recognized at a later date in accordance with IAS 19.166 (2011). In recent years, Deutsche Telekom has offered substantial severance packages to its employees in Germany on various legal bases and is likely to continue doing so in the future. The quantitative effects at the respective reporting dates will nevertheless depend to a large extent on the legal form and the timing of future programs. The effects of the different programs on Deutsche Telekom's consolidated income statement have been adjusted retrospectively for the comparative periods and are as follows:

■ In the case of early retirement for civil servants, the new standard changes the time when the expense is recorded. Provisions are now only recognized when the civil servant accepts the offer, rather than when the overall program is communicated. This had no effect (before taxes) with regard to the consolidated income statements as of December 31, 2011 and December 31, 2012.

■ The time when the expense is recorded also changes in the case of severance payments for non-civil servants. Here, too, the provision is only recognized when the employee accepts the offer, rather than when the overall program is communicated. This had no effect on earnings (before taxes) with regard to the consolidated income statement as of December 31, 2011. As of December 31, 2012, this had a negative effect on earnings of EUR 0.1 billion (before taxes) attributable to selling expenses.

■ On account of the change in the definition, the top-up payments made as part of partial retirement programs may no longer be recognized as termination benefits and therefore have to be accrued over their vesting period. Owing to their special legal and financial characteristics, Deutsche Telekom's partial retirement programs offered after 2007 were not classified as termination benefits under the old version of IAS 19 either. For this reason, this amendment does not have any material effects for Deutsche Telekom. In the case of partial retirement, contracts concluded before 2007 were retrospectively adjusted. Under the new standard, the top-up payment is accrued in installments instead of the provision being recognized immediately in the full amount. No material effects (before taxes) arose for Deutsche Telekom in the consolidated income statements as of December 31, 2011 and December 31, 2012.

The retrospective application of IAS 19 has the following effects for Deutsche Telekom's consolidated statement of financial position and the consolidated income statement: As of December 31, 2011, current other provisions decreased by EUR 0.1 billion and retained earnings including carryforwards increased by EUR 0.1 billion. As of December 31, 2012, net loss increased by EUR 0.1 billion in shareholders' equity and retained earnings including carryforwards increased by EUR 0.1 billion. The adjustments to the carryforwards in shareholders' equity as of January 1, 2011 are shown in the consolidated statement of changes in equity, PAGES 164 and 165. Earnings per share for the 2011 financial year did not change. Earnings per share for the 2012 financial year decreased by EUR 0.02 per share to minus EUR 1.24 per share.

The application of the amended IAS 19 did not result in material effects for Deutsche Telekom's consolidated statement of financial position or consolidated income statement as of December 31, 2013 or for the 2013 financial year.

In addition, disclosure requirements for the pension provisions are also being extended, e. g., for characteristics of defined benefit plans and the risks arising from those plans. The amendments to IAS 19 are effective retrospectively for financial years beginning on or after January 1, 2013 and were endorsed by the European Union in June 2012.

In December 2011, the IASB issued extended disclosure requirements regarding offsetting rights in IFRS 7 **"Financial Instruments: Disclosures."** In addition to extended disclosures on offsetting activities actually carried out pursuant to IAS 32,

disclosure requirements on existing rights to set off are introduced regardless of whether the offsetting under IAS 32 is actually carried out. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2013 and were endorsed by the European Union in December 2012.

The IASB issued “**Annual Improvements to IFRSs 2009 – 2011 Cycle**” in May 2012, which amended five standards. The amendments will not have any material effects on Deutsche Telekom. The amendment to **IAS 1 “Presentation of Financial Statements”** clarifies that when additional comparative information is provided in the financial statements on a voluntary basis, this information must also be presented in the related notes for that additional information. As a consequence of the amendment to **IAS 16 “Property, Plant and Equipment,”** servicing equipment is recognized as property, plant and equipment or as inventory depending on their expected useful life. The amendment to **IAS 32 “Financial Instruments: Presentation”** clarifies that the tax effect of distributions to holders of an equity instrument and the transaction costs of an equity transaction must be accounted for in accordance with IAS 12. Pursuant to the amendment to **IAS 34 “Interim Financial Reporting,”** information on segment assets and liabilities is only required to be disclosed if such information is regularly provided to the chief operating decision maker and if there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. The amendments to **IFRS 1 “First-time Adoption of IFRS”** do not have an impact on Deutsche Telekom. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2013 and were endorsed by the European Union in March 2013.

In May 2013, the IASB published amendments to **IAS 36 “Impairment of Assets”** entitled “**Recoverable Amount Disclosures for Non-Financial Assets.**” As a consequential amendment to IFRS 13, the IASB modified some of the disclosure requirements in IAS 36 regarding measurement of the recoverable amount of impaired assets which were broader than originally intended. Disclosure was always required regardless of whether impairment losses had been recognized in the reporting period in question. Following the amendment, however, the recoverable amount is required to be disclosed only for impaired assets or cash-generating units. It must also be stated whether the recoverable amount of the asset is its fair value less costs of disposal or its value in use. If the recoverable amount is fair value less costs of disposal, it is also required to disclose the level of the fair value hierarchy (according to IFRS 13) within which the fair value measurement of the asset is categorized and, for fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used to measure fair value less costs of disposal plus the discount rate used. The new requirements shall be applied for financial years beginning on or after January 1, 2014 and were endorsed by the European Union in December 2013. Deutsche Telekom applied the regulations earlier, in the 2013 financial year.

#### STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED, BUT NOT YET ADOPTED.

In November 2009, the IASB issued **IFRS 9 “Financial Instruments.”** The issuance is the result of the first of three phases of the project to replace IAS 39 “Financial Instruments: Recognition and Measurement” with IFRS 9. IFRS 9 governs the classification and measurement of financial assets. In October 2010, the IASB reissued IFRS 9, carrying over the requirements relating to the recognition and derecognition of financial liabilities as well as most of the requirements for clas-

sification and measurement unchanged from IAS 39. In November 2013, IFRS 9 was again revised. The amendments primarily relate to a fundamental revision of the provisions on hedge accounting, extending their scope of application. In addition, changes in the fair value of liabilities due to a change in the entity’s credit risk are no longer to be recognized in profit or loss, but under other comprehensive income. The IASB also removed the previously mandatory date of initial application as of January 1, 2015. A new mandatory effective date will be determined once the project, which is still to be extended to include new provisions governing the impairment of financial assets, has been completed. The endorsement process has currently been suspended.

In May 2011, the IASB published three new IFRSs (**IFRS 10, IFRS 11, IFRS 12**) and one revised standard (**IAS 28**) that govern the accounting for investments in subsidiaries, joint arrangements, and associates. The European Union endorsed the provisions in December 2012. The provisions will be effective within the European Union for financial years beginning on or after January 1, 2014. The IASB issued further amendments to the consolidation standards **IFRS 10, IFRS 12, and IAS 27** in November 2012. The amendments relate to the consolidation of investment companies. The provisions were endorsed by the European Union in November 2013 and will be effective for financial years beginning on or after January 1, 2014. The adoption of the new and amended IFRSs will not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, cash flows, or of the composition of the Group. The introduction of IFRS 12 will result in changes and extensions to the explanatory notes to the consolidated financial statements. The revised IAS 27 will not have an impact on Deutsche Telekom, because this standard now exclusively relates to separate financial statements under IFRS, which in application of § 325 (2a) HGB Deutsche Telekom does not prepare.

- The IASB is introducing a harmonized consolidation model by issuing **IFRS 10 “Consolidated Financial Statements.”** This new standard no longer distinguishes between traditional subsidiaries (IAS 27) and special-purpose entities (SIC-12). 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. When IFRS 10 becomes effective, it will replace SIC-12 “Consolidation – Special Purpose Entities” as well as the requirements relevant to consolidated financial statements in IAS 27 “Consolidated and Separate Financial Statements.”
- **IFRS 11 “Joint Arrangements”** will replace IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers.” It governs the accounting for joint ventures and joint operations. Proportionate consolidation for joint ventures will no longer be permissible as a result of the discontinuation of IAS 31. The amended **IAS 28 “Interests in Associates and Joint Ventures”** governs the application of the equity method when accounting for investments in both associates and joint ventures. In case of a joint operation, the share of assets, liabilities, expenses, and revenues is directly recognized in the consolidated financial statements and annual financial statements of the joint operator.
- **IFRS 12 “Disclosure of Interests in Other Entities”** combines all disclosures to be made in the consolidated financial statements regarding subsidiaries, joint arrangements, and associates, as well as unconsolidated structured entities.



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- The revised IAS 27 “**Separate Financial Statements**” exclusively governs the accounting for subsidiaries, joint ventures, and associates in the annual financial statements and the corresponding notes (separate financial statements according to § 325 (2a) HGB).
- The revised IAS 28 “**Investments in Associates and Joint Ventures**” governs the accounting of investments in associates and joint ventures using the equity method.

In December 2011, the IASB published amendments to IAS 32 “**Financial Instruments: Presentation**” specifying the requirements for offsetting financial instruments. To meet the new offsetting requirements in IAS 32, an entity’s right to set off must not be contingent on a future event and must be enforceable both in the normal course of business and in the event of default or insolvency of the entity and all counterparties. It is further specified that a gross settlement mechanism also complies with the offsetting requirements according to IAS 32, provided no major credit liquidity risks remain, and receivables and payables are processed in a single settlement step, making it equivalent to a net settlement. The new requirements shall be applied retrospectively for financial years beginning on or after January 1, 2014 and were endorsed by the European Union in December 2012. The amendments will not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

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 a government. 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 shall be applied retrospectively for financial years beginning on or after January 1, 2014 and have not yet been endorsed by the European Union. Deutsche Telekom is analyzing the resulting effects on the presentation of results of operations, financial position, or cash flows, but does not currently expect any major changes.

In July 2013, the IASB published narrow-scope amendments to IAS 39 “**Financial Instruments: Recognition and Measurement**.” Entitled “**Novation of Derivatives and Continuation of Hedge Accounting**,” the amendments set out that a derivative continues to be designated as a hedging instrument in an existing hedging relationship even if the derivative is novated. The term “novation” indicates that the parties to a derivative agree that a central counterparty (CCP) replace their original counterparty to become the new counterparty to each of the parties. A fundamental requirement for this is that a central counterparty be engaged as a result of new laws or regulations. The IASB noted that the urgent changes were prompted by the G20 commitment to improve transparency and regulatory oversight of over-the-counter (OTC) derivatives at international level. As a consequence of this objective, in the future all standardized OTC derivatives will be concluded with a central counterparty. The amendments shall be applied retrospectively for financial years beginning on or after January 1, 2014 and were endorsed by the European Union in December 2013. The amendments will not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

In November 2013, the IASB published narrow-scope amendments to IAS 19 “**Employee Benefits**” entitled “**Defined Benefit Plans: Employee Contributions**.” 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 amount of the contributions is independent of the number of years of service. The amendments shall be applied retrospectively for financial years beginning on or after July 1, 2014 and have not yet been endorsed by the European Union. The amendments will not have a material impact on the presentation of Deutsche Telekom’s results of operations, financial position, or cash flows.

The IASB issued **Annual Improvements to IFRSs 2010 – 2012 Cycle** and **Annual Improvements to IFRSs 2011 – 2013 Cycle** in December 2013 which amended nine standards in detail. The improvements primarily aim to provide clarifications. The date of initial application varies from standard to standard. These amendments, which have yet to be enforced by the European Union, will not have any material effects on Deutsche Telekom.

#### 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 carried out the following changes in the report structure in the 2013 financial year:

The central management and service functions were realigned as of January 1, 2013. As part of this process, the Group Headquarters & Shared Services segment was renamed Group Headquarters & Group Services.

Since January 1, 2013, the tasks and functions of Group Technology including the Global Network Factory, which was previously part of Group Headquarters & Group Services, have been reported under the Europe operating segment.

For further details, please refer to Note 32 in the section “Segment reporting,” PAGE 220 ET SEQ.

## ACCOUNTING POLICIES.

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

T 056

Items of 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

Items of 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.

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The useful lives and the amortization method 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 057

Mobile communications licenses	Years
FCC licenses	Indefinite
LTE licenses	11 to 26
UMTS licenses	7 to 18
GSM licenses	2 to 22

**Development expenditures** are capitalized if they meet the criteria for recognition as assets and are amortized over their useful lives. **Research expenditures** are expensed when incurred.

## 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 recognized through the pro-rata reduction of the carrying amounts of the assets allocated to the cash-generating unit.

## 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 method 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, the individual significant components 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 058**:

T 058

	Years
Buildings	25 to 50
Telephone facilities and terminal equipment	3 to 10
Data communications equipment, telephone network and ISDN switching equipment, transmission equipment, radio transmission equipment and technical equipment for broadband distribution networks	2 to 12
Broadband distribution networks, outside plant networks and cable conduit lines	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 no future cash flows generated independently of other assets can be allocated to individual 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.

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 has to 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 risk specific to the asset or cash-generating unit.

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

### EMPLOYEE BENEFITS.

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

Up 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. BPS-PT made pension and allowance payments to retired employees and their surviving dependents who are entitled to pension payments as a result of civil-servant status. The German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil servant pensions (organized within the Civil Service Pension Fund) to the German Federal Posts and Telecommunications Agency effective January 1, 2013. The level of Deutsche Telekom AG's payment obligations to the Civil Service Pension Fund is defined under § 16 of the German Act on the Legal Provisions for the Former Deutsche Bundespost Staff (Postpersonalrechtsgesetz). Since 2000, Deutsche Telekom AG has been legally obliged 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

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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 recognized directly in equity as part of the 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 are also recognized directly in equity and result in retrospective increases or decreases in the carrying amount of the relevant item of property, plant and equipment. Where the decrease in the amount of a provision exceeds the carrying amount of the related asset, the excess is recognized immediately in profit or loss.

#### FINANCIAL INSTRUMENTS.

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

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

**Trade and other current receivables** are measured at the carrying amount at which the item is initially recognized less any impairment losses, 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 is 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.

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

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

Certain types of 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 impairments of the fair values of available-for-sale financial assets were recognized directly in equity in the past, these must now be reclassified from equity 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.

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.



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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 this 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 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. In the course of the lease, when circumstances come to light that could lead to a change in the original assessment of the exercise of extension options, the estimated future obligations arising from operating leases will be changed accordingly.

If substantially all risks and rewards incidental to ownership of the leased asset are attributable to the lessee (**finance lease**) the lessee must recognize the leased asset in the statement of financial position. At the commencement of the lease term, the leased asset is measured at the lower of fair value or present value of the future minimum lease payments and is depreciated over the shorter of the estimated useful life or the lease term. Depreciation is recognized as expense. The lessee recognizes a lease liability equal to the carrying amount of the leased asset at the commencement of the lease term. In subsequent periods, the lease liability is reduced using the effective interest method and the carrying amount is adjusted accordingly. The lessor in a finance lease recognizes a receivable in the amount of the net investment in the lease. Lease income is 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 the accounting period in which they are earned in accordance with the realization principle. Customer activation fees are deferred and amortized 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. Revenue is recognized on the basis of the fair value of the individual elements. Arrangements involving the delivery of bundled products or services shall be separated into individual elements, each with its own separate revenue contribution. Total arrangement consideration relating to the bundled contract is allocated among the different elements based on their relative fair values (i.e., a ratio of the fair value of each element to the aggregated fair value of the bundled deliverables is generated). The relative fair value 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.

**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 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 calling plans less credits and adjustments for discounts. The revenue and related expenses associated with the sale of mobile phones, wireless data devices, and accessories are recognized when the products are delivered and accepted by the customer.

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 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 calling plans. Telecommunications equipment is also sold, leased, and serviced. Revenue and expenses associated with the

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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 rentals and operating leases 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 is reasonably assured.

Revenue from Computing & Desktop Services is recognized as the services are provided using a proportional performance model. 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.

Telecommunication 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 rentals and leases is recognized on a straight-line basis over the rental period.

#### INCOME TAXES.

Income taxes include current income taxes as well as deferred taxes. 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 Deutsche Telekom operates in.

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. 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, financial position, or cash flows 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 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 operating results.

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 actual and deferred taxes. Deferred tax assets are recognized to the extent that their utilization is probable. 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 operating results, operational plans, loss carryforward periods, and tax planning strategies. 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

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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 operating results.

## REVENUE RECOGNITION.

**Customer activation fees that are not part of a multiple-element arrangement** are deferred and amortized 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 operating results.

## CONSOLIDATION METHODS.

### SUBSIDIARIES.

Subsidiaries are companies that are directly or indirectly controlled by Deutsche Telekom. Deutsche Telekom has control over an entity if it has the power to govern its financial and operating policies. The existence and effect of 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 subsidiary's 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 VENTURES AND ASSOCIATES.

Joint ventures are companies jointly controlled by Deutsche Telekom and other companies. 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 assets and liabilities. If necessary, the joint ventures' and associates' accounting principles are aligned with the uniform accounting principles applied by the Deutsche Telekom Group. The carrying amount of the investment accounted for using the equity method is tested for impairment provided there are indications of impairment. If the carrying amount of the investment exceeds its recoverable amount, an impairment loss must be recognized in the amount of the difference. The recoverable amount is measured at the higher of fair value less costs of disposal and value in use.

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

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

## BUSINESS COMBINATIONS.

A business combination exists when Deutsche Telekom obtains control of another entity. Under IFRS, 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 net of the amounts of the identifiable assets acquired and liabilities assumed. 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 recognized for the acquiree. 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 recorded as a residual amount only 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.

## CHANGES IN THE COMPOSITION OF THE GROUP AND TRANSACTIONS WITH OWNERS.

In the 2013 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.

### Acquisition of MetroPCS.

On October 3, 2012, Deutsche Telekom AG and MetroPCS Communications, Inc., Dallas/United States, (MetroPCS) concluded an agreement to combine their business activities in the United States.

MetroPCS offers mobile voice telephony and mobile Internet services over its own network in the United States. The products (e.g., phones and smartphones) and services (e.g., regular voice telephony, text messaging (SMS), multimedia messaging (MMS), multimedia streaming, e-mail, downloads) are marketed under the MetroPCS brand name via company-owned retail stores and independent sellers. Before the transaction, this company was the fifth-largest mobile communications provider in the United States in terms of subscribers. The combined company's improved position in terms of mobile spectrum and an expanded customer base mean that Deutsche Telekom will now be able to compete more aggressively with the other national mobile carriers in the United States.

The transaction was closed as of May 1, 2013 after the U.S. Department of Justice (DOJ), the U.S. Federal Communications Commission (FCC), and the Committee on Foreign Investment in the United States (CFIUS) had given the green light, and MetroPCS stockholders had approved the transaction at the company's shareholders' meeting on April 24, 2013. On April 10, 2013, Deutsche Telekom had submitted an improved offer to MetroPCS shareholders for their approval of the transaction at the MetroPCS shareholders' meeting. Compared with the original offer, the core elements were a reduction in the shareholder loan from Deutsche Telekom to T-Mobile USA by USD 3.8 billion in total, a lowering of the interest rates for the remaining shareholder loans by 0.5 percentage points, and the extension of the lock-up period for the sale of the shares in the combined company on the stock exchange to 18 months from the closing of the transaction. As part of this transaction, Deutsche Telekom AG contributed T-Mobile USA into the listed company MetroPCS in return for a 74.29-percent stake in the combined company following a capital increase. The combined company, trading under the name T-Mobile US, Inc., has been fully included in Deutsche Telekom's consolidated financial statements since May 1, 2013. The shares are listed on the New York Stock Exchange (NYSE).

In terms of economic substance, a 25.71-percent stake in the former T-Mobile USA was swapped for a 74.29-percent stake in MetroPCS. The value of the shares in the former T-Mobile USA surrendered corresponded to the value of the shares Deutsche Telekom acquired for a 74.29-percent stake in MetroPCS. On the date the transaction was closed, one MetroPCS share was traded at USD 11.84 at the close of trading. After the close of trading, MetroPCS performed a reverse stock split, which doubled the value per share to USD 23.68. In accordance with the agreement, MetroPCS made a total payment of USD 1.5 billion to its previous shareholders immediately before the closing of the transaction. The value of the shares allocable to Deutsche Telekom was thus reduced by 74.29 percent of this payment. This amount had to be subtracted to determine the value of the consideration transferred. Based on this payment, the share price before the start of trading was USD 15.58 per share at May 1, 2013. As of May 1, 2013, Deutsche Telekom thus owned 74.29 percent of the shares in the combined company, with the remaining 25.71 percent being held by former MetroPCS stockholders.

The consideration transferred at the acquisition date for the acquisition of MetroPCS breaks down as follows:



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## T 059

millions of €

	Fair value of the consideration transferred at the acquisition date
Value of the shares in MetroPCS received (74.29%)/	
Value of the shares in the former T-Mobile USA surrendered (25.71 %)	2,492
74.29 % of the payment to previous MetroPCS shareholders	(852)
	<b>1,640</b>

The fair values of MetroPCS's acquired assets and liabilities recognized at the acquisition date are presented in TABLE 060. Following the original determination of fair values at the date of the transaction, the measurement basis for derivative financial instruments were adjusted within non-current financial assets and liabilities as of September 30, 2013. As a result, the carrying amounts of both items increased by EUR 90 million each. The purchase price allocation was completed on December 31, 2013.

## T 060

millions of €

	Fair value at the acquisition date
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	<b>1,980</b>
Cash and cash equivalents	1,639
Trade and other receivables	65
Other financial assets	10
Inventories	131
Other assets	135
<b>NON-CURRENT ASSETS</b>	<b>6,304</b>
Intangible assets	5,052
Of which: FCC licenses	2,920
Of which: goodwill	955
Of which: customer base	845
Of which: brand name	178
Of which: other	154
Property, plant and equipment	1,033
Other financial assets	216
Deferred tax assets	3
<b>ASSETS</b>	<b>8,284</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
<b>CURRENT LIABILITIES</b>	<b>521</b>
Financial liabilities	43
Trade and other payables	205
Income tax liabilities	1
Other provisions	68
Other liabilities	204
<b>NON-CURRENT LIABILITIES</b>	<b>5,823</b>
Financial liabilities	5,037
Other provisions	161
Deferred tax liabilities	518
Other liabilities	107
<b>LIABILITIES</b>	<b>6,344</b>

The acquired current receivables of MetroPCS are not expected to give rise to significant bad debt losses in the future. The estimates are based on empirical values. The current receivables acquired therefore largely correspond to the gross amounts of the contractual receivables.

The acquired goodwill of EUR 1.0 billion to be recognized in Deutsche Telekom's consolidated statement of financial position is calculated as follows:

## T 061

millions of €

	Fair value at the acquisition date
Consideration transferred	1,640
Assets acquired for 100 % of the shares	(7,329)
Assets acquired for 25.71 % of the shares (non-controlling interests)	1,884
Liabilities acquired for 100 % of the shares	6,344
Liabilities acquired for 25.71 % of the shares (non-controlling interests)	(1,631)
MetroPCS stock option program	47
<b>GOODWILL</b>	<b>955</b>

In accordance with the option provided by IFRS 3.19, Deutsche Telekom only recognizes the goodwill of 74.29 percent attributable to Deutsche Telekom AG shareholders in its consolidated statement of financial position. The effect arising from the stock option programs to be added to goodwill is related to previous MetroPCS programs. Upon closing of the transaction, the stock options were allocated in full to the beneficiaries and can be exercised. In terms of economic substance, the transaction is a commitment entered into by Deutsche Telekom AG, which upon its fulfillment reduces the Group's share in shareholders' equity. Since this commitment neither had to be considered as part of the consideration transferred, nor in MetroPCS's transferred liabilities, the amount increased goodwill. The stock options were recognized at market value and disclosed in shareholders' equity under non-controlling interests at the date of first-time consolidation.

Goodwill is influenced by synergy effects arising from the merger of the two companies, especially as a result of cost savings in connection with the combination of networks, the added spectrum for the LTE roll-out, and the expanded customer base.

Goodwill developed as follows between the closing date and December 31, 2013:

T 062

millions of €

	Development of goodwill
Goodwill on May 1, 2013	955
Exchange rate effects	(48)
<b>GOODWILL ON DECEMBER 31, 2013</b>	<b>907</b>

Goodwill resulting from the business combination will not be recognized in accordance with U.S. tax law and is thus not tax-deductible. Purchase price allocation did not result in deferred taxes on goodwill, nor will it in future.

Deferred tax assets recognized on tax loss carryforwards at T-Mobile US in the amount of EUR 13 million were eliminated as a result of the business combination. This did not have an impact on the income statement, as these deferred tax assets had already been impaired.

Deutsche Telekom's net revenue in the reporting period increased by EUR 2,530 million on account of the acquisition of MetroPCS (please refer to TABLE 063). Had the business combination already occurred on January 1, 2013, net revenue would have been a further EUR 1,329 million higher, totaling EUR 3,859 million. Deutsche Telekom's profit/loss for the current reporting period includes profit from MetroPCS of EUR 32 million. Had the business combination already occurred on January 1, 2013, profit of the Deutsche Telekom Group would have been a further EUR 75 million higher, totaling EUR 107 million.

Transaction costs totaling EUR 36 million were incurred up to December 31, 2013, which were recorded under general and administrative expenses.

A new share-based compensation program (Restricted Stock Units) was resolved for the employees of the combined company in June 2013 (please also refer to Note 36 "Share-based payment," PAGES 228 and 229).

The combined company took over the stock option plans of MetroPCS. Beneficiaries can exercise the options resulting from these plans at any time. The vesting period ended upon acquisition of MetroPCS as of May 1, 2013 and no further expense has to be recognized (please also refer to Note 36 "Share-based payment," PAGES 228 and 229). The stake held by Deutsche Telekom AG in T-Mobile US was diluted by 0.87 percent as a result of the options exercised by December 31, 2013.

T-Mobile US carried out a capital increase in November 2013 by issuing 6.6 million shares to third parties. This diluted Deutsche Telekom AG's stake in T-Mobile US by 6.67 percent, reducing it to 66.75 percent as at December 31, 2013.

T-Mobile US swapped mobile spectrum with Verizon Communications, Inc. Due to the disclosure as asset held for sale, the intangible asset was written down to the fair value less costs of disposal as of December 31, 2013. As a result of the combination of the networks of T-Mobile USA and MetroPCS, items of construction in progress and network systems were derecognized. The expense of EUR 0.2 billion arising from the effects mentioned is disclosed under other operating expenses (please also refer to Note 21, PAGE 212).

#### Acquisition of DIGI Slovakia.

On May 14, 2013, Slovak Telekom concluded an agreement to buy all of the shares in DIGI SLOVAKIA, s.r.o. The purchase price was EUR 53 million. DIGI Slovakia offers digital TV via satellite, cable, and Internet access in Slovakia. The acquisition will expand Slovak Telekom's product portfolio in the area of digital TV. The transaction received the approval of the Slovak competition authority on July 31, 2013. DIGI Slovakia has been fully consolidated in the consolidated financial statements of Deutsche Telekom since September 1, 2013. Goodwill totals EUR 29 million.

#### Disposals.

As of March 31, 2013, OTE, which is part of the Europe operating segment, sold its equity interest in Hellas Sat S.A. for EUR 0.2 billion. This sale generated a deconsolidation gain of EUR 0.1 billion. Telekom Deutschland GmbH, which is part of the Germany operating segment, also sold its equity interest in SAF Forderungsmanagement GmbH as of March 31, 2013. The sale price and the consolidation gain were not material. T-Systems International GmbH, which is part of the Systems Solutions operating segment, sold T-Systems Italia S.p.A. as of April 30, 2013. A loss of EUR 0.1 billion was recognized in connection with this sale. The sale price was not material. The sale of Cosmo Bulgaria Mobile EAD (Globul) and Germanos Telecom Bulgaria AD (Germanos) by OTE, which is part of the Europe operating segment, to the Norwegian telecommunications provider Telenor, which has acquired 100 percent of the shares, was completed on July 31, 2013. The adjusted sale price was EUR 0.6 billion. Deconsolidation generated income of EUR 0.1 billion (before taxes).

#### Presentation of the quantitative effects on the composition of the Group.

TABLE 063 shows the effects of the aforementioned changes in the composition of the Group on the consolidated income statement and segment reporting for 2013 financial year:

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T 063

millions of €

	Germany	United States	Europe	Systems Solutions	Group Headquarters & Group Services	Reconciliation	Total
Net revenue	(24)	2,530	(148)	(73)	0	2	2,287
Cost of sales	12	(1,730)	80	82	0	(2)	(1,558)
<b>GROSS PROFIT (LOSS)</b>	<b>(12)</b>	<b>800</b>	<b>(68)</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>729</b>
Selling expenses	1	(467)	55	4	0	0	(407)
General and administrative expenses	2	(77)	8	5	0	0	(62)
Other operating income	0	5	0	0	0	0	5
Other operating expenses	(1)	0	62	0	0	0	61
<b>PROFIT (LOSS) FROM OPERATIONS</b>	<b>(10)</b>	<b>261</b>	<b>57</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>326</b>
Finance costs	0	(154)	(1)	0	0	0	(155)
Share of profit (loss) of associates and joint ventures accounted for using the equity method	0	0	0	0	0	0	0
Other financial income (expense)	0	(75)	0	0	0	0	(75)
<b>PROFIT (LOSS) FROM FINANCIAL ACTIVITIES</b>	<b>0</b>	<b>(229)</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(230)</b>
<b>PROFIT (LOSS) BEFORE INCOME TAXES</b>	<b>(10)</b>	<b>32</b>	<b>56</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>96</b>
Income taxes	0	0	0	0	0	0	0
<b>PROFIT (LOSS)</b>	<b>(10)</b>	<b>32</b>	<b>56</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>96</b>

### Changes in the composition of the Group.

The composition of the Deutsche Telekom Group changed as follows in the 2013 financial year:

T 064

	Domestic	International	Total
<b>CONSOLIDATED SUBSIDIARIES</b>			
January 1, 2013	68	167	235
Additions	5	32	37
Disposals (including mergers)	6	22	28
<b>DECEMBER 31, 2013</b>	<b>67</b>	<b>177</b>	<b>244</b>
<b>ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD</b>			
January 1, 2013	4	8	12
Additions	-	1	1
Disposals	-	-	-
<b>DECEMBER 31, 2013</b>	<b>4</b>	<b>9</b>	<b>13</b>
<b>JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD</b>			
January 1, 2013	3	5	8
Additions	-	2	2
Disposals	-	1	1
<b>DECEMBER 31, 2013</b>	<b>3</b>	<b>6</b>	<b>9</b>
<b>TOTAL</b>			
January 1, 2013	75	180	255
Additions	5	35	40
Disposals (including mergers)	6	23	29
<b>DECEMBER 31, 2013</b>	<b>74</b>	<b>192</b>	<b>266</b>

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.

The following transactions will change the composition of the Deutsche Telekom Group in future.

### Agreed acquisition of GTS Central Europe.

At the beginning of November 2013, Deutsche Telekom reached an agreement with a consortium of international private equity companies on the acquisition of the GTS Central Europe group (GTS) for EUR 546 million. GTS is a leading infrastructure-based provider of telecommunications services in Central and Eastern Europe and owns an extensive optical fiber network. The acquisition will improve Deutsche Telekom's options for offering innovative telecommunication services and integrated products in the European key markets in the future. The takeover is still subject to approval by the relevant authorities. The transaction is expected to be closed in the first half of 2014.

### Sale of Scout24 Holding GmbH agreed.

In November 2013, Deutsche Telekom also agreed to sell 70 percent of the shares in Scout24 Holding GmbH to Hellman & Friedman LLC (H&F). Deutsche Telekom continues to hold a stake of 30 percent in the Scout24 group. For further information, please refer to Note 42 "Events after the reporting period," PAGE 247.

## PRINCIPAL SUBSIDIARIES.

The Group's principal subsidiaries are presented in TABLE 065:

T 065

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
	Dec. 31, 2013 %	2013 millions of €	2013 millions of €	2013 millions of €	2013
Telekom Deutschland GmbH, Bonn, Germany	100.00	21,990	4,562	4,671	12,834
T-Mobile US, Inc., Bellevue, Washington, United States <sup>a,b</sup>	66.75	18,556	1,404	11,942	32,962
T-Systems International GmbH, Frankfurt/Main, Germany	100.00	6,730	(265)	1,275	22,347
Hellenic Telecommunications Organization S.A. (OTE), Athens, Greece <sup>a</sup>	40.00	4,244	315	3,597	25,325
Magyar Telekom Public Limited Company, Budapest, Hungary <sup>a,b</sup>	59.23	2,145	193	2,151	14,493
T-Mobile Netherlands Holding B.V., The Hague, Netherlands <sup>a,b</sup>	100.00	1,666	181	2,252	1,658
T-Mobile Polska S.A., Warsaw, Poland <sup>b</sup>	100.00	1,584	348	2,199	4,721
T-Mobile Czech Republic a.s., Prague, Czech Republic <sup>a,b</sup>	60.77	988	271	1,540	3,360
Hrvatski Telekom d.d., Zagreb, Croatia <sup>a,b</sup>	51.00	929	202	1,920	5,606
T-Mobile Austria Holding GmbH, Vienna, Austria <sup>a,b</sup>	100.00	828	(510)	921	1,207
Slovak Telekom a.s., Bratislava, Slovakia <sup>a,b</sup>	51.00	828	69	1,903	3,811

<sup>a</sup> Consolidated subgroup.

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

<sup>c</sup> IFRS figures.

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/ir](http://www.telekom.com/ir)). Furthermore, the statement of investment holdings includes a full list of all subsidiaries that exercise simplification options in accordance with § 264 (3) HGB or disclosure simplification options in accordance with § 264 b HGB.

## 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 average of the bid and ask rates at closing on the respective dates. The income statements and corresponding profit or loss of foreign-currency denominated Group entities are translated at 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 066

	Annual average rate			Rate at the reporting date	
	2013	2012	2011	Dec. 31, 2013	Dec. 31, 2012
100 Czech korunas (CZK)	3.85018	3.97740	4.06830	3.64929	3.98309
1 Pound sterling (GBP)	1.17714	1.23292	1.15203	1.20086	1.22643
100 Croatian kuna (HRK)	13.19720	13.29600	13.44360	13.12490	13.23580
1,000 Hungarian forints (HUF)	3.36771	3.45820	3.58103	3.36594	3.41775
100 Macedonian denars (MKD)	1.61831	1.62376	1.62472	1.62712	1.60626
100 Polish zlotys (PLN)	23.82270	23.89580	24.27060	24.08060	24.48640
1 U.S. dollar (USD)	0.75289	0.77820	0.71801	0.72597	0.75845

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## 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 40 million (December 31, 2012: EUR 729 million) on the basis of collateral contracts as surety for potential credit risks arising from derivative transactions.

In the reporting period, cash and cash equivalents increased by EUR 3.9 billion to EUR 8.0 billion. For further details, please refer to the consolidated statement of cash flows in Note 31, PAGES 219 and 220.

As of December 31, 2013, Deutsche Telekom reported cash and cash equivalents of EUR 23 million held by subsidiaries in the F.Y.R.O. Macedonia (December 31, 2012: EUR 7 million). These subsidiaries are subject to foreign exchange controls or other legal restrictions. As a result, the cash balances are not fully available for use by the parent or other Group companies.

### 2 TRADE AND OTHER RECEIVABLES.

T 067

millions of €

	Dec. 31, 2013	Dec. 31, 2012
Trade receivables	7,580	6,316
Other receivables	132	101
	<b>7,712</b>	<b>6,417</b>

Of the total of trade and other receivables, EUR 6,735 million (December 31, 2012: EUR 6,188 million) is due within one year.

The development in receivables is largely attributable to an increased percentage of terminal equipment sold under installment plans in the United States operating segment, as a result of the strategy pursued by T-Mobile US to sell handsets at full price on installment contracts, which are available to certain customer groups.

TABLE 068 shows the maturity structure of the trade receivables that are not impaired at the reporting date:

T 068

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, 2013	<b>2,816</b>	<b>661</b>	<b>82</b>	<b>51</b>	<b>75</b>	<b>106</b>	<b>77</b>
As of Dec. 31, 2012	3,722	597	108	53	138	86	64

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 069

millions of €

	2013	2012
ALLOWANCES AS OF JANUARY 1	<b>1,316</b>	<b>1,232</b>
Currency translation adjustments	(15)	2
Additions (allowances recognized as expense)	642	949
Use	(479)	(754)
Reversal	(120)	(113)
ALLOWANCES AS OF DECEMBER 31	<b>1,344</b>	<b>1,316</b>

TABLE 070 presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

T 070

millions of €

	2013	2012	2011
Expenses for full write-off of receivables	129	138	107
Income from recoveries on receivables written off	46	103	28

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling expenses.

### 3 INVENTORIES.

T 071

millions of €

	Dec. 31, 2013	Dec. 31, 2012
Raw materials and supplies	75	96
Work in process	40	59
Finished goods and merchandise	947	950
Advance payments	0	1
	<b>1,062</b>	<b>1,106</b>

Of the inventories reported as of December 31, 2013, write-downs of EUR 46 million (2012: EUR 58 million, 2011: EUR 69 million) on the net realizable value were recognized in profit or loss.

The carrying amount of inventories recognized as expense amounted to EUR 6,470 million (2012: EUR 5,519 million, 2011: EUR 5,905 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.

#### 4 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE.

As of December 31, 2013, current assets recognized in the consolidated statement of financial position included EUR 1.0 billion in non-current assets and disposal groups held for sale. The increase of EUR 0.9 billion compared with December 31, 2012 is primarily attributable to the following agreed transactions: In the United States operating segment, this included EUR 0.6 billion for the mobile spectrum swap with Verizon Communications, Inc. to improve the mobile network coverage, and, in the Group Headquarters & Group Services segment, EUR 0.3 billion resulting from the agreed sale of the Scout24 group.

Reversals of impairments to the non-current assets and disposal groups held for sale were not material.

As of December 31, 2013, current liabilities included EUR 0.1 billion as liabilities directly associated with non-current assets and disposal groups held for sale. This increase was mainly a result from the agreed sale of the Scout24 group.

T 072

millions of €

	Dec. 31, 2013				
	T-Mobile US spectrum licenses	Scout24 group	Deutsche Telekom AG real estate	Other	Total
<b>NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE</b>					
Cash and cash equivalents	-	32	-	-	32
Trade receivables	-	32	-	2	34
Other current assets	-	8	-	2	10
Intangible assets	597	174	-	5	776
Property, plant and equipment	-	18	72	39	129
Investments accounted for using the equity method	-	42	-	-	42
Deferred tax assets	-	9	-	-	9
Other non-current assets	-	1	-	-	1
<b>TOTAL</b>	<b>597</b>	<b>316</b>	<b>72</b>	<b>48</b>	<b>1,033</b>
<b>LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE</b>					
Financial liabilities	-	3	-	-	3
Trade and other payables	-	15	-	9	24
Other current provisions	-	3	-	2	5
Other current liabilities	-	41	-	3	44
Other non-current provisions	-	2	-	-	2
Deferred tax liabilities	-	35	-	-	35
<b>TOTAL</b>	<b>-</b>	<b>99</b>	<b>-</b>	<b>14</b>	<b>113</b>



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According to 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, 2013.

T 073

millions of €

	Dec. 31, 2013			
	Level 1 Inputs as prices in active markets	Level 2 Other inputs that are directly or indirectly observable	Level 3 Inputs that are unobservable	Total
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE				
T-Mobile US spectrum licenses	–	597	–	597
Deutsche Telekom AG real estate	–	–	50	50

In accordance with IFRS 13, the fair values of T-Mobile US's swapped spectrum licenses were determined using input parameters of the second level. Different tiers were defined depending on the size of the population in the respective local markets, and for each tier, the value per inhabitant and per megahertz of spectrum (known as MHz Pop) was calculated on the basis of recent market transactions for comparable licenses. The calculation was performed by an external expert. The spectrum licenses were written down by EUR 0.1 billion to the fair value less costs of disposal. The expense was recognized under other operating expenses.

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 internal expert opinions. An external expert is also called in if the preliminary market value for the property exceeds EUR 2 million. 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. If internal and external expert opinions result in different fair values, the higher of the two is generally used and the expected costs of disposal (currently usually around 10 percent of the fair value) are subtracted. The property is recognized at the lower of the 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 074

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, 2011</b>	<b>3,481</b>	<b>45,176</b>	<b>834</b>	<b>1,355</b>
Currency translation	(12)	(222)	13	0
Changes in the composition of the Group	1	6	5	0
Other changes	0	0	0	0
Additions	78	2,102	7	0
Disposals	476	1,327	57	0
Change from non-current assets and disposal groups held for sale	0	(160)	0	0
Reclassifications	530	1,338	37	0
<b>AT DECEMBER 31, 2012</b>	<b>3,602</b>	<b>46,913</b>	<b>839</b>	<b>1,355</b>
Currency translation	(83)	(1,310)	(12)	0
Changes in the composition of the Group	0	3,654	104	0
Other changes	0	0	0	0
Additions	112	1,262	214	20
Disposals	456	1,151	30	0
Change from non-current assets and disposal groups held for sale	(18)	(1,165)	(119)	0
Reclassifications	961	2,268	10	1,075
<b>AT DECEMBER 31, 2013</b>	<b>4,118</b>	<b>50,471</b>	<b>1,006</b>	<b>2,450</b>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES</b>				
<b>AT DECEMBER 31, 2011</b>	<b>2,163</b>	<b>14,764</b>	<b>636</b>	<b>66</b>
Currency translation	(10)	35	13	0
Changes in the composition of the Group	0	(3)	0	0
Additions (amortization)	720	2,451	20	92
Additions (impairment)	121	6,002	1	0
Disposals	473	1,225	57	0
Change from non-current assets and disposal groups held for sale	0	(18)	0	0
Reclassifications	(169)	167	1	0
<b>AT DECEMBER 31, 2012</b>	<b>2,352</b>	<b>22,173</b>	<b>614</b>	<b>158</b>
Currency translation	(63)	(432)	(2)	0
Changes in the composition of the Group	0	(331)	(71)	0
Additions (amortization)	995	2,460	52	146
Additions (impairment)	0	116	1	0
Disposals	454	1,131	29	0
Change from non-current assets and disposal groups held for sale	(11)	(438)	0	0
Reclassifications	1	16	2	10
<b>AT DECEMBER 31, 2013</b>	<b>2,820</b>	<b>22,433</b>	<b>567</b>	<b>314</b>
<b>NET CARRYING AMOUNTS</b>				
At December 31, 2012	1,250	24,740	225	1,197
<b>AT DECEMBER 31, 2013</b>	<b>1,298</b>	<b>28,038</b>	<b>439</b>	<b>2,136</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			
10,023	1,708	19,101	12,155	27,419	1,339	77,415
26	24	(396)	111	67	2	(165)
0	0	0	1	0	0	7
0	0	0	0	0	0	0
3	45	1,587	460	8	1,891	4,079
2	0	93	1,175	0	42	1,845
0	0	(154)	(6)	0	0	(160)
(2)	0	0	1,303	0	(1,773)	95
10,048	1,777	20,045	12,849	27,494	1,417	79,426
(18)	(19)	(1,012)	(249)	(565)	(13)	(1,971)
(16)	(85)	2,920	731	1	(6)	3,649
0	0	0	0	0	0	0
13	174	271	570	984	3,859	6,217
32	365	0	724	2	63	1,672
0	0	(940)	(106)	(298)	(14)	(1,495)
(7)	(32)	0	1,222	0	(3,111)	118
9,988	1,450	21,284	14,293	27,614	2,069	84,272
4,584	1,060	0	8,418	10,261	0	27,188
9	17	(116)	112	(172)	0	(147)
0	0	0	(3)	0	0	(3)
605	134	0	1,600	0	0	3,171
0	0	5,822	179	2,965	0	9,088
2	0	0	1,166	0	0	1,698
0	0	(12)	(6)	0	0	(18)
0	0	0	166	0	0	(2)
5,196	1,211	5,694	9,300	13,054	0	37,579
(7)	(17)	(245)	(161)	(410)	0	(905)
3	(29)	0	(234)	0	0	(331)
603	105	0	1,554	0	0	3,455
0	0	104	11	605	0	721
32	351	0	719	0	0	1,585
0	0	(343)	(95)	(197)	0	(646)
(5)	(10)	0	19	0	0	17
5,758	909	5,210	9,675	13,052	0	38,305
4,852	566	14,351	3,549	14,440	1,417	41,847
4,230	541	16,074	4,618	14,562	2,069	45,967

The net carrying amount of the UMTS licenses of EUR 4.2 billion mainly relates to the Germany operating segment.

The statement of changes in intangible assets had to be adjusted at T-Mobile Polska in December 2013. When the company was consolidated for the first time, the reevaluated amounts for the opening balances of cost were reported as net figures. In subsequent periods the company presented the further development of historical cost and of cumulative depreciation and amortization at the historical gross amount before first-time consolidation. Consequently, the reported decreases in cost and depreciation, amortization and impairment losses were too high and the amounts for the closing balances thus too low, which in turn means the gross values were not correct. The net carrying amounts, however, were reported correctly. The statement of changes in intangible assets of Deutsche Telekom was therefore adjusted retrospectively as of December 31, 2013 for the prior periods. The closing balances of cost and cumulative amortization under intangible assets were both increased by EUR 0.1 billion as of December 31, 2011. No further material adjustments were made in the course of 2012. The adjustment resulted in increases in cost and in cumulative amortization as of December 31, 2012 of EUR 0.1 billion each. It did not have any effect on Deutsche Telekom's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, or consolidated statement of cash flows.

Inconsistencies were detected at T-Mobile US in December 2013 regarding the disclosure of advance payments and construction in progress under intangible assets. No distinction had been made between intangible assets and property, plant and equipment; rather, all entries were disclosed under advance payments and construction in progress under property, plant and equipment. The statement of changes in property, plant and equipment and the statement of changes in intangible assets of Deutsche Telekom were therefore adjusted retrospectively for the prior periods as of December 31, 2013 (please refer to Note 6 "Property, plant and equipment," PAGES 194 and 195).

Deutsche Telekom had commitments for the acquisition of intangible assets in the amount of EUR 0.7 billion (December 31, 2012: EUR 1.7 billion) as of the reporting date. The decrease is mainly attributable to an obligation included in the prior year for T-Mobile Netherlands to buy mobile licenses. The purchase was completed in the 2013 financial year.

The carrying amount of goodwill is allocated to the operating segments, the Group Headquarters & Group Services segment and cash-generating units as follows:

T 075

millions of €

	Dec. 31, 2013	Dec. 31, 2012
<b>GERMANY</b>	<b>3,977</b>	<b>3,974</b>
<b>UNITED STATES</b>	<b>907</b>	<b>-</b>
<b>EUROPE</b>	<b>6,488</b>	<b>7,241</b>
Of which:		
Poland	1,573	1,600
Netherlands	1,312	1,317
Hungary	1,055	1,071
Czech Republic	610	666
Croatia	484	488
Slovakia	428	399
Greece – Mobile communications	422	422
Austria	324	866
Romania – Mobile communications	144	145
Bulgaria	-	75
Other	136	192
<b>SYSTEMS SOLUTIONS</b>	<b>3,162</b>	<b>3,171</b>
<b>GROUP HEADQUARTERS &amp; GROUP SERVICES</b>	<b>28</b>	<b>54</b>
	<b>14,562</b>	<b>14,440</b>

In the 2013 financial year, the main changes in the carrying amounts of goodwill at cash-generating units were as follows:

**United States.** The increase in goodwill of EUR 0.9 billion compared with December 31, 2012 is attributable to the acquisition of MetroPCS as of May 1, 2013 (please refer to the section "Changes in the composition of the Group and transactions with owners," PAGE 182 ET SEQ.).

**Europe.** The carrying amount of goodwill at the **Austria** cash-generating unit decreased by EUR 0.5 billion due to an impairment loss recognized as of December 31, 2013 following the annual impairment test. Goodwill at the **Bulgaria** cash-generating unit no longer existed as of December 31, 2013 following the sale of Cosmo Bulgaria (Globul) and Germanos Telecom Bulgaria (Germanos).

**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, 2013. A need for impairment of EUR 600 million was identified as of December 31, 2013 on the basis of information available at the reporting date and expectations with respect to the future development of the market and competitive environment. Of this figure, EUR 24 million is attributable to non-controlling interests. In particular, the Austria cash-generating unit recognized an impairment loss of EUR 541 million, which resulted from the acquisition of national mobile licenses in Austria in the 2013 financial year. The acquisition of such licenses was necessary in order to continue operations in the Austrian mobile communications market. The actual price to be paid in the auction was higher than expected. In addition, intensified competition is expected to negatively impact the future revenue trend.

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The recoverable amount to be identified for the impairment test in Austria was determined on the basis of the fair value less costs of disposal. This value was calculated using the net present value method. The main parameters are shown in TABLE 076. The recoverable amount totaled EUR 920 million and in accordance with IFRS 13 was calculated using third-level input parameters (i.e., input parameters that cannot be observed).

The respective fair value less costs of disposal is generally the recoverable amount used for the impairment tests carried out at a cash-generating unit in the 2013 financial year. The recoverable amount at the Croatia cash-generating unit, however, was determined using the value in use. 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 generally 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 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. 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 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 the future macroeconomic trends, continued intense competition, further possible legislation changes (e.g., as part of national austerity programs), and regulatory intervention.

TABLE 076 provides an overview of the period for the cash flow projections, the growth rates used for cash flow projections, the discount rates applied to the cash flow projections, and the classification of the input parameters (levels) allocated to the recoverable amounts in accordance with IFRS 13. It shows the main cash-generating units to which goodwill is allocated or which recorded an impairment loss in the 2013 financial year.

T 076

	Projection period (years)	Growth rates %	Discount rates %	Level allocation of input parameters
<b>GERMANY</b>	10	1.0	6.23	3
<b>UNITED STATES</b>	–	–	–	1
<b>EUROPE</b>				
Poland	10	2.0	7.75	3
Netherlands	10	2.0	6.76	3
Czech Republic	10	2.0	7.73	3
Slovakia	10	2.0	7.11	3
Croatia	10	2.0	8.78 <sup>a</sup>	–
Greece – Mobile communications	10	2.0	10.48	3
Romania – Mobile communications	10	2.0	9.70	3
Hungary	10	2.0	7.15	3
Austria	10	2.0	6.86 <sup>b</sup>	3
Other cash-generating units	10	1.5 – 2.0	5.82 – 10.18	3
<b>SYSTEMS SOLUTIONS</b>	10	1.5	7.97	3

<sup>a</sup> Discount rate before taxes due to the determination of the value in use. The discount rate after taxes is 7.27 percent.

<sup>b</sup> Prior-year discount rate: 6.63 percent.

If the net cash flows used for impairment testing had been 0.5 percentage points higher for the projection period, this would not have resulted in significantly lower impairment losses. If the net cash flows used had been 0.5 percentage points lower, this would not have resulted in significantly higher impairment losses. If the discount rates used for impairment testing had been 0.5 percentage points higher, the resulting impairment losses would have increased by EUR 0.1 billion. If, by contrast, the discount rates had been 0.5 percentage points lower, the resulting impairment losses would have been EUR 0.1 billion lower. If the growth rates used had been 0.5 percentage points lower, the impairment losses would have been EUR 0.1 billion higher. In turn, impairment losses would have been EUR 0.1 billion lower if the growth rates had been 0.5 percentage points higher.

## 6 PROPERTY, PLANT AND EQUIPMENT.

T 077

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, 2011</b>	<b>19,459</b>	<b>101,765</b>	<b>7,614</b>	<b>2,467</b>	<b>131,305</b>
Currency translation	14	0	4	(16)	2
Changes in the composition of the Group	0	3	4	0	7
Additions	220	2,404	501	3,345	6,470
Disposals	229	2,876	814	76	3,995
Change from non-current assets and disposal groups held for sale	(612)	(849)	(2)	(33)	(1,496)
Reclassifications	282	2,049	404	(2,830)	(95)
<b>AT DECEMBER 31, 2012</b>	<b>19,134</b>	<b>102,496</b>	<b>7,711</b>	<b>2,857</b>	<b>132,198</b>
Currency translation	(133)	(879)	(103)	(51)	(1,166)
Changes in the composition of the Group	(394)	188	313	49	156
Additions	199	2,483	462	3,999	7,143
Disposals	353	3,684	720	76	4,833
Change from non-current assets and disposal groups held for sale	(304)	(117)	(52)	(2)	(475)
Reclassifications	281	3,706	248	(4,353)	(118)
<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>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>					
<b>AT DECEMBER 31, 2011</b>	<b>9,627</b>	<b>74,454</b>	<b>5,398</b>	<b>29</b>	<b>89,508</b>
Currency translation	(2)	(7)	0	0	(9)
Changes in the composition of the Group	0	0	3	0	3
Additions (depreciation)	789	6,152	736	0	7,677
Additions (impairment)	288	1,603	125	4	2,020
Disposals	166	2,707	723	2	3,598
Change from non-current assets and disposal groups held for sale	(408)	(382)	(3)	(4)	(797)
Reclassifications	14	(113)	101	0	2
Reversal of impairment losses	(13)	0	(2)	0	(15)
<b>AT DECEMBER 31, 2012</b>	<b>10,129</b>	<b>79,000</b>	<b>5,635</b>	<b>27</b>	<b>94,791</b>
Currency translation	(77)	(560)	(78)	0	(715)
Changes in the composition of the Group	(211)	(454)	121	0	(544)
Additions (depreciation)	700	5,189	722	0	6,611
Additions (impairment)	96	12	6	2	116
Disposals	245	3,484	636	1	4,366
Change from non-current assets and disposal groups held for sale	(240)	(100)	(37)	(1)	(378)
Reclassifications	48	(42)	(23)	0	(17)
Reversal of impairment losses	(20)	0	0	0	(20)
<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>
<b>NET CARRYING AMOUNTS</b>					
At December 31, 2012	9,005	23,496	2,076	2,830	37,407
<b>AT DECEMBER 31, 2013</b>	<b>8,250</b>	<b>24,632</b>	<b>2,149</b>	<b>2,396</b>	<b>37,427</b>



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For further details on depreciation, amortization and impairment losses, please refer to Note 5 "Intangible assets," PAGE 190 ET SEQ., and Note 30 "Depreciation, amortization and impairment losses," PAGES 218 and 219.

Restoration obligations of EUR 0.3 billion were recognized as of December 31, 2013 (December 31, 2012: EUR 0.2 billion). Deutsche Telekom had commitments for the acquisition of property, plant and equipment in the amount of EUR 1.1 billion (December 31, 2012: EUR 2.0 billion) as of the reporting date. The decrease is primarily attributable to obligations included in the prior year for the build-out of the mobile network in the United States operating segment.

The statement of changes in property, plant and equipment had to be adjusted at T-Mobile Polska in December 2013. When the company was consolidated for the first time, the re-evaluated amounts for the opening balances of cost were reported as net figures. In subsequent periods, the company presented the further development of historical cost and of cumulative depreciation and amortization at the historical gross amount before first-time consolidation. Consequently, the reported decreases in cost and depreciation, amortization and impairment losses were too high and the amounts for the closing balances thus too low, which in turn means the gross values were not correct. The net carrying amounts, however, were reported correctly. The statement of changes in property, plant and equipment of Deutsche Telekom was therefore adjusted retrospectively as of December 31, 2013 for the prior periods. The closing balances of cost and cumulative depreciation under property, plant and equipment were both increased by EUR 0.3 billion at December 31, 2011. The decrease in cumulative cost and the decrease in cumulative depreciation for the course of 2012 were reduced by EUR 0.1 billion each. The adjustment resulted in increases in cost and in cumulative depreciation as of December 31, 2012 of EUR 0.4 billion each. It did not have any effect on Deutsche Telekom's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, or consolidated statement of cash flows.

Inconsistencies were also detected at T-Mobile US in December 2013 regarding the disclosure of advance payments and construction in progress under property, plant and equipment. No distinction had been made between intangible assets and property, plant and equipment; rather, all entries were disclosed under advance payments and construction in progress under property, plant and equipment. The statement of changes in property, plant and equipment and the statement of changes in intangible assets of Deutsche Telekom were therefore adjusted retrospectively for the prior periods as of December 31, 2013. EUR 0.1 billion was reassigned in the closing balances as of December 31, 2011 from advance payments and construction in progress under property, plant and equipment to advance payments and construction in progress under intangible assets. EUR 0.7 billion was reassigned from additions and EUR 0.8 billion (net EUR 0.1 billion) from reclassifications of property, plant and equipment in this context to additions and reclassifications of intangible assets. Figures for the 2011 and 2012 financial years were adjusted retrospectively in the consolidated statement of cash flows. For 2011, cash outflows for investments in intangible assets were increased by EUR 0.5 billion and cash outflows for property, plant and equipment reduced by EUR 0.5 billion. For 2012, cash outflows for investments in intangible assets were increased by EUR 0.7 billion and cash outflows for property, plant and equipment reduced by EUR 0.7 billion. This adjustment did not have any effect on Deutsche Telekom's consolidated income statement, consolidated statement of comprehensive income, or consolidated statement of changes in equity.

## 7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD.

Significant investments in entities accounted for using the equity method are as follows:

### T 078

millions of €

Name	Dec. 31, 2013		Dec. 31, 2012	
	Deutsche Telekom share %	Net carrying amounts	Deutsche Telekom share %	Net carrying amounts
EE <sup>a</sup>	50.00	5,844	50.00	6,352
T-Mobile USA Tower <sup>b</sup>	66.75	75	100.00	79
T-Mobile West Tower <sup>b</sup>	66.75	86	100.00	90
HT Mostar <sup>c</sup>	39.10	52	39.10	52
Toll Collect <sup>a</sup>	45.00	13	45.00	12
Other		97		141
		<b>6,167</b>		<b>6,726</b>

<sup>a</sup> Joint venture.

<sup>b</sup> Indirect shareholding via T-Mobile USA, Inc., United States (Deutsche Telekom AG's share: 66.75 %).

<sup>c</sup> Indirect shareholding via Hrvatski Telekom d.d., Croatia (Deutsche Telekom AG's share: 51.00 %).

The carrying amount of the EE joint venture decreased by EUR 0.5 billion. This decrease was primarily related to dividend payments received of EUR 0.3 billion and exchange rate effects of EUR 0.1 billion.

Aggregated key financial figures for the associates accounted for using the equity method are shown in the following overview. The data is not based on the portions attributable to the Deutsche Telekom Group, but represents the shareholdings on a 100-percent basis.

### Aggregated key financial figures for the associates accounted for using the equity method.

### T 079

billions of €

	Dec. 31, 2013	Dec. 31, 2012
	2013	2012
Total assets	0.6	0.5
Total liabilities	0.1	0.1
Net revenue	0.2	0.1
Profit (loss)	(0.1)	(0.1)

TABLE 080 is a summary presentation of aggregated key financial figures – prorated according to the relevant percentage of shares held – for the joint ventures of Deutsche Telekom accounted for using the equity method:

#### Aggregated key financial figures for the joint ventures accounted for using the equity method.

T 080

billions of €

	EE	Other	Total Dec. 31, 2013	Total Dec. 31, 2012
<b>TOTAL ASSETS</b>	<b>8.8</b>	<b>0.4</b>	<b>9.2</b>	<b>9.7</b>
Current	1.0	0.3	1.3	1.7
Non-current	7.8	0.1	7.9	8.0
<b>TOTAL LIABILITIES</b>	<b>2.9</b>	<b>0.3</b>	<b>3.2</b>	<b>3.3</b>
Current	1.4	0.2	1.6	1.6
Non-current	1.5	0.1	1.6	1.7
	EE	Other	Total 2013	Total 2012
Net revenue	3.9	0.2	4.1	4.4
Profit (loss)	0.0	0.0	0.0	(0.1)

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 941 million (December 31, 2012: EUR 246 million) were used in connection with collateral agreements as surety for potential credit risks arising from derivative transactions.

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 280 million as of December 31, 2013 (December 31, 2012: EUR 230 million). No plans existed as of the reporting date to sell these instruments. The increase was primarily attributable to higher investments in securities that were shown under available-for-sale assets as of December 31, 2013.

#### 9 OTHER ASSETS.

Other assets mainly include deferred expenses of EUR 1.1 billion (December 31, 2012: EUR 1.0 billion).

#### 8 OTHER FINANCIAL ASSETS.

T 081

millions of €

	Dec. 31, 2013		Dec. 31, 2012	
	Total	Of which: current	Total	Of which: current
Originated loans and receivables	2,672	2,347	2,123	1,718
Available-for-sale financial assets	652	110	380	25
Derivative financial assets	771	283	1,287	201
Held-to-maturity investments	12	5	131	76
	<b>4,107</b>	<b>2,745</b>	<b>3,921</b>	<b>2,020</b>

T 082

millions of €

Originated loans and receivables	Of which: neither impaired nor past due on the reporting date	Of which: not impaired on the reporting date and past due in the following periods					
		Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
As of Dec. 31, 2013							
Due within one year	2,283	9	3	3	0	1	2
Due after more than one year	324	–	–	–	–	–	1
As of Dec. 31, 2012							
Due within one year	1,627	3	10	15	29	2	1
Due after more than one year	387	–	–	–	–	–	4

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## 10 FINANCIAL LIABILITIES.

T 083

millions of €

	Dec. 31, 2013				Dec. 31, 2012			
	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	40,535	3,315	13,676	23,544	33,674	5,120	14,651	13,903
Of which: non-convertible bonds	28,211	545	9,531	18,135	19,950	3,377	8,497	8,076
Of which: commercial paper, medium-term notes and similar liabilities	12,324	2,770	4,145	5,409	13,724	1,743	6,154	5,827
Liabilities to banks	4,105	1,721	2,185	199	3,912	499	3,284	129
Of which: promissory notes	1,689	1,227	332	130	1,986	299	1,558	129
Of which: loans from the European Investment Bank	1,760	10	1,750	-	1,631	64	1,567	-
Of which: other loans	656	484	103	69	295	136	159	-
	44,640	5,036	15,861	23,743	37,586	5,619	17,935	14,032
Lease liabilities	1,446	162	550	734	1,780	652	475	653
Liabilities to non-banks from promissory notes	1,072	127	529	416	1,167	40	606	521
Other interest-bearing liabilities	891	577	210	104	1,551	1,296	175	80
Other non-interest-bearing liabilities	1,967	1,855	109	3	1,611	1,534	76	1
Derivative financial liabilities	1,583	134	594	855	919	119	721	79
	6,959	2,855	1,992	2,112	7,028	3,641	2,053	1,334
<b>FINANCIAL LIABILITIES</b>	<b>51,599</b>	<b>7,891</b>	<b>17,853</b>	<b>25,855</b>	<b>44,614</b>	<b>9,260</b>	<b>19,988</b>	<b>15,366</b>

Financial liabilities increased year-on-year by EUR 7.0 billion to a total of EUR 51.6 billion. The first-time inclusion of MetroPCS resulted in effects from changes in the composition of the Group by EUR 5.1 billion as of the date of first-time consolidation.

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 21 banks for a total of EUR 12.6 billion at December 31, 2013. EUR 320 million of these credit lines had been utilized for the drawing down of a guarantee by December 31, 2013. 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 12 months, be extended by a further 12 months to renew the maturity of 36 months. From today's perspective, access to the international debt capital markets is not jeopardized. In 2013 Deutsche Telekom International Finance B.V. and Deutsche Telekom AG issued a bond in two tranches amounting to EUR 2 billion, and medium-term notes to a total volume of EUR 0.2 billion. In the 2013 financial year, T-Mobile US issued or placed bonds with a total value of USD 8.1 billion: In August 2013, the company issued a bond of USD 500 million (approximately EUR 0.4 billion). In November 2013, T-Mobile US issued senior notes with a total volume of USD 2 billion (approximately EUR 1.5 billion). In October 2013, Deutsche Telekom AG sold T-Mobile US bonds in an amount equivalent to USD 5.6 billion (approximately EUR 4.1 billion) that it had taken over in April 2013 as part of the merger of T-Mobile USA and MetroPCS. The bonds were placed with international investors.

The following TABLES 084 and 085 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 084

millions of €


<sup>a</sup> For more detailed information, please refer to Note 37 "Financial instruments and risk management," PAGE 230 ET SEQ. In each case, the maximum payment at the earliest possible date of utilization is shown.

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Cash flows in 2015			Cash flows in 2016 – 2018			Cash flows in 2019 – 2023			Cash flows in 2024 and thereafter		
Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment	Fixed interest rate	Variable interest rate	Repayment
(2,119)	(20)	(4,852)	(5,151)	(27)	(11,372)	(4,842)	(1)	(16,090)	(3,715)		(8,427)
(101)		(159)	(216)		(388)	(225)		(407)	(121)		(327)
(2)		(115)	(12)		(97)	(50)		(78)	(10)		(25)
		(35)			(73)			(3)			
		(1)									
(88)	14	6	19	(3)	(116)	40	(32)	(10)	62	(57)	(102)
115	(49)		334	(142)	(19)	439	(130)		986	(342)	
(106)	15		(266)	29		70			29		(86)
4	(11)	122	1	(4)	6	(2)	2		6	2	24
105	(57)		170	(113)							
10			34		35	43		97	16		39

T 085

millions of €

	Carrying amounts Dec. 31, 2012	Cash flows in				
		2013	2014	2015 - 2017	2018 - 2022	2023 and thereafter
NON-DERIVATIVE FINANCIAL LIABILITIES						
Bonds, other securitized liabilities, liabilities to banks and liabilities to non-banks from promissory notes and similar liabilities	(38,753)	(8,078)	(7,028)	(16,634)	(11,161)	(11,282)
Finance lease liabilities	(1,246)	(250)	(205)	(544)	(476)	(494)
Other interest-bearing liabilities	(2,085)	(1,807)	(101)	(107)	(190)	
Other non-interest-bearing liabilities	(1,611)	(1,534)	(59)	(16)	(2)	-
DERIVATIVE FINANCIAL LIABILITIES AND ASSETS						
Derivative financial liabilities:						
Currency derivatives without a hedging relationship	(38)	(44)				
Currency derivatives in connection with cash flow hedges	(9)	(7)				
Currency derivatives in connection with net investment hedges	-	-				
Interest rate derivatives without a hedging relationship	(289)	(123)	(67)	(72)	10	51
Interest rate derivatives in connection with fair value hedges	-					
Interest rate derivatives in connection with cash flow hedges	(575)	(101)	(95)	(387)	(25)	
Derivative financial assets:						
Currency derivatives without a hedging relationship	12	10	1			
Currency derivatives in connection with cash flow hedges	22	14	9			
Interest rate derivatives without a hedging relationship	519	153	148	73	21	75
Interest rate derivatives in connection with fair value hedges	498	220	195	190	128	410
Interest rate derivatives in connection with cash flow hedges	236	12	12	79	182	76
FINANCIAL GUARANTEES AND LOAN COMMITMENTS <sup>a</sup>	(1)	(381)				

<sup>a</sup> For more detailed information, please refer to Note 37 "Financial instruments and risk management," PAGE 230 ET SEQ. In each case, the maximum payment at the earliest possible date of utilization is shown.

All instruments held at December 31, 2013 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, 2013. 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, 2013, this figure was a nominal EUR 2.1 billion (December 31, 2012: EUR 2.1 billion).

## 11 TRADE AND OTHER PAYABLES.

T 086

millions of €

	<b>Dec. 31, 2013</b>	Dec. 31, 2012
Trade payables	7,231	6,415
Other liabilities	28	30
	<b>7,259</b>	<b>6,445</b>

Of the total of trade and other payables, EUR 7,253 million (December 31, 2012: EUR 6,439 million) is due within one year.



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## 12 PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS.

Deutsche Telekom applied the amended IAS 19 "Employee Benefits" as of January 1, 2013 retrospectively. This resulted in changes to the recognition, measurement, and presentation of defined benefit plans. For further information, please refer to "Initial application of standards, interpretations, and amendments to standards and interpretations in the financial year" in the section "Summary of accounting policies," PAGES 168 and 169.

### 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 087

millions of €

	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
<b>DEFINED BENEFIT LIABILITY</b>	<b>7,006</b>	<b>7,312</b>	<b>6,124</b>
Defined benefit asset	(14)	(17)	(15)
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>6,992</b>	<b>7,295</b>	<b>6,109</b>
Of which: provisions for direct commitments	6,698	6,711	5,740
Of which: provisions for indirect commitments	292	582	367
Of which: provisions for obligations in accordance with Article 131 GG	2	2	2

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 088

millions of €

	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Present value of the obligations fully or partially funded by plan assets	6,487	6,441	5,006
Plan assets at fair value	(1,973)	(1,680)	(860)
<b>DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS</b>	<b>4,514</b>	<b>4,761</b>	<b>4,146</b>
Present value of the unfunded obligations	2,478	2,532	1,960
<b>DEFINED BENEFIT LIABILITY (ASSET) ACCORDING TO IAS 19.63</b>	<b>6,992</b>	<b>7,293</b>	<b>6,106</b>
Effect of asset ceiling (according to IAS 19.64)	–	2	3
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>6,992</b>	<b>7,295</b>	<b>6,109</b>

T 089

millions of €

	2013	2012	2011
<b>NET DEFINED BENEFIT LIABILITY (ASSET) AS OF JANUARY 1</b>	<b>7,295</b>	<b>6,109</b>	<b>6,386</b>
Service cost	160	197	199
Net interest expense (income) on the net defined benefit liability (asset)	228	313	314
Remeasurement effects	(48)	1,822	(173)
Pension benefits paid directly by the employer	(366)	(375)	(367)
Employer contributions to plan assets	(269)	(768)	(267)
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	(7)	(2)	17
Administration costs actually incurred (paid from plan assets)	0	0	0
Exchange rate fluctuations for foreign-currency plans	(1)	(1)	0
<b>NET DEFINED BENEFIT LIABILITY (ASSET) AS OF DECEMBER 31</b>	<b>6,992</b>	<b>7,295</b>	<b>6,109</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 090 shows the assumptions on which the measurement of defined benefit obligations as of December 31 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.

## Assumptions for the measurement of defined benefit obligations as of December 31:

T 090

%

		2013	2012	2011	2010
Discount rate	Germany	3.29	3.26	5.31	5.16
	Switzerland (T-Systems Schweiz AG)	2.34	1.78	2.57	3.05
	Greece (OTE S.A.)	3.25 <sup>a</sup> /2.53 <sup>b</sup>	2.86 <sup>a</sup> /2.26 <sup>b</sup>	4.72 <sup>a</sup> /4.18 <sup>b</sup>	4.56 <sup>a</sup> /3.71 <sup>b</sup>
Salary increase rate	Germany (pay-scale employees)	2.75	2.75	2.75	3.25
	Germany (non-pay-scale employees)	2.75	2.75	2.75	3.50
	Switzerland (T-Systems Schweiz AG)	1.50	1.50	1.50	1.50
	Greece (OTE S.A.)	1.00 <sup>c</sup>	1.00 <sup>d</sup>	1.50 <sup>e</sup>	2.50 <sup>f</sup>
Pension increase rate	Germany (general)	1.50	1.50	1.50	1.50
	Germany (according to articles of association)	1.00	1.00	1.00	1.00
	Switzerland (T-Systems Schweiz AG)	0.30	0.30	0.30	0.30
	Greece (OTE S.A.)	n. 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 (please refer to the plan description, PAGE 205).

<sup>b</sup> The discount rate relates to the plan for youth accounts (please refer to the plan description, PAGE 205).

<sup>c</sup> The following assumptions were made in 2013 concerning the salary increase rate in subsequent years: 2014: 0.97 percent, 2015: 9.69 percent, 2016: 0.00 percent. An increase of 1.00 percent is assumed for the years from 2017 onward.

<sup>d</sup> The following assumptions were made in 2012 concerning the salary increase rate for subsequent years: 2013: 0.97 percent, 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.

<sup>e</sup> The following assumptions were made in 2011 concerning the salary increase rate for subsequent years: 2012: - 10.06 percent, 2013: - 7.04 percent, 2014: - 3.93 percent, 2015: 9.09 percent. An increase of 1.50 percent was assumed for the years from 2016 onward. Following an agreement reached with the trade union in 2011, the salary increase rate for the years 2012 through 2014 was negative and then positive again from 2015 onward.

<sup>f</sup> The following assumptions were made in 2010 concerning the salary increase rate for 2011 - 2012: 2.2 percent, 2013 - 2014: 3.2 percent, 2015 - 2018: 2.4 percent.

An increase of 2.5 percent was assumed for the years from 2019 onward.

T 091

Years

		Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Duration	Germany	13.7	14.8	13.3
	Switzerland (T-Systems Schweiz AG)	17.1	17.5	16.1
	Greece (OTE S.A.)	13.0 <sup>a</sup> /7.0 <sup>b</sup>	11.2 <sup>a</sup> /7.1 <sup>b</sup>	8.6 <sup>a</sup> /6.6 <sup>b</sup>

<sup>a</sup> The duration relates to the plans for staff retirement indemnities and for phone credits (please refer to the plan description, PAGE 205).

<sup>b</sup> The duration relates to the plan for youth accounts (please refer to the plan description, PAGE 205).

The following biometric assumptions were essential for the measurement of pension obligations:

Germany: Heubeck 2005G, Switzerland (T-Systems Schweiz AG): BVG 2010 Generational, Greece (OTE S.A.): EVK2000

The aforementioned discount rates were used as of December 31, 2013 when calculating the present value of defined benefit obligations, taking into account future salary increases. These discount rates were set in line with the average weighted duration of the respective obligation.

In the eurozone, the discount rate is determined based on the yields of high-quality European corporate bonds with AA rating, mapped in a yield curve showing the corresponding spot rates. In Switzerland, the discount rate was determined based upon swap yields for bonds with AAA rating. Such swaps that are of different durations are traded in higher volumes than Swiss government bonds. The yield curve derived from these swap yields comprises a credit risk that is too low for accounting purposes. So a further adjustment is made in the form of a risk premium on the yield curve (credit spread), which is derived from the limited volume of Swiss corporate bonds with AA rating.

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## Development of defined benefit obligations in the reporting year:

T 092

millions of €

	2013	2012	2011
<b>DEFINED BENEFIT OBLIGATIONS AS OF JANUARY 1</b>	<b>8,973</b>	<b>6,966</b>	<b>7,015</b>
Current service cost	219	185	192
Interest cost	282	353	341
Remeasurement effects	(33)	1,868	(185)
Of which: experience-based adjustments	27	(19)	(21)
Of which: adjusted financial assumptions	(57)	1,887	(172)
Of which: adjusted demographic assumptions	(3)	0	8
Total benefits actually paid	(408)	(420)	(419)
Contributions by plan participants	5	4	4
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	(8)	3	6
Past service cost (due to plan amendments)	(64)	16	(3)
Past service cost (due to curtailments)	(8)	(6)	(2)
Settlements	13	2	11
Taxes to be paid as part of pensions	–	–	–
Currency (gain) loss	(6)	2	6
<b>DEFINED BENEFIT OBLIGATIONS AS OF DECEMBER 31</b>	<b>8,965</b>	<b>8,973</b>	<b>6,966</b>

Regarding the defined benefit obligations as of December 31, 2013, EUR 4,080 million relates to active plan participants, EUR 1,528 million to plan participants with vested pension rights who left the Group, and EUR 3,357 million to benefit recipients.

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, 2013:

T 093

millions of €

	Germany	Switzerland (T-Systems Schweiz AG)	Greece (OTE S.A.)	Other plans
Defined benefit obligations	8,254	185	259	267
Plan assets at fair value	(1,627)	(161)	–	(185)
Effect of asset ceiling	–	–	–	–
<b>NET DEFINED BENEFIT LIABILITY (ASSET)</b>	<b>6,627</b>	<b>24</b>	<b>259</b>	<b>82</b>

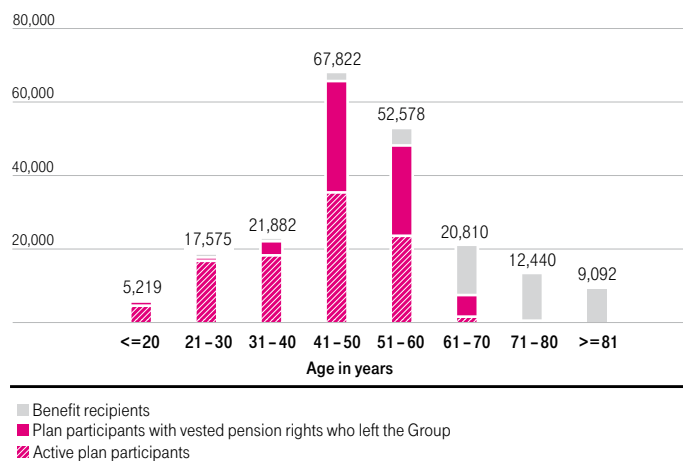
The following analyses in terms of age structure, sensitivity analysis, and descriptions of plans and the risks associated with them relate to Germany, Switzerland (T-Systems Schweiz AG), and Greece (OTE S.A.).

## Age structure:

Deutsche Telekom's most significant plans are subject to the following status-related age structure.

G 56

## Age structure of plan participants in the most significant pension plans at Deutsche Telekom. <sup>a</sup>



<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, 2013. 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, 2013 as follows:

T 094

millions of €

	Increase (decrease) of the defined benefit obligations as of Dec. 31, 2013		
	Germany	Switzerland (T-Systems Schweiz AG)	Greece (OTE S.A.)
Increase of discount rate by 100 basis points	(950)	(21)	(25)
Decrease of discount rate by 100 basis points	1,160	26	30
Increase of salary increase rate by 50 basis points	7	3	15
Decrease of salary increase rate by 50 basis points	(6)	(3)	(13)
Increase of pension increase rate by 25 basis points	5	5	0
Decrease of pension increase rate by 25 basis points	(5)	(4)	0
Life expectancy increase by 1 year	185	4	1
Life expectancy decrease by 1 year	(191)	(4)	(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.

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 is not related to the application of IAS 19 (amended). 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 change in the interest rate resulted in a positive one-time effect of EUR 0.1 billion (before taxes) in the 2013 consolidated income statement.

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 and the "debis" pension scheme. 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 risk resulting from the change in life expectancy is expected to decline in significance for the Group over subsequent years.

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

As part of the company pension scheme (second pillar) in **Switzerland (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

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pension fund. As is often the case in Switzerland, T-Systems Schweiz AG also grants 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 (2013: 1.5 percent, 2014: 1.75 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 2.0 to 2.5 percent.

Due to the minimum yield for the obligatory retirement assets, there is a risk that T-Systems Schweiz AG would have to allocate additional resources 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. A change in the law in 2012 capped the lump sum at a maximum of 12 monthly salaries. The company also makes a voluntary top-up payment. Payments were made to older employees in particular in the 2012 and 2013 financial years as part of restructuring programs, which led to an increase in the duration of the remaining obligations of the plan.

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, i.e., there is no longevity risk.

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 095

millions of €

	2013	2012	2011
<b>PLAN ASSETS AT FAIR VALUE AS OF JANUARY 1</b>	<b>1,680</b>	<b>860</b>	<b>629</b>
Changes attributable to business combinations/transfers of operation/acquisitions and disposals	(1)	5	(11)
Interest income on plan assets (calculated using the discount rate)	54	40	27
Amount by which the actual return exceeds (falls short of) the interest income on plan assets (remeasurement)	13	45	(9)
Contributions by employer	269	768	267
Contributions by plan participants	5	4	4
Benefits actually paid from plan assets	(42)	(45)	(52)
Settlements	0	0	(1)
Administration costs	0	0	0
Tax payments	-	-	-
Currency (loss) gain	(5)	3	6
<b>PLAN ASSETS AT FAIR VALUE AS OF DECEMBER 31</b>	<b>1,973</b>	<b>1,680</b>	<b>860</b>

Contributions by employer as of December 31, 2013 include a payment of EUR 250 million (December 31, 2012: EUR 750 million) to a corporate CTA in Germany. The contributions by employer are usually allocated at year-end.

#### Breakdown of plan assets at fair value by investment category:

T 096

millions of €

	Dec. 31, 2013	Of which: price in an active market	Of which: price without an active market
Equity securities	419	419	0
Debt securities	1,298	1,298	0
Real estate	44	44	0
Derivatives	5	5	0
Investment funds	0	0	0
Asset-backed securities	0	0	0
Structured debt instruments	0	0	0
Cash and cash equivalents	142	142	0
Other	65	32	33
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>1,973</b>	<b>1,940</b>	<b>33</b>

T 097

millions of €

	Dec. 31, 2012
Equity securities	335
Debt securities	1,123
Real estate	43
Other	179
<b>PLAN ASSETS AT FAIR VALUE</b>	<b>1,680</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 600 thousand (December 31, 2012: shares totaling EUR 800 thousand). No other own financial instruments were included in the years shown.

#### Development of the effect of the asset ceiling:

T 098

millions of €

	2013	2012	2011
<b>EFFECT OF ASSET CEILING AS OF JANUARY 1</b>	<b>(2)</b>	<b>(3)</b>	<b>0</b>
Interest expense on asset ceiling (recognized in the income statement)	0	0	0
Changes in asset ceiling (remeasurement)	2	1	(3)
Currency gain (loss)	0	0	0
<b>EFFECT OF ASSET CEILING AS OF DECEMBER 31</b>	<b>0</b>	<b>(2)</b>	<b>(3)</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 099

millions of €

	Presentation in the income statement	2013	2012	2011
Current service cost	Functional costs <sup>a</sup>	219	185	192
Past service cost (due to plan amendments)	Functional costs <sup>a</sup>	(64)	16	(3)
Past service cost (due to curtailments)	Functional costs <sup>a</sup>	(8)	(6)	(2)
Settlements	Functional costs <sup>a</sup>	13	2	12
<b>SERVICE COST</b>		<b>160</b>	<b>197</b>	<b>199</b>
Interest cost	Other financial income (expense)	282	353	341
Interest income on plan assets (calculated using the discount rate)	Other financial income (expense)	(54)	(40)	(27)
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>228</b>	<b>313</b>	<b>314</b>
<b>DEFINED BENEFIT COST</b>		<b>388</b>	<b>510</b>	<b>513</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>388</b>	<b>510</b>	<b>513</b>

<sup>a</sup> Including other operating expenses.

The consolidated statement of comprehensive income contains the following amounts:

T 100

millions of €

	2013	2012	2011
<b>REMEASUREMENT ((GAIN) LOSS RECOGNIZED IN OTHER COMPREHENSIVE INCOME IN THE FINANCIAL YEAR)</b>	<b>(48)</b>	<b>1,822</b>	<b>(173)</b>
Of which: remeasurement due to a change in defined benefit obligations	(33)	1,868	(185)
Of which: remeasurement due to a change in plan assets	(13)	(45)	9
Of which: remeasurement due to changes in the effect of asset ceiling (according to IAS 19.64)	(2)	(1)	3



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### Total benefit payments expected:

T 101

millions of €

	2014	2015	2016	2017	2018
Benefits paid from pension provisions	297	337	367	384	361
Benefits paid from plan assets	27	30	31	32	33
<b>TOTAL BENEFITS EXPECTED</b>	<b>324</b>	<b>367</b>	<b>398</b>	<b>416</b>	<b>394</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 2014 to increase the plan assets. EUR 266 million is expected to be allocated to plan assets for 2014 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 102

millions of €

	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010 <sup>a</sup>	Dec. 31, 2009 <sup>a</sup>
Defined benefit obligations	8,965	8,973	6,966	7,017	6,833
Plan assets at fair value	(1,973)	(1,680)	(860)	(629)	(618)
<b>DEFINED BENEFIT OBLIGATIONS IN EXCESS OF PLAN ASSETS</b>	<b>6,992</b>	<b>7,293</b>	<b>6,106</b>	<b>6,388</b>	<b>6,215</b>

<sup>a</sup> The figures for the 2009 and 2010 periods were adjusted to apply the amended IAS 19 in the opening balances as of January 1, 2011 in shareholders' equity in retained earnings including carryforwards.

T 103

%

Adjustments	2013	2012	2011	2010 <sup>a</sup>	2009 <sup>a</sup>
Experience-based increase (decrease) of defined benefit obligations	0.3	(0.2)	(0.3)	0.1	(0.7)
Experience-based increase (decrease) of plan assets	0.7	2.6	(1.2)	1.1	(9.9)

<sup>a</sup> The periods presented were not adjusted to account for the amended IAS 19, since the standard was applied retrospectively from January 1, 2011.

### DEFINED CONTRIBUTION PLANS.

The employer's contribution paid to the statutory pension scheme (Deutsche Rentenversicherung) in Germany in the 2013 financial year totaled EUR 0.4 billion. Group-wide, EUR 103 million (2012: EUR 99 million, 2011: EUR 118 million) from current contributions for additional defined contribution plans was recognized in the income statement in 2013.

### CIVIL-SERVANT RETIREMENT ARRANGEMENTS AT DEUTSCHE TELEKOM.

An expense of EUR 567 million was recognized in the 2013 financial year (2012: EUR 592 million, 2011: EUR 610 million) for the annual contribution to the Civil Service 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. The present value of future payment obligations to the Civil Service Pension Fund was EUR 5.0 billion (December 31, 2012: EUR 5.6 billion) at the reporting date and is shown under other financial obligations. Please refer to Note 35, PAGE 228.

## 13 OTHER PROVISIONS.

T 104

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, 2011</b>	<b>59</b>	<b>1,896</b>	<b>925</b>	<b>452</b>	<b>336</b>	<b>1,074</b>	<b>4,742</b>
Of which: current	56	1,466	32	425	336	780	3,095
Changes in the composition of the Group	0	2	0	0	0	(1)	1
Currency translation adjustments	1	(6)	5	(2)	(1)	4	1
Addition	113	1,671	122	135	406	386	2,833
Use	(85)	(1,594)	(34)	(168)	(283)	(264)	(2,428)
Reversal	(9)	(92)	(39)	(77)	(10)	(234)	(461)
Interest effect	0	23	56	2	0	7	88
Other changes	(1)	(29)	0	0	0	(4)	(34)
<b>AT DECEMBER 31, 2012</b>	<b>78</b>	<b>1,871</b>	<b>1,035</b>	<b>342</b>	<b>448</b>	<b>968</b>	<b>4,742</b>
Of which: current	65	1,373	44	320	448	635	2,885
Changes in the composition of the Group	(1)	52	151	7	2	(3)	208
Currency translation adjustments	(2)	(22)	(10)	(2)	(7)	(3)	(46)
Addition	361	1,712	136	111	339	386	3,045
Use	(138)	(1,581)	(29)	(117)	(394)	(199)	(2,458)
Reversal	(10)	(86)	(31)	(48)	(21)	(128)	(324)
Interest effect	0	42	(5)	(2)	0	3	38
Other changes	(6)	(7)	0	(2)	0	1	(14)
<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

The addition to provisions for termination benefits in the 2013 financial year includes EUR 0.3 billion for various restructuring programs carried out in Greece. The closing balance at December 31, 2013 still included EUR 0.3 billion.

Provisions for termination benefits and other personnel provisions include provisions for staff restructuring. These provisions developed as follows in the financial year:

T 105

millions of €

	Jan. 1, 2013	Addition	Use	Reversal	Other changes	Dec. 31, 2013
Early retirement	13	–	(10)	–	(3)	0
Severance and voluntary redundancy models	65	361	(128)	(10)	(6)	282
Partial retirement	134	183	(197)	–	13	133
	<b>212</b>	<b>544</b>	<b>(335)</b>	<b>(10)</b>	<b>4</b>	<b>415</b>
Of which: current	105					347

Some of the staff restructuring measures listed here are covered by law such as, for instance, early retirement for civil servants as defined by the German Act on the Staff Structure at the Residual Special Asset of the Federal Railways 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 2013 and 2014.

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.

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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.

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 106

millions of €

	Dec. 31, 2013	Of which: current	Dec. 31, 2012	Of which: current
Early retirement	2,053	629	2,435	802
Deferred revenue	1,733	1,232	1,829	1,311
Liabilities from straight-line leases	1,434	–	1,326	–
Liabilities from other taxes	1,105	1,099	1,141	1,135
Other deferred revenue	474	295	445	253
Liabilities from severance payments	106	106	94	94
Miscellaneous other liabilities	788	444	591	361
	<b>7,693</b>	<b>3,805</b>	<b>7,861</b>	<b>3,956</b>

#### 15 SHAREHOLDERS' EQUITY.

##### ISSUED CAPITAL.

As of December 31, 2013, the share capital of Deutsche Telekom totaled EUR 11,395 million. The share capital is divided into 4,451,175,103 no par value registered shares.

T 107

	2013	
	thousands	%
Federal Republic of Germany – Berlin, Germany	646,575	14.5
KfW Bankengruppe – Frankfurt/Main, Germany	774,897	17.4
Free float	3,029,703	68.1
Of which: BlackRock, New York, United States	269,182	6.1
	<b>4,451,175</b>	<b>100.0</b>

**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 § 71 d and § 71 e of the German Stock Corporation Act (Aktiengesetz – AktG) do not at any time account for more than 10 percent of the Company's share capital. Moreover, the requirements under § 71 (2) sentences 2 and 3 AktG must be complied with. Shares shall not be purchased for the purpose of trading in treasury shares. This authorization may be exercised in full or in part. The purchase can be carried out in partial tranches spread over various purchase dates within the authorization period until the maximum purchase volume is reached. Dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG or third parties acting for the account of Deutsche Telekom AG or for the account of dependent Group companies of Deutsche Telekom AG within the meaning of § 17 AktG are also entitled to purchase the shares. The shares are purchased through the stock exchange in adherence to the principle of equal treatment (§ 53a AktG). Shares can instead also be purchased by means of a public purchase or share exchange offer addressed to all shareholders, which, subject to a subsequently approved exclusion of the right to offer shares, must also comply with the principle of equal treatment.

The shares may be used for one or several of the purposes permitted by the authorization granted by the shareholders' meeting on May 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.

As part of this authorization, the Board of Management decided on December 18, 2012 to acquire a total of 268 thousand shares. From January 2, 2013 to January 16, 2013, shares were acquired in accordance with the authorization for a total acquisition price of EUR 2,394 thousand (excluding transaction costs) with an average purchase price of EUR 8.92 per share.

Furthermore, a total of 2 thousand shares were reallocated in January and March 2013 as part of the share matching plan and transferred free of charge to the depot of eligible participants of the share matching plan who are not members of the Board of Management.

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 reporting year. As a result, the trustee no longer has any obligation to fulfill any claims in accordance with the purpose of the depot. 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.

As a result of the share buy-back, the transfers, and the allocation of shares, treasury shares of EUR 48 million were openly deducted from issued capital, capital reserves increased by EUR 48 million, and retained earnings decreased by EUR 2 million.

**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, 2013: around 21 million). The "trust" shares, as they are known, (at December 31, 2013: 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, 2013 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.

**Authorized capital and contingent capital.** Authorized capital and contingent capital comprised the following components as of December 31, 2013:

T 108

	Amount millions of €	No par value shares thousands	Purpose
2009 Authorized capital II <sup>a</sup>	38	15,000	Employee shares (until April 29, 2014)
2013 Authorized capital <sup>a</sup>	2,176	850,000	Capital increase against cash contribution/contribution in kind (until May 15, 2018)
2010 Contingent capital	1,100	429,688	Servicing convertible bonds and/or bonds with warrants issued on or before May 2, 2015

<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 0.70 per share for the 2012 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 (2009 authorized capital I) were contributed in June 2013 and thus did not have an impact on cash flows. Deutsche Telekom AG carried out an increase in issued capital of EUR 0.3 billion against contribution of dividend entitlements for this purpose in June 2013. This increased capital reserves by EUR 0.8 billion, the number of shares by 129.9 million. The transaction costs were not material.

#### CHANGES IN THE COMPOSITION OF THE GROUP AND TRANSACTIONS WITH OWNERS.

Changes in the composition of the Group and transactions with owners mainly related to the acquisition of MetroPCS and the capital increase at T-Mobile US. TABLE 109 shows the most significant effects included in Deutsche Telekom's consolidated statement of changes in equity as of December 31, 2013 (please refer to PAGES 164 and 165).

T 109

millions of €

	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>12</b>	<b>287</b>	<b>299</b>
Acquisition of MetroPCS	0	302	302
Other effects	12	(15)	(3)
<b>Transactions with owners</b>	<b>(502)</b>	<b>3,527</b>	<b>3,025</b>
Derecognition of the shares in T-Mobile USA	(647)	2,287	1,640
Stock option program	4	97	101
T-Mobile US capital increase	128	1,185	1,313
Other effects	13	(42)	(29)

For further information, please refer to the section "Changes in the composition of the Group and transactions with owners," PAGE 182 ET SEQ.

#### TOTAL OTHER COMPREHENSIVE INCOME.

Non-controlling interests under total other comprehensive income primarily included exchange rate effects from the translation of foreign operations.

### 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 78 ET SEQ.

#### 16 NET REVENUE.

Net revenue breaks down into the following revenue categories:

T 110

millions of €

	2013	2012	2011
Revenue from the rendering of services	52,863	53,734	54,812
Revenue from the sale of goods and merchandise	6,676	3,859	3,650
Revenue from the use of entity assets by others	593	576	191
	<b>60,132</b>	<b>58,169</b>	<b>58,653</b>

For details of changes in net revenue, please refer to the section "Development of business in the Group" in the combined management report, PAGES 78 and 79.

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## 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 and telecommunications development and support services, and costs for upstream services as well as material.

T 111

millions of €

	2013	2012	2011
Cost of sales from fixed-network and mobile communications	30,142	27,993	27,960
Cost of sales from the Systems Solutions operating segment	5,394	5,468	5,661
Other cost of sales	719	795	327
	<b>36,255</b>	<b>34,256</b>	<b>33,948</b>

Cost of sales increased by EUR 2.0 billion year-on-year. This is predominantly attributable to the inclusion for the first time of MetroPCS and to a higher level of expenses in connection with the sale of handsets in the United States operating segment. Cost of sales was below the prior-year level in all other segments. Compared with the prior year, an increase of EUR 0.1 billion in expenses in connection with staff-related measures had a negative impact on the cost of sales in the reporting period. Negative exchange rate effects totaling EUR 0.4 billion, mainly from the translation of U.S. dollars into euros, also had a negative impact on the cost of sales.

The prior-year figures have been adjusted for better comparability following the segment structure changes. For more information, please refer to the explanations in Note 32 "Segment reporting," PAGE 220 ET SEQ.

## 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 material and personnel costs incurred in the area of sales 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 112

millions of €

	2013	2012	2011
Costs of operational sales	9,309	9,395	9,494
Marketing costs	2,386	2,373	2,143
Order management costs	268	254	258
Costs of accounts receivable management	794	1,010	1,078
Other selling expenses	1,040	1,043	1,028
	<b>13,797</b>	<b>14,075</b>	<b>14,001</b>

Selling expenses were EUR 0.3 billion lower than the prior-year level – despite the inclusion of MetroPCS for the first time. Negative exchange rate effects of EUR 0.2 billion, in particular from the translation of U.S. dollars in euros, also impacted selling expenses.

## 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 113

millions of €

	2013	2012	2011
General and administrative expenses incurred by the operating segments	3,101	3,266	3,293
General and administrative expenses incurred by Group Headquarters & Group Services	1,417	1,589	1,986
	<b>4,518</b>	<b>4,855</b>	<b>5,279</b>

General and administrative expenses were EUR 0.3 billion lower than in the prior year. An increase of EUR 0.1 billion in expenses in connection with staff-related measures had a negative impact on general and administrative expenses in 2013.

The prior-year figures have been adjusted for better comparability following the segment structure changes. For more information, please refer to the explanations in Note 32 "Segment reporting," PAGE 220 ET SEQ.

## 20 OTHER OPERATING INCOME.

T 114

millions of €

	2013	2012	2011
Income from reimbursements	452	408	409
Income from the reversal of impairment losses on non-current financial assets in accordance with IFRS 5	20	15	19
Income from the disposal of non-current assets	113	1,702	121
Income from insurance compensation	79	55	47
Income from divestitures	184	6	4
Income from the compensation from AT&T	-	-	3,000
Miscellaneous other operating income	478	782	762
	<b>1,326</b>	<b>2,968</b>	<b>4,362</b>

Other operating income decreased by EUR 1.6 billion year-on-year. In the prior year, income from the disposal of non-current assets included a book profit of around EUR 1.4 billion from the cell-site transaction between T-Mobile USA and Crown Castle, which from an accounting perspective was income from the disposal of property, plant and equipment. EUR 0.2 billion of this was due to the measurement at fair value of the two deconsolidated tower companies now accounted for using the equity method. A further book profit of around EUR 0.1 billion was included in the prior year, which was attributable to a transaction between T-Mobile USA and Verizon to swap AWS spectrum licenses. Income from divestitures is attributable to the sale of the investments in Hellas Sat totaling EUR 0.1 billion and in Cosmo Bulgaria Mobile and Germanos Telecom Bulgaria, also totaling EUR 0.1 billion. Miscellaneous other operating income decreased year-on-year by EUR 0.3 billion; this item included a large number of smaller individual items. Income of EUR 0.1 billion had been included in the prior year, resulting from a concluded legal dispute with Kreditanstalt für Wiederaufbau.

## 21 OTHER OPERATING EXPENSES.

T 115

millions of €

	2013	2012	2011
Impairment losses from the year-end impairment test	600	360	3,337
Impairment loss in connection with the agreed business combination of T-Mobile USA and MetroPCS	-	10,589	-
Other impairment losses	238	159	114
	<b>838</b>	<b>11,108</b>	<b>3,451</b>
Losses on disposal of non-current assets	251	177	137
Losses from divestitures	53	-	-
Miscellaneous other operating expenses	816	628	636
	<b>1,120</b>	<b>805</b>	<b>773</b>
	<b>1,958</b>	<b>11,913</b>	<b>4,224</b>

Other operating expenses decreased year-on-year by EUR 10.0 billion, primarily due to an impairment loss of EUR 10.6 billion recognized in the third quarter of 2012 on goodwill, other intangible assets, and property, plant and equipment of the United States cash-generating unit. The impairment losses recognized in 2013 related to the Europe operating segment.

Miscellaneous other operating expenses include expenses of EUR 0.1 billion incurred in connection with existing financial factoring agreements and a large number of individual items accounting for marginal amounts.

Other operating expenses in 2013 included expense of EUR 0.5 billion (2012: EUR 8.2 billion, 2011: EUR 0.4 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.



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## 22 FINANCE COSTS.

T 116

millions of €

	2013	2012	2011
Interest income	228	306	268
Interest expense	(2,390)	(2,339)	(2,593)
	<b>(2,162)</b>	<b>(2,033)</b>	<b>(2,325)</b>
Of which: from financial instruments relating to categories in accordance with IAS 39			
Loans and receivables (LaR)	20	51	67
Held-to-maturity investments (HtM)	–	2	4
Available-for-sale financial assets (AFS)	9	48	14
Financial liabilities measured at amortized cost (FLAC) <sup>a</sup>	(2,160)	(2,036)	(2,315)

<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 (2013: interest income of EUR 119 million and interest expense of EUR 31 million, 2012: interest income of EUR 156 million and interest expense of EUR 36 million, 2011: interest income of EUR 126 million).

EUR 51 million (2012: EUR 27 million, 2011: EUR 80 million) was recognized 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 4.6 and 5.0 percent (2012: between 5.0 and 5.2 percent) applied across the Group.

Interest payments (including capitalized interest) of EUR 3.0 billion (2012: EUR 3.1 billion, 2011: EUR 3.5 billion) were made in the financial year.

Accrued interest payments from derivatives (interest rate swaps) that were designated as hedging instruments in a fair value hedge in accordance with IAS 39 are netted per swap contract and recognized as interest income or interest expense depending on the net amount. Finance costs are assigned to the categories on the basis of the hedged item; only financial liabilities were hedged in the reporting period.

Deutsche Telekom AG benefited from improved interest rates in the 2013 financial year. The increase in finance costs was primarily caused by the inclusion of MetroPCS for the first time and the overall less favorable financing conditions for T-Mobile US.

## 23 SHARE OF PROFIT/LOSS OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD.

T 117

millions of €

	2013	2012	2011
Share of profit (loss) of joint ventures	(38)	(129)	(67)
Share of profit (loss) of associates	(33)	(25)	(6)
	<b>(71)</b>	<b>(154)</b>	<b>(73)</b>

The share of profit/loss of associates and joint ventures accounted for using the equity method improved by EUR 0.1 billion in the financial year due to the year-on-year improved proportion of profit/loss from the EE joint venture of EUR – 44 million (2012: EUR – 118 million, 2011: EUR – 61 million). It is included in the share of profit/loss of joint ventures.

## 24 OTHER FINANCIAL INCOME/EXPENSE.

T 118

millions of €

	2013	2012	2011
Income from investments	1	16	29
Gains (losses) from financial instruments	(278)	251	216
Interest component from measurement of provisions and liabilities	(292)	(492)	(407)
	<b>(569)</b>	<b>(225)</b>	<b>(162)</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.

Gains/losses from financial instruments include currency translation effects amounting to EUR 174 million (2012: EUR 86 million, 2011: EUR – 249 million) and gains/losses from derivatives of EUR – 452 million (2012: EUR 165 million, 2011: EUR 465 million). In the 2013 financial year, these related primarily to contracts to hedge against currency translation effects. In the 2012 financial year, this item primarily included proceeds of EUR 0.2 billion from the sale of the shares in Telekom Srbija.

## 25 INCOME TAXES.

### INCOME TAXES IN THE CONSOLIDATED INCOME STATEMENT.

Income taxes are broken down into current taxes paid or payable in the individual countries and into deferred taxes.

TABLE 119 provides a breakdown of income taxes in Germany and internationally:

T 119

millions of €

	2013	2012	2011
<b>CURRENT TAXES</b>	<b>487</b>	<b>596</b>	<b>957</b>
Germany	56	172	498
International	431	424	459
<b>DEFERRED TAXES</b>	<b>437</b>	<b>(2,112)</b>	<b>1,388</b>
Germany	(41)	81	791
International	478	(2,193)	597
	<b>924</b>	<b>(1,516)</b>	<b>2,345</b>

Deutsche Telekom's combined income tax rate for 2013 amounted to 30.7 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 425 percent (2012: 425 percent, 2011: 425 percent). The combined income tax rate amounted to 30.7 percent for 2012 and to 30.7 percent for 2011.

**Reconciliation of the effective tax rate.** Income taxes of EUR – 924 million (as expense) in the reporting year (2012: EUR 1,516 million (as benefit), 2011: EUR – 2,345 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 120

millions of €

	2013	2012	2011
<b>PROFIT (LOSS)</b>			
<b>BEFORE INCOME TAXES</b>	<b>2,128</b>	<b>(6,374)</b>	<b>3,003</b>
Expected income tax expense (benefit) (income tax rate applicable to Deutsche Telekom AG: 2013: 30.7 %, 2012: 30.7 %, 2011: 30.7 %)	653	(1,957)	922
<b>ADJUSTMENTS TO EXPECTED TAX EXPENSE (BENEFIT)</b>			
Effect of changes in statutory tax rates	48	8	83
Tax effects from prior years	(61)	(11)	54
Tax effects from other income taxes	51	45	37
Non-taxable income	(36)	(29)	(30)
Tax effects from equity investments	20	39	(21)
Non-deductible expenses	120	101	115
Permanent differences	(89)	(62)	45
Goodwill impairment losses	166	856	913
Tax effects from loss carryforwards	136	76	304
Tax effects from additions to and reductions of local taxes	66	55	64
Adjustment of taxes to different foreign tax rates	(152)	(641)	(137)
Other tax effects	2	4	(4)
<b>INCOME TAX EXPENSE (BENEFIT) ACCORDING TO THE CONSOLIDATED INCOME STATEMENT</b>	<b>924</b>	<b>(1,516)</b>	<b>2,345</b>
Effective income tax rate %	43	24	78

#### Current income taxes in the consolidated income statement.

TABLE 121 provides a breakdown of current income taxes:

T 121

millions of €

	2013	2012	2011
<b>CURRENT INCOME TAXES</b>	<b>487</b>	<b>596</b>	<b>957</b>
Of which:			
Current tax expense	559	594	903
Prior-period tax expense	(72)	2	54

#### Deferred taxes in the consolidated income statement.

Deferred taxes developed as follows:

T 122

millions of €

	2013	2012	2011
<b>DEFERRED TAX EXPENSE (BENEFIT)</b>	<b>437</b>	<b>(2,112)</b>	<b>1,388</b>
Of which:			
From temporary differences	391	(2,651)	627
From loss carryforwards	34	543	735
From tax credits	12	(4)	26

A tax expense of EUR 0.9 billion was recorded in the 2013 financial year, which primarily reflects the share of the national companies in profit/loss before income tax, subject to the national tax rate in the respective country. It also includes one-time tax expenses of EUR 0.1 billion each resulting from a tax increase in Greece and from a valuation allowance for deferred taxes on loss carryforwards in Austria, as it was no longer probable that they would be utilized. This effect was offset by a tax benefit of EUR 0.1 billion, which was attributable to lower tax liabilities for prior years. Impairment losses recognized on goodwill in Europe, by contrast, did not reduce the tax expense, since they had no tax effect. In the prior year, a net tax benefit was recorded that primarily related to income from the reversal of deferred tax liabilities of EUR 3.2 billion, which resulted from impairment losses recognized on T-Mobile USA's assets following the business combination with MetroPCS.

#### INCOME TAXES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

Current income taxes in the consolidated statement of financial position:

T 123

millions of €

	Dec. 31, 2013	Dec. 31, 2012
Recoverable taxes	98	95
Tax liabilities	(308)	(440)
Current taxes recognized in other comprehensive income:		
Hedging instruments	54	54

#### Deferred taxes in the consolidated statement of financial position:

T 124

millions of €

	Dec. 31, 2013	Dec. 31, 2012
Deferred tax assets	4,960	4,712
Deferred tax liabilities	(6,916)	(5,988)
	<b>(1,956)</b>	<b>(1,276)</b>
Of which recognized in other comprehensive income:		
Gain (loss) from the remeasurement of defined benefit plans	680	693
Revaluation surplus	-	-
Hedging instruments	(163)	(158)
Financial assets available for sale	-	-
<b>RECOGNIZED IN OTHER COMPREHENSIVE INCOME BEFORE NON-CONTROLLING INTERESTS</b>	<b>517</b>	<b>535</b>
Non-controlling interests	(13)	(10)
	<b>504</b>	<b>525</b>

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## Development of deferred taxes:

T 125

millions of €

	Dec. 31, 2013	Dec. 31, 2012
Deferred taxes recognized in the statement of financial position	(1,956)	(1,276)
Difference to prior year	(680)	2,812
Of which:		
Recognized in income statement	(437)	2,112
Recognized in other comprehensive income	(21)	633
Recognized in capital reserves	47	0
Acquisitions (disposals) (including assets and disposal groups held for sale)	(418)	15
Currency translation adjustments	149	52

## Development of deferred taxes on loss carryforwards:

T 126

millions of €

	Dec. 31, 2013	Dec. 31, 2012
Deferred taxes on loss carryforwards before allowances	3,786	3,139
Difference to prior year	647	(515)
Of which:		
Recognition (derecognition)	452	(489)
Acquisitions (disposals) (including assets and disposal groups held for sale)	268	5
Currency translation adjustments	(73)	(31)

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

T 127

millions of €

	Dec. 31, 2013		Dec. 31, 2012	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
<b>CURRENT ASSETS</b>	<b>1,147</b>	<b>(488)</b>	<b>1,110</b>	<b>(498)</b>
Trade and other receivables	368	(8)	317	(94)
Inventories	108	-	132	(22)
Other assets	671	(480)	661	(382)
<b>NON-CURRENT ASSETS</b>	<b>2,738</b>	<b>(10,807)</b>	<b>2,350</b>	<b>(9,834)</b>
Intangible assets	756	(6,097)	827	(5,115)
Property, plant and equipment	683	(3,648)	676	(3,228)
Other financial assets	1,299	(1,062)	847	(1,491)
<b>CURRENT LIABILITIES</b>	<b>699</b>	<b>(625)</b>	<b>750</b>	<b>(537)</b>
Financial liabilities	282	(412)	406	(283)
Trade and other payables	37	(17)	54	(23)
Other provisions	136	(61)	122	(77)
Other liabilities	244	(135)	168	(154)
<b>NON-CURRENT LIABILITIES</b>	<b>4,069</b>	<b>(1,256)</b>	<b>4,231</b>	<b>(1,190)</b>
Financial liabilities	2,438	(344)	2,413	(332)
Provisions for pensions and other employee benefits	1,001	(787)	1,096	(698)
Other provisions	367	(99)	348	(84)
Other liabilities	263	(26)	374	(76)
<b>TAX CREDITS</b>	<b>237</b>	<b>-</b>	<b>224</b>	<b>-</b>
<b>LOSS CARRYFORWARDS</b>	<b>3,786</b>	<b>-</b>	<b>3,139</b>	<b>-</b>
<b>INTEREST CARRYFORWARDS</b>	<b>43</b>	<b>-</b>	<b>34</b>	<b>-</b>
<b>TOTAL</b>	<b>12,719</b>	<b>(13,176)</b>	<b>11,838</b>	<b>(12,059)</b>
Of which: non-current	11,122	(12,664)	9,740	(11,025)
Allowance	(1,499)	-	(1,055)	-
Netting	(6,260)	6,260	(6,071)	6,071
<b>RECOGNITION</b>	<b>4,960</b>	<b>(6,916)</b>	<b>4,712</b>	<b>(5,988)</b>

The allowances relate primarily to loss carryforwards.

### The loss carryforwards amount to:

T 128

millions of €

	Dec. 31, 2013	Dec. 31, 2012
<b>LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES</b>	<b>9,991</b>	<b>9,209</b>
Expiry within		
1 year	21	77
2 years	34	31
3 years	14	7
4 years	114	9
5 years	189	97
After 5 years	4,899	4,187
Unlimited carryforward period	4,720	4,801

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

T 129

millions of €

	Dec. 31, 2013	Dec. 31, 2012
<b>LOSS CARRYFORWARDS FOR CORPORATE INCOME TAX PURPOSES</b>	<b>2,369</b>	<b>2,161</b>
Expiry within		
1 year	14	77
2 years	29	31
3 years	11	9
4 years	102	9
5 years	14	40
After 5 years	257	246
Unlimited carryforward period	1,942	1,749
<b>TEMPORARY DIFFERENCES IN CORPORATE INCOME TAX</b>	<b>406</b>	<b>484</b>

In addition, no deferred taxes are recognized on trade tax loss carryforwards of EUR 126 million (December 31, 2012: EUR 136 million) and on temporary differences for trade tax purposes in the amount of EUR 19 million (December 31, 2012: EUR 3 million). Apart from corporate income tax loss carryforwards, no deferred taxes amounting to EUR 730 million (December 31, 2012: EUR 350 million) were recognized for other foreign income tax loss carryforwards.

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 14 million (2012: EUR 7 million, 2011: EUR 6 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 107 million (December 31, 2012: EUR 394 million) as it is unlikely that these differences will be reversed in the near future.

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## Disclosure of tax effects relating to each component of other comprehensive income:

T 130

millions of €

	2013			2012			2011		
	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount	Before tax amount	Tax (expense) benefit	Net of tax amount
Items not reclassified to the income statement retrospectively									
Gain (loss) from the remeasurement of defined benefit plans	48	(16)	32	(1,822)	556	(1,266)	173	(44)	129
Share of profit (loss) of investments accounted for using the equity method	(17)	0	(17)	0	0	0	0	0	0
	<b>31</b>	<b>(16)</b>	<b>15</b>	<b>(1,822)</b>	<b>556</b>	<b>(1,266)</b>	<b>173</b>	<b>(44)</b>	<b>129</b>
Items reclassified to the income statement retrospectively, if certain reasons are given									
Exchange differences on translating foreign operations									
Recognition of other comprehensive income in income statement	0	0	0	4	0	4	0	0	0
Change in other comprehensive income (not recognized in income statement)	(901)	0	(901)	318	0	318	10	0	10
Available-for-sale financial assets									
Recognition of other comprehensive income in income statement	0	0	0	(227)	14	(213)	0	0	0
Change in other comprehensive income (not recognized in income statement)	(4)	1	(3)	33	0	33	242	(17)	225
Gains (losses) from hedging instruments									
Recognition of other comprehensive income in income statement	178	(55)	123	9	(3)	6	200	(89)	111
Change in other comprehensive income (not recognized in income statement)	(162)	49	(113)	(219)	66	(153)	(765)	254	(511)
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)	(37)	0	(37)	22	0	22	0	0	0
	<b>(926)</b>	<b>(5)</b>	<b>(931)</b>	<b>(60)</b>	<b>77</b>	<b>17</b>	<b>(313)</b>	<b>148</b>	<b>(165)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(895)</b>	<b>(21)</b>	<b>(916)</b>	<b>(1,882)</b>	<b>633</b>	<b>(1,249)</b>	<b>(140)</b>	<b>104</b>	<b>(36)</b>
Profit (loss)			1,204			(4,858)			658
<b>TOTAL COMPREHENSIVE INCOME</b>			<b>288</b>			<b>(6,107)</b>			<b>622</b>

## 26 PROFIT/LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS.

Profit attributable to non-controlling interests of EUR 274 million (2012: EUR 495 million, 2011: EUR 120 million) comprises gains of EUR 437 million (2012: EUR 561 million, 2011: EUR 479 million) and losses of EUR 163 million (2012: EUR 66 million, 2011: EUR 359 million).

The share in profit attributable to non-controlling interests in 2013 primarily related to T-Mobile Czech Republic and Hrvatski Telekom.

## 27 EARNINGS PER SHARE.

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

T 131

millions of €

	2013	2012	2011
Profit attributable to the owners of the parent (net profit (loss))	930	(5,353)	538
Adjustment	-	-	-
<b>ADJUSTED BASIC/DILUTED NET PROFIT (LOSS)</b>	<b>930</b>	<b>(5,353)</b>	<b>538</b>
Number of ordinary shares issued	millions 4,391	4,321	4,321
Treasury shares	millions (5)	(2)	(2)
Shares reserved for outstanding options	millions (16)	(19)	(19)
<b>ADJUSTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING (BASIC/DILUTED)</b>	<b>millions 4,370</b>	<b>4,300</b>	<b>4,300</b>
<b>BASIC/DILUTED EARNINGS PER SHARE</b>	<b>€ 0.21</b>	<b>(1.24)</b>	<b>0.13</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 well as the shares that, as part of the issue of new shares in the course of the acquisition of T-Mobile USA (VoiceStream/Powertel), are held in a trust depot account for later issue and later trading as registered shares. These options and conversion rights all expired in the reporting year and are treated like treasury shares, but they are still included pro rata temporis in the average portfolio for the 2013 financial year (please refer to Note 15 "Shareholders' equity," PAGES 209 and 210). There are currently no diluting shares.

## 28 DIVIDEND PER SHARE.

For the 2013 financial year, the Board of Management proposes a dividend of EUR 0.50 for each no par value share carrying dividend rights. On the basis of this payout volume, total dividends in the amount of EUR 2,215 million would be appropriated to the no par value shares carrying dividend rights at February 18, 2014. 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 0.70 for the 2012 financial year for each no par value share carrying dividend rights was paid out in 2013. The shareholders had the choice between payment in cash or, alternatively, in Deutsche Telekom AG shares (dividend in kind). In June 2013, dividend entitlements of EUR 1.1 billion were substituted by shares from authorized capital and thus did not have an effect on cash flows (please also refer to Note 15 "Shareholders' equity," PAGES 209 and 210).

## 29 NUMBER OF EMPLOYEES AND PERSONNEL COSTS.

### Average number of employees.

T 132

	2013	2012	2011
<b>GROUP (TOTAL)</b>	<b>229,704</b>	<b>232,342</b>	<b>240,369</b>
Domestic	117,995	120,614	122,925
International	111,709	111,728	117,444
Non-civil servants	208,422	209,422	215,559
Civil servants (domestic, active service relationship)	21,282	22,920	24,810
Trainees and students on cooperative degree courses	8,145	8,402	8,889
<b>PERSONNEL COSTS</b> millions of €	<b>15,144</b>	<b>14,726</b>	<b>14,751</b>

The average headcount decreased by 1.1 percent compared with the prior-year reporting period. This trend is largely attributable to the domestic headcount, which was down by 2.2 percent partly as a result of downsizing and restructuring measures in the Systems Solutions and Germany operating segments. This effect was partially offset by an increase in the number of employees at the Digital Business Unit (DBU) in the Group Headquarters & Group Services segment.

The average international headcount decreased slightly, largely on account of staff restructuring and reduction measures in Greece and Romania, as well as the disposal of the national companies in Bulgaria. The increase in the average headcount in the United States operating segment had an offsetting effect and was driven primarily by the addition of the MetroPCS employees to the T-Mobile US workforce following the completion of the business combination in the second quarter of 2013.

Personnel costs increased by 2.8 percent year-on-year. Higher expense for staff restructuring, in particular in Greece, had a significant impact compared with the prior year. In 2013, expense attributable to the programs granting restricted stock units (RSUs) and performance stock units (PSUs) in connection with the acquisition of MetroPCS was incurred for the first time. Higher personnel costs in Germany following the collectively agreed salary increase was partially offset by the lower average headcount.

## 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 133

millions of €

	2013	2012	2011
<b>AMORTIZATION AND IMPAIRMENT OF INTANGIBLE ASSETS</b>	<b>4,176</b>	<b>12,259</b>	<b>6,445</b>
Of which:			
Goodwill impairment losses	605	2,965	3,100
Amortization of mobile licenses	854	831	801
Impairment losses on mobile licenses	104	5,822	–
<b>DEPRECIATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT</b>	<b>6,728</b>	<b>9,698</b>	<b>7,991</b>
Of which:			
Impairment losses recognized on property, plant and equipment	117	2,020	330
	<b>10,904</b>	<b>21,957</b>	<b>14,436</b>



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Impairment losses break down as follows:

T 134

millions of €

	2013	2012	2011
<b>INTANGIBLE ASSETS</b>	<b>721</b>	<b>9,088</b>	<b>3,121</b>
Of which:			
Goodwill from the year-end impairment test	600	360	803
Goodwill in connection with the business combination of T-Mobile USA and MetroPCS	–	2,605	–
Goodwill in connection with the reclassification of T-Mobile USA	–	–	2,297
FCC licenses	104	–	–
Intangible assets (excluding goodwill) in connection with the business combination of T-Mobile USA and MetroPCS	–	6,094	–
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>117</b>	<b>2,020</b>	<b>330</b>
Of which:			
From the year-end impairment test	–	–	237
In connection with the business combination of T-Mobile USA and MetroPCS	–	1,890	–
	<b>838</b>	<b>11,108</b>	<b>3,451</b>

Depreciation, amortization and impairment losses decreased by EUR 11.1 billion year-on-year.

This marked decrease was primarily due to an impairment loss of EUR 10.6 billion recognized in the third quarter of 2012 on goodwill, other intangible assets, and property, plant and equipment at the United States cash-generating unit. This impairment loss in the prior year first resulted in the full write-down of the goodwill totaling EUR 2.6 billion. The remaining part was attributable to intangible assets (excluding goodwill) accounting for EUR 6.1 billion (primarily to mobile licenses accounting for EUR 5.8 billion) and property, plant and equipment accounting for EUR 1.9 billion.

In the reporting year, impairment losses of EUR 0.6 billion were recognized on goodwill following scheduled impairment testing at the cash-generating units. For further details, please refer to Note 5 "Intangible assets," PAGE 190 ET SEQ.

Impairment losses on property, plant and equipment related mainly to land and buildings.

In total, depreciation and amortization was EUR 0.8 billion lower than the prior-year figure. This is attributable to a reduced depreciation and amortization base, mainly as a result of the impairment loss recognized in the prior year in the United States operating segment, and the expiry of the economic useful lives of parts of the outside plant in the Germany operating segment.

## OTHER DISCLOSURES.

### 31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS.

#### NET CASH FROM OPERATING ACTIVITIES.

Net cash from operating activities in the 2013 financial year decreased by EUR 0.6 billion year-on-year to EUR 13.0 billion. The dividend payments received from the EE joint venture, which were down EUR 0.2 billion year-on-year, and an increase of EUR 0.2 billion in severance payments and compensation payments of EUR 0.1 billion for MetroPCS employees due to the business combination with T-Mobile USA had a negative impact. Net cash from operating activities in the 2013 financial year was also impacted by higher market investments in the United States operating segment. Whereas in the prior year this item included cash inflows of EUR 0.1 billion from the agreement on the leasing and use of cell sites in the United States, no corresponding cash inflows were recorded in 2013. EUR 0.2 billion higher cash inflows from canceling interest rate derivatives and EUR 0.1 billion lower net interest payments had a positive effect compared with the prior year. Additionally, in the prior year, net cash from operating activities had included higher cash outflows of EUR 0.3 billion in connection with the AT&T transaction.

Net cash from operating activities includes interest paid amounting to EUR 3.0 billion (2012: EUR 3.1 billion, 2011: EUR 3.4 billion) and interest received amounting to EUR 0.9 billion (2012: EUR 0.9 billion, 2011: EUR 0.9 billion).

T 135

#### Net cash used in investing activities.

millions of €

	2013	2012	2011
Cash capex			
Germany operating segment	(3,411)	(3,418)	(3,506)
United States operating segment	(3,279)	(2,560)	(1,963)
Europe operating segment	(3,648)	(1,724)	(1,891)
Systems Solutions operating segment	(1,080)	(1,187)	(1,413)
Group Headquarters & Group Services	(411)	(379)	(331)
Reconciliation	761	836	698
Net cash flows for collateral deposited for hedging transactions	(776)	(339)	49
Allocation under contractual trust agreement for pension commitments	(250)	(750)	(250)
Acquisition/sale of government bonds (net)	(159)	319	(332)
Net change in cash and cash equivalents due to the first-time inclusion of MetroPCS	1,641	–	–
Proceeds from the loss of control of subsidiaries and associates <sup>a</sup>	650	2,199	–
Proceeds from the disposal of property, plant and equipment	245	187	336
Cash flows from the bond issued by the EE joint venture	–	218	505
PTC transaction	–	–	(820)
OTE Put Option II	–	–	(392)
Other	(179)	(73)	35
	<b>(9,896)</b>	<b>(6,671)</b>	<b>(9,275)</b>

<sup>a</sup> Includes cash inflows of EUR 0.6 billion from the sale of Globul and Germanos and of EUR 0.2 billion from the sale of Hellas Sat in the 2013 financial year. In the 2012 financial year, cash inflows of EUR 1.8 billion from the disposal of cell sites in the United States and EUR 0.4 billion from the sale of Telekom Srbija were included.

Cash capex in the reporting year was EUR 2.6 billion higher than in the prior year. Cash capex in the Germany operating segment remained on a par with the previous year. In the United States operating segment, investment activities continued to focus on modernizing the mobile communications network; cash capex increased overall as a result of the acquisition of MetroPCS in 2013. Cash capex in the Europe operating segment increased as a result of the intensified LTE roll-out. Cash capex in the Systems Solutions operating segment focused on the Group's internal IT systems as well as on investments in connection with customer orders and the continued roll-out of new multi-purpose platforms, e.g., for cloud services, De-Mail, and intelligent networks.

Interest payments (including capitalized interest) of EUR 3.0 billion (2012: EUR 3.1 billion, 2011: EUR 3.5 billion) were made in the financial year. Capitalized interest was reported within cash capex in net cash used in investing activities, together with the associated assets.

T 136

**Net cash from/used in financing activities.**

millions of €

	2013	2012	2011
Issuance of bonds	8,833	1,502	1,362
T-Mobile US capital increase	1,313	-	-
Issuance of medium-term notes	218	1,574	-
T-Mobile US stock options	102	-	-
Repayment of bonds	(4,429)	(1,978)	(5,241)
Dividends (including to non-controlling interests)	(2,243)	(3,400)	(3,521)
OTE credit line (net)	(704)	(757)	1,223
Net cash flows for collateral deposited for hedging transactions	(537)	90	132
Repayment of financial liabilities to Sireo	(534)	-	-
Repayment of medium-term notes	(319)	(1,619)	(1,446)
Repayment of promissory notes	(309)	-	-
Net repayment of cash deposits from the EE joint venture	(195)	280	(141)
Repayment of lease liabilities	(172)	(169)	(163)
Repayment of EIB loans	(32)	(532)	(35)
Share buy-back	(2)	-	(3)
Loans taken out with the EIB	-	300	701
Commercial paper (net)	-	(1,657)	1,586
PTC transaction	-	-	(187)
Other	32	(235)	(225)
	<b>1,022</b>	<b>(6,601)</b>	<b>(5,958)</b>

**NON-CASH TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS.**

In June 2013, dividend entitlements of Deutsche Telekom AG shareholders in the amount of EUR 1.1 billion did not have an effect on net cash from financing activities when fulfilled; rather, they were substituted by shares from authorized capital (please refer to Note 15 "Shareholders' equity," PAGES 209 and 210). The dividend entitlements of Deutsche Telekom AG shareholders having an effect on cash flows totaled EUR 1.9 billion.

In the 2013 financial year, Deutsche Telekom chose financing options totaling EUR 0.4 billion which extended the period of payment for trade payables by involving banks in the process. These liabilities 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 from/used in financing activities.

**32 SEGMENT REPORTING.**

Deutsche Telekom reports on four operating segments, as well as on Group Headquarters & Group Services. 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 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 encompasses 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, as well as the UK joint venture. It also includes the International Carrier Sales & Solutions unit, which mainly provides wholesale telecommunications services for the Group's other operating segments. The Europe operating segment also offers ICT services to business customers in individual national companies.

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 terminals 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 **Systems Solutions** operating segment bundles business with ICT products and solutions for large multinational corporations under the T-Systems brand. It offers its customers information and communication technology from a single source and develops and operates infrastructure and industry solutions for multinational corporations and public institutions. The products and services it offers range from standard products and IP-based high-performance networks through to complete ICT solutions.

The **Group Headquarters & Group Services** segment comprises Service Headquarters and those subsidiaries of Deutsche Telekom AG that are not allocated to the operating segments.

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 segments structure was changed as follows in 2013:

The central management and service functions were realigned as of January 1, 2013. As part of this process, the Group Headquarters & Shares Services segment was renamed Group Headquarters & Group Services.

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The new Group Headquarters is responsible for aligning and steering the Group as a whole, issuing rules and regulations, initiating Group-wide strategic projects, and measuring their implementation and success. The newly formed Group Services units provide services to the entire Group. The tasks and functions of the Digital Services growth business as well as the Internet service provider STRATO have been pooled within the Digital Business Unit under in the Group Headquarters & Group Services segment.

Since January 1, 2013, the tasks and functions of Group Technology including the Global Network Factory, which was previously part of Group Headquarters & Group Services, have been reported under the Europe operating segment. Group Technology's tasks include the efficient and customer-oriented provision of technologies, platforms, and services for mobile and fixed-network communications. The Global Network Factory designs and operates a worldwide network, which allows us to offer customers voice and data communication. The change was made to improve the way in which these units can be managed. Comparative figures have been adjusted retrospectively.

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 accounted for on the basis of the financial statements prepared by the segments and included in the consolidated financial statements. Segment investments include additions to intangible assets and property, plant and equipment. Where entities accounted for using the equity method are directly allocable to a segment, their shares of profit or loss after income taxes and their carrying amounts are reported in this segment's accounts. The performance indicators are exclusively presented from the segments' perspective: The effects of intersegment transactions are eliminated and presented in aggregate form in the reconciliation line. The following tables show the performance indicators used by Deutsche Telekom to evaluate the operating segments' performance as well as additional segment-related indicators:

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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
Germany	2013	21,056	1,379	22,435	4,435	20	(367)	1	5
	2012	21,384	1,352	22,736	4,213	38	(501)	1	(6)
	2011	21,783	1,423	23,206	4,597	89	(605)	2	(6)
United States	2013	18,552	4	18,556	1,404	461	(737)	(33)	(418)
	2012	15,365	6	15,371	(7,547)	86	(661)	(26)	2,191
	2011	14,801	10	14,811	(710)	86	(628)	(11)	(562)
Europe	2013	12,992	667	13,659	958	25	(423)	(40)	(414)
	2012	13,733	673	14,406	1,437	64	(419)	(113)	(399)
	2011	14,431	693	15,124	760	141	(478)	(54)	(526)
Systems Solutions	2013	6,426	3,065	9,491	(279)	15	(1)	4	(33)
	2012	6,609	3,407	10,016	(307)	37	(23)	(14)	15
	2011	6,567	3,386	9,953	(395)	31	(31)	(10)	(11)
Group Headquarters & Group Services	2013	1,106	1,773	2,879	(1,582)	1,145	(1,871)	(3)	(249)
	2012	1,078	1,757	2,835	(1,750)	1,458	(2,057)	(2)	(291)
	2011	1,071	1,751	2,822	1,299	1,545	(2,419)	-	(1,263)
TOTAL	2013	60,132	6,888	67,020	4,936	1,666	(3,399)	(71)	(1,109)
	2012	58,169	7,195	65,364	(3,954)	1,683	(3,661)	(154)	1,510
	2011	58,653	7,263	65,916	5,551	1,892	(4,161)	(73)	(2,368)
Reconciliation	2013	-	(6,888)	(6,888)	(6)	(1,438)	1,009	-	185
	2012	-	(7,195)	(7,195)	(8)	(1,377)	1,322	-	6
	2011	-	(7,263)	(7,263)	12	(1,624)	1,568	-	23
GROUP	2013	60,132	-	60,132	4,930	228	(2,390)	(71)	(924)
	2012	58,169	-	58,169	(3,962)	306	(2,339)	(154)	1,516
	2011	58,653	-	58,653	5,563	268	(2,593)	(73)	(2,345)

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millions of €

		Segment assets <sup>a</sup>	Segment liabilities	Segment investments	Investments accounted for using the equity method	Depreciation and amortization	Impairment losses	Average number of employees
Germany	2013	30,738	23,200	3,538	17	(3,959)	(7)	67,765
	2012	31,224	22,972	3,559	16	(4,389)	(4)	68,653
	2011	32,578	22,865	3,572	17	(4,340)	(4)	70,525
United States	2013	38,830	26,888	4,676	198	(2,133)	(105)	32,962
	2012	27,436	21,254	4,217	215	(2,265)	(10,601)	30,184
	2011	38,075	24,110	1,787	27	(2,110)	(2,297)	34,518
Europe	2013	35,552	12,601	4,178	5,903	(2,738)	(644)	56,073
	2012	36,579	12,079	1,945	6,410	(2,903)	(388)	58,723
	2011	38,041	13,150	2,019	6,781	(3,214)	(1,056)	60,881
Systems Solutions	2013	8,705	5,381	1,146	24	(656)	(13)	50,722
	2012	9,045	5,872	3,966	23	(632)	(17)	52,742
	2011	9,308	6,017	1,475	38	(654)	(15)	52,241
Group Headquarters & Group Services	2013	91,594	51,218	573	25	(627)	(72)	22,182
	2012	95,182	53,524	279	62	(654)	(99)	22,040
	2011	99,947	56,762	467	10	(668)	(84)	22,204
<b>TOTAL</b>	2013	<b>205,419</b>	<b>119,288</b>	<b>14,111</b>	<b>6,167</b>	<b>(10,113)</b>	<b>(841)</b>	<b>229,704</b>
	2012	<b>199,466</b>	<b>115,701</b>	<b>13,966</b>	<b>6,726</b>	<b>(10,843)</b>	<b>(11,109)</b>	<b>232,342</b>
	2011	<b>217,949</b>	<b>122,904</b>	<b>9,320</b>	<b>6,873</b>	<b>(10,986)</b>	<b>(3,456)</b>	<b>240,369</b>
Reconciliation	2013	(87,271)	(33,203)	(751)	-	47	3	-
	2012	(91,524)	(38,290)	(3,417)	-	(5)	-	-
	2011	(95,453)	(40,440)	(767)	-	1	5	-
<b>GROUP</b>	2013	<b>118,148</b>	<b>86,085</b>	<b>13,360</b>	<b>6,167</b>	<b>(10,066)</b>	<b>(838)</b>	<b>229,704</b>
	2012	<b>107,942</b>	<b>77,411</b>	<b>10,549</b>	<b>6,726</b>	<b>(10,848)</b>	<b>(11,109)</b>	<b>232,342</b>
	2011	<b>122,496</b>	<b>82,464</b>	<b>8,553</b>	<b>6,873</b>	<b>(10,985)</b>	<b>(3,451)</b>	<b>240,369</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 (please also refer to Note 15 "Shareholders' equity," PAGES 209 and 210).

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millions of €

		Net cash from operating activities	Net cash (used in) from investing activities	Of which: cash capex <sup>a</sup>	Net cash from (used in) financing activities <sup>b</sup>
Germany	2013	8,646	(3,444)	(3,411)	(5,691)
	2012	8,489	(3,509)	(3,418)	(7,174)
	2011	8,315	(3,454)	(3,506)	(6,469)
United States	2013	2,580	(1,232)	(3,279)	2,728
	2012	3,164	(785)	(2,560)	(2,301)
	2011	3,523	(3,013)	(1,963)	(364)
Europe	2013	3,898	(3,013)	(3,648)	(2,381)
	2012	4,380	(888)	(1,724)	(2,795)
	2011	4,825	(513)	(1,891)	(1,862)
Systems Solutions	2013	1,022	(544)	(1,080)	141
	2012	272	(463)	(1,187)	367
	2011	433	(794)	(1,413)	224
Group Headquarters & Group Services	2013	3,271	3,726	(411)	(5,552)
	2012	3,028	3,665	(379)	(5,135)
	2011	6,115	(677)	(331)	(5,479)
<b>TOTAL</b>	2013	<b>19,417</b>	<b>(4,507)</b>	<b>(11,829)</b>	<b>(10,755)</b>
	2012	<b>19,333</b>	<b>(1,980)</b>	<b>(9,268)</b>	<b>(17,038)</b>
	2011	<b>23,211</b>	<b>(8,451)</b>	<b>(9,104)</b>	<b>(13,950)</b>
Reconciliation	2013	(6,400)	(5,389)	761	11,777
	2012	(5,756)	(4,691)	836	10,437
	2011	(6,997)	(824)	698	7,992
<b>GROUP</b>	2013	<b>13,017</b>	<b>(9,896)</b>	<b>(11,068)</b>	<b>1,022</b>
	2012	<b>13,577</b>	<b>(6,671)</b>	<b>(8,432)</b>	<b>(6,601)</b>
	2011	<b>16,214</b>	<b>(9,275)</b>	<b>(8,406)</b>	<b>(5,958)</b>

<sup>a</sup> Cash outflows for investments in intangible assets (excluding goodwill) and property, plant and equipment, as shown in the statement of cash flows.

<sup>b</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 (please also refer to Note 15 "Shareholders' equity," PAGES 209 and 210).

**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 140

millions of €

	Non-current assets			Net revenue		
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	2013	2012	2011
Germany	35,264	36,497	40,542	25,384	25,775	26,361
International	54,599	49,813	59,590	34,748	32,394	32,292
Of which:						
Europe (excluding Germany)	27,224	28,002	28,022	15,173	15,966	16,577
North America	27,289	21,696	31,457	18,796	15,593	14,945
Other countries	86	115	111	779	835	770
<b>GROUP</b>	<b>89,863</b>	<b>86,310</b>	<b>100,132</b>	<b>60,132</b>	<b>58,169</b>	<b>58,653</b>

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

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millions of €

	Net revenue		
	2013	2012	2011
Telecommunications	53,075	50,952	51,496
ICT solutions	6,858	6,988	6,924
Other	199	229	233
	<b>60,132</b>	<b>58,169</b>	<b>58,653</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 0.6 billion (December 31, 2012: EUR 0.3 billion) and to contingent assets amounting to EUR 0.0 billion (December 31, 2012: EUR 0.2 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.

### CONTINGENT LIABILITIES.

**Proceedings by Anti-Monopoly Commission in Poland.** On November 23, 2011, the Anti-Monopoly Commission in Poland (UOKiK) concluded investigations started in 2010. It accuses T-Mobile Polska (formerly PTC) and other Polish telecommunications companies of price fixing 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 continues to believe these allegations are unfounded and filed action against the ruling. As a result, the fine is not yet due. 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. The court has not yet made a decision.

**Claims by partnering publishers of telephone directories.** Several publishers that edit and publish subscriber directories together with DeTeMedien GmbH, filed claims against DeTeMedien GmbH and/or Deutsche Telekom AG at the end of 2013. The complainants are claiming damages or refund of approximately EUR 97 million plus interest in total from DeTeMedien GmbH and to a certain extent from Deutsche Telekom AG as joint and several debtor next to DeTeMedien GmbH. The complainants base their claims on allegedly excessive charges for the provision of subscriber data.

**Claim for compensation against Slovak Telekom.** In 1999, an action was filed against Slovak Telekom based on the accusation 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 case of a final and legally binding court ruling against Slovak Telekom, Deutsche Telekom AG can assert recourse claims against third parties for a part of the sum demanded.

**Sale of the SI business unit at T-Systems France.** When selling the Systems Integration business unit of T-Systems France in the middle of 2013, a 15-month guarantee had to be issued to the responsible works council. Around 500 employees who have been transferred to the buyer are affected. According to the guarantee, a compensation of up to EUR 63 million in total will be paid to the staff in the event of the insolvency of the buyer.



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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 group of contingent liabilities in each case due to the uncertainties described below, they have not been included in the aforementioned total contingent liabilities.

**Breaches of anti-trust and consumer protection law.** Like many other companies, our Group is subject to the regulations of anti-trust law. In individual countries, Deutsche Telekom and its subsidiaries, joint ventures, and associates are subject to various proceedings under anti-trust or competition law, or follow-up claims arising under civil law. Looking at each of the proceedings individually, none has a material impact. Deutsche Telekom believes the respective allegations are unfounded. The outcome of the proceedings cannot be foreseen at this point in time.

**European Commission proceedings against Slovak Telekom and Deutsche Telekom.** The European Commission decided on May 8, 2012 to send a statement of objections to Slovak Telekom and Deutsche Telekom. In this statement of objections, it communicates its preliminary opinion that Slovak Telekom, in which Deutsche Telekom holds a 51-percent stake, has breached European anti-trust law on the Slovakian broadband market. The European Commission intends to hold also the parent company, Deutsche Telekom, liable. The European Commission had initiated proceedings against Slovak Telekom in April 2009 and against Deutsche Telekom in December 2010.

Slovak Telekom and Deutsche Telekom defended themselves against the accusations made in the notification of objections. As a result, the European Commission undertook further investigations in 2013, which are currently ongoing. We continue to 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 with applicable law. Intense competition and the ongoing price erosion on the Slovak broadband market argue against any obstruction of competitors by Slovak Telekom. The statement of objections does not constitute a final decision. Should the European Commission uphold its allegations in the course of the proceedings, it may impose a fine on Slovak Telekom and Deutsche Telekom.

**Toll Collect arbitration proceedings.** The principal members of the Toll Collect consortium are Daimler Financial Services AG and Deutsche Telekom. 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 new 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. The proceedings are to continue in spring 2014.

- **Bank loans guarantee.** Deutsche Telekom guarantees to third parties bank loans of up to a maximum amount of EUR 110 million granted to Toll Collect GmbH. These guarantees for bank loans will expire on October 15, 2015.
- **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, 2015, or earlier if the operating agreement is terminated prematurely.

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. Deutsche Telekom believes the claims of the Federal Republic of Germany are unfounded. Furthermore, the amount of a possible settlement attributable to the equity maintenance undertaking or the arbitration proceedings described, which may be material, cannot be estimated because of the aforementioned uncertainties.

**Claims relating to charges for shared use of cable ducts.** With an action filed on June 14, 2012, Kabel Deutschland Vertrieb und Service GmbH (KDG) 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 quantifies 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. KDG has appealed the decision. On January 23, 2013, Telekom Deutschland GmbH also received a claim filed by Unitymedia Hessen GmbH & Co. KG, Unitymedia NRW GmbH, and Kabel BW GmbH, demanding that Telekom Deutschland GmbH cease charging the complainants more than a specific and precisely stated amount for the shared use of cable ducts. Unitymedia Hessen GmbH & Co. KG is also 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 for allegedly excessive charges paid since 2009 through 2012 for the shared use of cable ducts.

**Claim for compensation against OTE.** In May 2009, Lannet Communications S.A. filed an action against OTE claiming compensation for damages of 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 (IPR) disputes. There is a risk that we may have to pay license fees and/or compensation; there is also a risk of cease-and-desist orders (relating to the sale of a product, use of a technology, etc.).

**Tax risks.** In many countries, Deutsche Telekom is subject to the applicable legal tax regulations. Risks that affect tax expenses and income as well as tax receivables and liabilities can arise from changes in local taxation laws or jurisdiction and different interpretations of existing regulations.

### 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 16 years. The agreements include extension and purchase options. TABLE 142 shows the net carrying amounts of leased assets capitalized in connection with a finance lease as of the reporting date:

T 142

millions of €

	Dec. 31, 2013	Of which: sale and leaseback transactions	Dec. 31, 2012	Of which: sale and leaseback transactions
Land and buildings	680	394	792	443
Technical equipment and machinery	362	0	80	0
Other	8	0	7	0
<b>NET CARRYING AMOUNTS OF LEASED ASSETS CAPITALIZED</b>	<b>1,050</b>	<b>394</b>	<b>879</b>	<b>443</b>

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.

TABLE 143 provides a breakdown of these amounts:

T 143

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, 2013</b>						
<b>MATURITY</b>						
Within 1 year	260	109	98	52	162	57
In 1 to 3 years	475	209	183	90	292	119
In 3 to 5 years	398	198	140	70	258	128
After 5 years	1,079	472	345	189	734	283
	<b>2,212</b>	<b>988</b>	<b>766</b>	<b>401</b>	<b>1,446</b>	<b>587</b>
<b>DEC. 31, 2012</b>						
<b>MATURITY</b>						
Within 1 year	231	109	95	57	136	52
In 1 to 3 years	408	215	158	99	250	116
In 3 to 5 years	361	202	126	79	235	123
After 5 years	969	566	344	219	625	347
	<b>1,969</b>	<b>1,092</b>	<b>723</b>	<b>454</b>	<b>1,246</b>	<b>638</b>

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**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 2013 financial year (2012: EUR 2.8 billion, 2011: EUR 2.8 billion).

TABLE 144 provides a breakdown of future obligations arising from operating leases:

T 144

millions of €

	Dec. 31, 2013	Dec. 31, 2012
<b>MATURITY</b>		
Within 1 year	2,684	2,385
In 1 to 3 years	4,470	4,096
In 3 to 5 years	3,770	3,492
After 5 years	6,496	7,529
	<b>17,420</b>	<b>17,502</b>

## DEUTSCHE TELEKOM AS LESSOR.

**Finance leases.** Deutsche Telekom is a lessor in connection with finance leases. Essentially, these relate to the leasing of routers and other hardware, which Deutsche Telekom provides to its customers for data and telephone network solutions. Deutsche Telekom recognizes a receivable in the amount of the net investment in the lease. The lease payments made by the lessees are split into an interest component and a principal component using the effective interest method. The lease receivable is reduced by the principal received. The interest component of the payments is recognized as finance income in the income statement. The amount of the net investment in a finance lease is determined as follows:

T 145

millions of €

	Dec. 31, 2013	Dec. 31, 2012
Minimum lease payments	208	262
Unguaranteed residual value	10	13
Gross investment	218	275
Unearned finance income	(15)	(27)
<b>NET INVESTMENT (PRESENT VALUE OF THE MINIMUM LEASE PAYMENTS)</b>	<b>203</b>	<b>248</b>

The gross investment amounts and the present value of payable minimum lease payments are as follows:

T 146

millions of €

	Dec. 31, 2013		Dec. 31, 2012	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
<b>MATURITY</b>				
Within 1 year	104	79	131	106
In 1 to 3 years	92	91	116	110
In 3 to 5 years	12	23	16	20
After 5 years	10	10	12	12
	<b>218</b>	<b>203</b>	<b>275</b>	<b>248</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 and building space and have an average term of 14 years. The future minimum lease payments arising from non-cancelable operating leases are as follows:

T 147

millions of €

	Dec. 31, 2013	Dec. 31, 2012
<b>MATURITY</b>		
Within 1 year	275	266
In 1 to 3 years	382	371
In 3 to 5 years	302	310
After 5 years	603	676
	<b>1,562</b>	<b>1,623</b>

### 35 OTHER FINANCIAL OBLIGATIONS.

TABLE 148 provides an overview of Deutsche Telekom's other financial obligations:

T 148

millions of €

	Dec. 31, 2013			
	Total	Due within 1 year	Due >1 year ≤ 5 years	Due > 5 years
Purchase commitments regarding property, plant and equipment	1,144	1,093	46	5
Purchase commitments regarding intangible assets	663	624	39	0
Firm purchase commitments for inventories	5,951	2,219	3,732	0
Other purchase commitments and similar obligations	7,246	4,438	2,565	243
Payment obligations to the Civil Service Pension Fund	5,032	540	1,608	2,884
Purchase commitments for interests in other companies	546	546	0	0
Miscellaneous other obligations	1,650	624	1,026	0
	<b>22,232</b>	<b>10,084</b>	<b>9,016</b>	<b>3,132</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.

For the compensation system of Board of Management members who also participate in the share matching plan, please refer to Note 40 "Compensation of the Board of Management and the Supervisory Board," PAGE 240 ET SEQ.

#### SHARE-BASED PAYMENT AT T-MOBILE US.

During the second quarter of 2013, T-Mobile US's Board of Directors and stockholders approved 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, and performance awards to employees, consultants, advisors, and non-employee directors. 40 million shares were available as of December 31, 2013 for the future issuance as part of these programs.

In June 2013, T-Mobile US granted restricted stock units (RSUs) to eligible employees. RSUs entitle the grantee to receive shares of T-Mobile US common stock at the end of a vesting period of one to three and a half years.

In June 2013, T-Mobile US also granted 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 of approximately two and a half years if a specific performance goal has been achieved. The number of shares ultimately received is dependent on T-Mobile US's business performance against the specified performance goal. The PSUs were considered granted for accounting purposes upon specification of the performance goals in June 2013.

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The plan resulted in the following development:

T 149

	Number of shares	Weighted average fair value at grant date USD
<b>Non-vested as of January 1, 2013</b>		
Granted	24,685,791	22.07
Vested	(88,440)	21.28
Forfeited	(1,648,186)	21.22
<b>Non-vested as of December 31, 2013</b>	<b>22,949,165</b>	<b>22.14</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 is based on the closing price of T-Mobile US's common stock on the date of grant. Stock-based compensation expense was EUR 112 million as of December 31, 2013.

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 (please refer to "Changes in the composition of the Group and transactions with owners" in the section "Summary of accounting policies," PAGE 182 ET SEQ.). Following approval of the T-Mobile US's 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:

T 150

	Number of shares	Weighted average fair value at grant date USD	Weighted average remaining contractual life Years
<b>Stock options outstanding/ exercisable at May 1, 2013</b>	16,738,643	19.66	
Exercised	(9,278,599)	14.43	
Forfeited	(1,127,024)	34.73	
<b>Stock options outstanding/ exercisable at December 31, 2013</b>	<b>6,333,020</b>	<b>24.64</b>	<b>4.6</b>

The exercise of stock options generated cash inflows of EUR 103 million (USD 137 million) in the period May 1, 2013 to December 31, 2013.

## 37 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT.

T 151

**Carrying amounts, amounts recognized, and fair values by class and measurement category.**  
 millions of €

		Amounts recognized in the statement of financial position according to IAS 39				
	Category in accordance with IAS 39	Carrying amounts Dec. 31, 2013	Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss
ASSETS						
Cash and cash equivalents	LaR	7,970	7,970			
Trade receivables	LaR	7,580	7,580			
Originated loans and receivables	LaR/n. a.	2,672	2,469			
Of which: collateral paid	LaR	941	941			
Other non-derivative financial assets						
Held-to-maturity investments	HtM	12	12			
Financial assets available for sale <sup>a</sup>	AFS	652		280	372	
Derivative financial assets <sup>b</sup>						
Derivatives without a hedging relationship	FAHfT	596				596
Of which: termination rights embedded in bonds issued	FAHfT	158				158
Derivatives with a hedging relationship	n. a.	175			113	62
LIABILITIES AND SHAREHOLDERS' EQUITY <sup>c</sup>						
Trade payables	FLAC	7,231	7,231			
Bonds and other securitized liabilities	FLAC	40,535	40,535			
Liabilities to banks	FLAC	4,105	4,105			
Liabilities to non-banks from promissory notes	FLAC	1,072	1,072			
Other interest-bearing liabilities	FLAC	891	891			
Of which: collateral received	FLAC	40	40			
Other non-interest-bearing liabilities	FLAC	1,967	1,967			
Finance lease liabilities	n. a.	1,446				
Derivative financial liabilities <sup>b</sup>						
Derivatives without a hedging relationship	FLHfT	581				581
Derivatives with a hedging relationship	n. a.	1,002			726	276
Of which: aggregated by category in accordance with IAS 39						
Loans and receivables	LaR	18,019	18,019			
Held-to-maturity investments	HtM	12	12			
Available-for-sale financial assets <sup>a</sup>	AFS	652		280	372	
Financial assets held for trading	FAHfT	596				596
Financial liabilities measured at amortized cost	FLAC	55,801	55,801			
Financial liabilities held for trading	FLHfT	581				581

<sup>a</sup> For details, please refer to Note 8 "Other financial assets," PAGE 196.<sup>b</sup> For details, please refer to TABLE 156 on derivatives in this note, PAGE 238.<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 237.<sup>d</sup> The exemption provisions under IFRS 7.29 a were applied for information on specific fair values.

Trade receivables include non-current receivables amounting to EUR 1.0 billion (December 31, 2012: EUR 0.2 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 according to IAS 17	Fair value Dec. 31, 2013 <sup>d</sup>	Amounts recognized in the statement of financial position according to IAS 39						Amounts recognized in the statement of financial position according to IAS 17	Fair value Dec. 31, 2012 <sup>d</sup>
		Category in accordance with IAS 39	Carrying amounts Dec. 31, 2012	Amortized cost	Cost	Fair value recognized in equity	Fair value recognized in profit or loss		
	-	LaR	4,026	4,026					-
	-	LaR	6,316	6,316					-
203	-	LaR/n. a.	2,123	1,875				248	-
	-	LaR	246	246					-
	-	HtM	131	131					-
	372	AfS	380		230	150			150
	596	FAHfT	531				531		531
	158	FAHfT	0				0		0
	175	n. a.	756			257	499		756
	-	FLAC	6,415	6,415					-
	44,631	FLAC	33,674	33,674					38,544
	4,219	FLAC	3,912	3,912					4,082
	1,230	FLAC	1,167	1,167					1,383
	881	FLAC	2,085	2,085					1,356
	-	FLAC	729	729					-
	-	FLAC	1,611	1,611					-
1,446	1,768	n. a.	1,246					1,246	1,635
	581	FLHfT	335				335		335
	1,002	n. a.	584			584			584
	-	LaR	12,217	12,217					-
	-	HtM	131	131					-
	372	AfS	380		230	150			150
	596	FAHfT	531				531		531
	50,961	FLAC	48,864	48,864					45,365
	581	FLHfT	335				335		335

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

T 152

millions of €

	Dec. 31, 2013				Dec. 31, 2012			
	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>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Financial liabilities measured at amortized cost (FLAC)	38,026	12,935		<b>50,961</b>	30,642	14,723		<b>45,365</b>
Of which: bonds and other securitized liabilities	38,026	6,605		<b>44,631</b>	30,642	7,902		<b>38,544</b>
Of which: liabilities to banks		4,219		<b>4,219</b>		4,082		<b>4,082</b>
Of which: liabilities to non-banks from promissory notes		1,230		<b>1,230</b>		1,383		<b>1,383</b>
Of which: other interest-bearing liabilities		881		<b>881</b>		1,356		<b>1,356</b>
Finance lease liabilities		1,768		<b>1,768</b>		1,635		<b>1,635</b>

Financial instruments measured at fair value.

T 153

millions of €

	Dec. 31, 2013				Dec. 31, 2012			
	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)	365	7		<b>372</b>	107	43		<b>150</b>
Financial assets held for trading (FAHfT)		596		<b>596</b>		531		<b>531</b>
Derivative financial assets with a hedging relationship		175		<b>175</b>		756		<b>756</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Financial liabilities held for trading (FLHfT)		581		<b>581</b>		335		<b>335</b>
Derivative financial liabilities with a hedging relationship		1,002		<b>1,002</b>		584		<b>584</b>

Of the available-for-sale financial assets (AFS) carried under other non-derivative financial assets, the instruments presented in Level 1 and Level 2 constitute separate classes. In Level 1, EUR 365 million (December 31, 2012: EUR 107 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 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 EUR or USD 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.

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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 held in the portfolio 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. Current market volatilities are used in option pricing models. 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.

Interest from financial instruments is recognized in finance costs, dividends in other financial income/expense (please also refer to Note 22 "Finance costs," PAGE 213, and Note 24 "Other financial income/expense," PAGE 213). 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 187) that are classified as loans and receivables, which are reported under selling expenses. The net loss from the subsequent measurement for financial instruments held for trading (EUR 451 million) also includes interest and currency translation effects. The net currency translation losses on financial assets classified as loans and receivables (EUR 1,051 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 gains on capital market liabilities of EUR 1,220 million. Finance costs from financial liabilities measured at amortized cost (net expense of EUR 2,248 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

T 154

**Net gain/loss by measurement category.**

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances	At fair value		
Loans and receivables (LaR)	20		(1,051)	(573)			2013 (1,604)
Held-to-maturity investments (HiM)							
Available-for-sale financial assets (AfS)	11			(29)	(4)	30	8
Financial instruments held for trading (FAHfT and FLHfT)	n. a.	(451)					(451)
Financial liabilities measured at amortized cost (FLAC)	(2,248)		1,220				(1,028)
	(2,217)	(451)	169	(602)	(4)	30	(3,075)

millions of €

	Recognized in profit or loss from interest, dividends	Recognized in profit or loss from subsequent measurement			Recognized directly in equity from subsequent measurement	Recognized in profit or loss from derecognition	Net gain (loss)
		At fair value	Currency translation	Impairments/ allowances	At fair value		
Loans and receivables (LaR)	51		(73)	(825)			2012 (847)
Held-to-maturity investments (HiM)	2						2
Available-for-sale financial assets (AfS)	63			(66)	33	276	306
Financial instruments held for trading (FAHfT and FLHfT)	n. a.	(165)					(165)
Financial liabilities measured at amortized cost (FLAC)	(2,157)		152				(2,005)
	(2,041)	(165)	79	(891)	33	276	(2,709)

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 213).

**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 of financial instruments with a positive fair value is minimized by way of limit management, which sets individualized relative and absolute figures for risk exposure depending on the counterparty's rating, share price development, and credit default swap level.

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 department performs simulation calculations using different worst-case and market scenarios so that it can estimate the effects of different conditions on the market.

**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 statements of assets and liabilities of foreign operations into the Group's reporting currency) are generally not hedged, however. Deutsche Telekom may nevertheless also hedge this foreign-currency risk under certain circumstances.

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

Foreign-currency risks in the financing area are caused by financial liabilities in foreign currency and loans in foreign currency that are extended to Group entities for financing purposes. Treasury hedges these risks in full. Cross-currency swaps and currency derivatives are used to convert financial obligations and intragroup loans denominated in foreign currencies into the Group entities' functional currencies.

At the reporting date, the foreign-currency liabilities for which currency risks were hedged mainly consisted of bonds and medium-term notes in Australian dollars, pounds, sterling, Japanese yen, Norwegian kroner, Swiss francs, Czech koruna, 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 uses currency derivatives and, in individual cases, currency options 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.

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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, 2013, the hedging reserve in shareholders' equity and the fair values of the hedging instruments before taxes would have been EUR 56 million higher (lower) (December 31, 2012: EUR 49 million higher (lower)). The hypothetical effect of EUR 56 million on profit or loss primarily results from the currency sensitivities EUR/USD: EUR 70 million; EUR/GBP: EUR –14 million.

If the euro had gained (lost) 10 percent against all currencies at December 31, 2013, other financial income and the fair value of the hedging instruments before taxes would have been EUR 64 million higher (lower) (December 31, 2012: EUR 20 million higher (lower)). The hypothetical effect of EUR 64 million on profit or loss primarily results from the currency sensitivities EUR/PLN: EUR 51 million, EUR/HUF: EUR 14 million, EUR/GBP: EUR 10 million, EUR/CZK: EUR 4 million, EUR/USD: EUR –8 million, EUR/SGD: EUR –3 million, EUR/RUB: EUR –3 million, and EUR/HKD: EUR –1 million.

**Interest rate risks.** Deutsche Telekom is exposed to interest rate risks, mainly in the euro zone and in the United States of America. 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 64 percent (2012: 65 percent) of net debt in 2013 denominated in euros and 76 percent (2012: 56 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.

Interest rate risks are presented by way of sensitivity analyses in accordance with IFRS 7. These show the effects of changes in market interest rates on interest payments, interest income and expense, other income components, and, if appropriate, shareholders' equity.

The interest rate sensitivity analyses are based on the following assumptions: Changes in the market interest rates of non-derivative financial instruments with fixed interest rates only affect income if these are measured at their fair value. As such, all financial instruments with fixed interest rates that are carried at amortized cost are not subject to interest rate risk as defined in IFRS 7.

In the case of fair value hedges designed for hedging interest rate risks, the changes in the fair values of the hedged item and the hedging instrument attributable to interest rate movements balance out almost completely in the income statement in the same period. This means that interest-rate-based changes in the measurement of the hedged item and the hedging instrument do not affect income and are therefore not subject to interest rate risk.

In the case of interest rate derivatives in fair value hedges, however, changes in market interest rates affect the amount of interest payments. As a consequence, they have an effect on interest income and are therefore included in the calculation of income-related sensitivities.

Changes in the market interest rate regarding financial instruments that were designated as hedging instruments in a cash flow hedge to hedge payment fluctuations resulting from interest rate movements affect the hedging reserve in shareholders' equity and are therefore taken into consideration in the equity-related sensitivity calculations.

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial instruments, the interest payments of which are not designated as hedged items of cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities. Changes in the market interest rate regarding interest rate derivatives (interest rate swaps, cross-currency swaps) that are not part of a hedging relationship as set out in IAS 39 affect other financial income or expense and are therefore taken into consideration in the income-related sensitivity calculations. Currency derivatives are not exposed to interest rate risks and therefore do not affect the interest rate sensitivities.

If the market interest rates had been 100 basis points higher (lower) at December 31, 2013, profit or loss before taxes would have been EUR 176 million (December 31, 2012: EUR 212 million) lower (higher). The hypothetical effect of EUR –176 million on income results from the potential effects of EUR –155 million from interest rate derivatives and EUR –21 million from non-derivative, variable-interest financial liabilities. Potential effects from interest rate derivatives are partially balanced out by the contrasting performance of non-derivative financial instruments, which cannot, however, be shown as a result of applicable accounting standards. If the market interest rates had been 100 basis points higher (lower) at December 31, 2013, the hedging reserve would have been EUR 184 million (December 31, 2012: EUR 179 million) higher (lower).

**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.

As in the prior year, no major price risks existed as of December 31, 2013.

**Credit risks.** Deutsche Telekom is exposed to a credit risk from its operating activities and certain financing activities. With regard to financing activities, transactions 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.

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. 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." 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 contracts. The corresponding receivables of EUR 941 million (December 31, 2012: EUR 246 million) were thus not exposed to any credit risks as of the reporting date (please also refer to Note 8 "Other financial assets," PAGE 196). The collateral paid, which is reported under

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millions of €

Dec. 31, 2013				
	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	410	362	613	1,583
Amounts set off in the statement of financial position in accordance with IAS 32.42	(177)	(177)	-	-
<b>Net amounts presented in the statement of financial position</b>	<b>233</b>	<b>185</b>	<b>613</b>	<b>1,583</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>(18)</b>	<b>(18)</b>	<b>(610)</b>	<b>(1,514)</b>
Of which: amounts related to recognized financial instruments	(18)	(18)	(574)	(574)
Of which: amounts related to financial collateral (including cash collateral)	-	-	(36)	(940)
<b>NET AMOUNTS</b>	<b>215</b>	<b>167</b>	<b>3</b>	<b>69</b>

millions of €

Dec. 31, 2012				
	Trade receivables	Trade payables	Derivative financial assets	Derivative financial liabilities
Gross amounts subject to enforceable master netting arrangements or similar agreements	477	404	1,287	911
Amounts set off in the statement of financial position in accordance with IAS 32.42	(222)	(222)	-	-
<b>Net amounts presented in the statement of financial position</b>	<b>255</b>	<b>182</b>	<b>1,287</b>	<b>911</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>(7)</b>	<b>(7)</b>	<b>(1,227)</b>	<b>(874)</b>
Of which: amounts related to recognized financial instruments	(7)	(7)	(642)	(642)
Of which: amounts related to financial collateral (including cash collateral)	-	-	(585)	(232)
<b>NET AMOUNTS</b>	<b>248</b>	<b>175</b>	<b>60</b>	<b>37</b>



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originated loans and receivables within other financial assets, is not subject to a credit risk and therefore 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 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. Since they are not exposed to any credit risk, they constitute a separate class of financial assets.

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 70 million had been pledged as of the reporting date (December 31, 2012: EUR 104 million), which also represent the maximum exposure to credit risk.

The total guarantee amount as of December 31, 2012 no longer includes the amount presented in connection with the framework agreement concluded in the 2012 financial year with Crown Castle concerning the leasing and use of cell sites in the United States. This is due to the considerably low maximum guarantee amount, since in the unlikely event that the guaranteed 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 land at short notice.

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 again 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, 2014. 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.

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 refer to TABLE 084, PAGES 198 and 199.

## 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 CHF, EUR, GBP, NOK, and USD. Fixed-income bonds/MTNs denominated in CHF, 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 CHFLibor, Euribor, GBPLibor, NOK-OIBOR,

or USDLibor 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 MTN 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.

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.

As the list of the fair values of derivatives shows (please refer to TABLE 156, PAGE 238), Deutsche Telekom had interest rate derivatives with a net fair value of EUR – 0.2 billion (December 31, 2012: EUR + 0.5 billion) designated as fair value hedges at December 31, 2013. The remeasurement of the hedged items resulted in gains of EUR 0.4 billion being recorded in other financial income/expense in the 2013 financial year (2012: losses of EUR 0.0 billion); the changes in the fair values of the hedging transactions resulted in losses of EUR 0.4 billion (2012: gains of EUR 0.1 billion) being recorded in other financial income/expense.

**Cash flow hedges – interest rate risks.** Deutsche Telekom entered into payer interest rate swaps and forward payer interest rate swaps (pay fixed, receive variable) to hedge the cash flow risk of variable-interest debt. The interest payments to be made in the hedging period are the hedged items and are recognized in profit or loss in the same period. The changes in the cash flows of the hedged items resulting from changes in the Euribor and Libor rates are offset against the changes in the cash flows of the interest rate swaps. The aim of this hedging is to transform the variable-interest bonds into fixed-income debt, thus hedging the cash flows of the financial liabilities. The terms of the hedging relationships will end in the years 2014 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 21 million was recognized in profit or loss under other financial income/expense in the reporting year (2012: EUR – 2 million).

All designated hedging relationships were sufficiently effective as of the reporting date.

As the list of the fair values of derivatives shows (please refer to TABLE 156, PAGE 238), Deutsche Telekom had interest rate derivatives with a fair value of EUR – 0.3 billion (2012: EUR – 0.6 billion) amounting to a nominal total of EUR 5 billion (2012: EUR 7.8 billion) designated as hedging instruments for the hedging of interest rate risks as part of cash flow hedges at December 31, 2013.

The recognition directly in equity of the change in the fair value of the hedging instruments resulted in gains (before taxes) of EUR 36 million (2012: losses of EUR 0.3 billion) in shareholders' equity in the 2013 financial year. Losses amounting to EUR 124 million (2012: losses of EUR 68 million) recognized directly in equity were reclassified to other financial income/expense in the income statement in the 2013 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 2014 through 2030. 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.

New EUR/USD cross-currency swaps with a total value in euros of EUR 3.1 billion were designated in the reporting period. Of these, cash flow hedges with a total value in euros of EUR 1.3 billion were concluded without nominal swap. The new transactions are mainly attributable to the business combination of T-Mobile USA and MetroPCS.

In the 2013 financial year, losses (before taxes) totaling EUR 199 million (2012: gains of EUR 36 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 2013 financial year, losses totaling EUR 70 million recognized directly in equity were reclassified to other financial income/expense and gains totaling EUR 16 million were reclassified to profit/loss from operations (2012: gains of EUR 58 million to other financial income/expense). There was no material ineffectiveness of these hedges recorded as of the reporting date.

As the list of the fair values of derivatives shows (please refer to TABLE 156), Deutsche Telekom had currency forwards of a net fair value of EUR + 21 million (December 31, 2012: EUR + 13 million), that are the result of foreign currency purchases totaling EUR 0.3 billion and foreign currency sales totaling EUR 0.8 billion (December 31, 2012: foreign currency purchases of EUR 0.6 billion and foreign currency sales of EUR 1.2 billion), as well as cross-currency swaps of a net fair value of EUR – 0.3 billion (December 31, 2012: EUR + 0.2 billion) and a total volume of EUR 4.8 billion (December 31, 2012: EUR 1.8 billion) designated as hedging instruments for cash flow hedges as of December 31, 2013.

**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 2013. The level of gains/losses recognized directly in equity (total other comprehensive income) remained unchanged at EUR –0.4 billion (before taxes).

**Derivatives.** TABLE 156 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, 2013	Net carrying amounts Dec. 31, 2012
<b>ASSETS</b>		
Interest rate swaps		
Held for trading	54	46
In connection with fair value hedges	62	490
In connection with cash flow hedges	–	–
Currency forwards/currency swaps		
Held for trading	26	12
In connection with cash flow hedges	24	22
Cross-currency swaps		
Held for trading	358	473
In connection with fair value hedges	–	8
In connection with cash flow hedges	89	236
Other derivatives in connection with cash flow hedges	–	–
Embedded derivatives	158	–
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Interest rate swaps		
Held for trading	226	164
In connection with fair value hedges	264	–
In connection with cash flow hedges	336	575
Currency forwards/currency swaps		
Held for trading	39	38
In connection with cash flow hedges	3	9
In connection with net investment hedges	–	–
Cross-currency swaps		
Held for trading	316	125
In connection with fair value hedges	12	–
In connection with cash flow hedges	387	–
Other derivatives in connection with cash flow hedges	–	–
Embedded derivatives	–	8

#### Transfer of financial assets.

##### Factoring transaction with substantially all risks and rewards being transferred.

In 2009, Deutsche Telekom entered into two factoring agreements, under each of which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 1,040 million. The agreements, each of which runs until 2015, give Deutsche Telekom the freedom to decide whether receivables will be sold and in which revolving nominal volume. Sales exceeding the revolving nominal volume are agreed with the respective bank in each case, if necessary. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, the risk of late payments (late-payment risk). The maximum credit risk-related loss to be borne by Deutsche Telekom is limited to the variable purchase price discount retained by the respective bank on the sale of receivables and refunded in the amount of the unused portion. The remaining credit risk-related losses represent substantially all the risks and rewards of ownership of the receivables and are borne by the respective bank. In the case of one transaction, a loan insurance policy is in force that reimburses losses relating to certain receivables to a maximum amount of EUR 67 million and thus reduces the exposure to loss. The late-payment risk continues to be borne in full by Deutsche Telekom. The maximum exposure to loss resulting from credit

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risk and late-payment risk relating to the receivables sold and derecognized as of December 31, 2013 (nominal volume EUR 1,041 million), excluding loan insurance coverage, is EUR 36 million. At the derecognition date, the fair value of the expected refund of the variable purchase price discount less the fair value of the expected loss from the late-payment risk was capitalized under other financial assets and the remaining difference was expensed. As of December 31, 2013, the carrying amount of the other financial asset representing Deutsche Telekom's entire continuing involvement was EUR 19 million, the fair value of which was EUR 19 million. Deutsche Telekom expensed EUR 136 million, including credit-risk discounts less bonuses to cover monthly bad debt losses, in the 2013 financial year from its continuing involvement including program fees (interest and bank margin), and has expensed a total amount of EUR 735 million since 2009. The banks have the right to sell overdue receivables back to Deutsche Telekom. However, this does not affect the allocation of the credit risk-related losses in any way because the purchase price equals the actual proceeds from collection or disposal. The buy-back does not entail any liquidity risks for Deutsche Telekom whatsoever, as payment of the purchase price to the banks is only due after the proceeds from collection or disposal have been received. As in previous years, the volume of receivables sold was not subject to major fluctuations during the financial year. As of December 31, 2013, a total provision of EUR 8 million was recognized for the receivables management to be performed by Deutsche Telekom.

**Factoring transactions involving the splitting of significant rewards and risks as well as the transfer of control.** In 2012 and again in 2013, Deutsche Telekom entered into a factoring agreement under which a bank is required to purchase trade receivables in a monthly revolving nominal volume of EUR 357 million when translated into euros. These agreements, which run until 2014 and 2015 respectively, give Deutsche Telekom the freedom to decide whether receivables will be sold and in which volume. The assessment of the risk associated with the sold receivables is based on the credit risk and, of lesser significance, 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 110 million. The other credit risk-related losses are borne by the bank. The existing loan insurance policy reimburses losses relating to certain receivables to a maximum amount of EUR 115 million and thus reduces the exposure to loss. The late-payment risk continues to be borne 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, 2013 (nominal volume EUR 345 million when translated into euros), excluding loan insurance coverage, is EUR 124 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) and control of the receivables was transferred to the bank. All receivables sold as of December 31, 2013 have been derecognized. At the derecognition date, the fair value of the expected losses was expensed as financial liabilities. As of December 31, 2013, the carrying amount of the financial liability representing Deutsche Telekom's entire continuing involvement was EUR 5 million and its fair value was EUR 5 million. Deutsche Telekom expensed EUR 11 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 17 million since the beginning of the transaction. The bank has the right to sell all receivables overdue by more than 90 days back to Deutsche Telekom at the nominal amount. This would not affect the allocation of the credit risk-related losses, as the latter would be passed back to the bank in line with the agreed risk allocation. The cash outflows caused by the buy-backs would occur in the short term, i.e., in 2014. The volume of receivables sold was not subject to major fluctuations since the beginning of the 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 and
- "Entrepreneurs within the enterprise"

For further information, please refer to the section "Comparison of our stakeholders' expectations with actual figures" (PAGE 57) and the section "Management of the Group" (PAGE 69 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 2.2 at December 31, 2013 (December 31, 2012: 2.1). 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 27.1 percent as of December 31, 2013 (December 31, 2012: 28.3 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, 2013	Dec. 31, 2012
Financial liabilities (current)	7,891	9,260
Financial liabilities (non-current)	43,708	35,354
<b>FINANCIAL LIABILITIES</b>	<b>51,599</b>	<b>44,614</b>
Accrued interest	(1,091)	(903)
Other	(881)	(754)
<b>GROSS DEBT</b>	<b>49,627</b>	<b>42,957</b>
Cash and cash equivalents	7,970	4,026
Available-for-sale/held-for-trading financial assets	310	27
Derivative financial assets	771	1,287
Other financial assets	1,483	757
<b>NET DEBT</b>	<b>39,093</b>	<b>36,860</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>32,063</b>	<b>30,531</b>

### 39 RELATED-PARTY DISCLOSURES.

**Federal Republic of Germany and other related parties.** The Federal Republic of Germany is both a direct and an indirect shareholder (via KfW Bankengruppe) and holds approximately 31.9 percent (December 31, 2012: 32.0 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 (BPS-PT), together with Deutsche Post AG and Deutsche Postbank AG for civil servant pension plans. The German Act on the Reorganization of the Civil Service Pension Fund (Gesetz zur Neuordnung der Postbeamtenversorgungskasse – PVKNeuG) transferred the functions of BPS-PT relating to civil servant pensions (organized within the Civil Service Pension Fund) to the existing Federal Agency effective January 1, 2013. The civil servant pension functions are therefore performed by the Civil Service Pension Fund as an integral part of the Federal Agency. This joint Civil Service Pension Fund works for the funds of all three companies and also handles the financial administration of the pension plan for the Federal Republic on a trust basis. For the 2013 financial year, Deutsche Telekom made payments in the amount of EUR 58 million (2012: EUR 61 million, 2011: 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 207).

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.

In connection with the option granted to all shareholders in 2013, KfW Bankengruppe requested its dividend entitlement for shares held in Deutsche Telekom AG for the 2012 financial year be paid out partly in cash and partly in shares from authorized capital. As a result, it received 47,429 thousand shares in June 2013. The stake of KfW Bankengruppe in Deutsche Telekom AG as of December 31, 2013 totaled 17.4 percent. Otherwise, Deutsche Telekom did not execute any individually material transactions in the 2013 financial year at off-market terms and conditions or, as described, outside of its normal business activities.

**Joint ventures.** In the 2013 financial year, Deutsche Telekom generated revenue and other operating income totaling EUR 294 million from the EE joint venture established on April 1, 2010, and revenue of EUR 62 million from Toll Collect.

Net funds of EUR 0.2 billion that had been invested by the EE joint venture were repaid to the company by Deutsche Telekom in the reporting year.

There were also receivables vis-à-vis the EE joint venture in the amount of EUR 94 million, liabilities of EUR 241 million, and loan commitments of EUR 0.3 billion at the end of the year. Loan guarantees and guarantee statements of EUR 0.6 billion given by the Company to third parties existed.

As of December 31, 2013, there were receivables vis-à-vis Toll Collect in the amount of EUR 13 million, liabilities of EUR 12 million, an equity maintenance undertaking, and loan guarantees granted to banks. For further details, please refer to Note 33 "Contingencies," PAGE 224 ET SEQ.

There are otherwise no material revenue, receivables or liabilities from or to joint ventures.

**Related individuals.** For information on the compensation of the Board of Management and Supervisory Board, please refer to Note 40 below.

Employee representatives elected to the Supervisory Board of Deutsche Telekom continue to be entitled to a regular salary as part of their employment contract. The amount of the salary is the adequate compensation for their job or activity within the Company.

Besides this, no major transactions took place with related individuals.

### 40 COMPENSATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD.

#### COMPENSATION OF THE BOARD OF MANAGEMENT.

The following disclosures on Board of Management compensation are in accordance with § 314 of the German Commercial Code (Handelsgesetzbuch – HGB) and German Accounting Standard No. 17 (GAS 17).

**Changes in the composition of the Board of Management and contract extensions.** Effective January 1, 2014 Timotheus Höttges succeeded René Obermann as Chairman of the Board of Management. The Supervisory Board appointed Timotheus Höttges Chairman of the Board of Management until December 31, 2018 at its meeting on May 15, 2013. At the same meeting, Thomas Dannenfeldt was appointed member of the Board of Management responsible for the Finance department, effective January 1, 2014. Thomas Dannenfeldt was appointed until December 31, 2018. Likewise at the meeting on May 15, 2013, Niek Jan van Damme's term of office as a member of the Board of Management was extended for another five years until February 28, 2019.

**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 con-



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tracts, members of the Board of Management are entitled to an annual fixed remuneration and annual variable performance-based remuneration, a long-term variable remuneration component, 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 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 in the new system 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 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 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.

**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, revenue from growth areas, EBITDA adjusted for special factors, 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 adherence to the 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 (adjusted operational 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 2013 financial year, the following absolute nominal amounts were pledged to the Board of Management members for their participation in the 2013 tranche of Variable II in the event of 100-percent target achievement.

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	2013 tranche	2012 tranche
René Obermann	1,092,000 <sup>a</sup>	1,092,000
Reinhard Clemens	650,000	650,000
Niek Jan van Damme	550,000	550,000
Timotheus Höttges	760,500	650,000
Dr. Thomas Kremer	550,000	492,708
Claudia Nemat	675,000	675,000
Prof. Marion Schick	550,000	550,000

<sup>a</sup> René Obermann's award amount relates to the entire four-year term of the 2013 tranche. Since René Obermann left the Company prematurely, he will only receive a quarter of the amount on a pro-rata basis for the term in which he was Chairman of the Board of Management of Deutsche Telekom AG.

**Information on the share matching plan.** In the 2013 financial year, the Board of Management members, as described above, 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 the Board of Management member's aforementioned personal investment (share matching plan) that will be allotted to the beneficiaries of this plan on expiration of the four-year lock-up period. This ensures that the shares granted by the Company can only be sold after the four-year period, and that this element of the compensation system rewards only the members' continued service to the Company.

GAS 17 and IFRS 2 require disclosure not only of the total expense related to share-based payment from matching shares in the 2013 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 159** does not represent a component of remuneration for the Board of Management members in 2013. It is an imputed value of the entitlements to matching shares determined on the basis of relevant accounting policies. **TABLE 159** is based on expected target achievement for the 2013 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 2013 financial year may be higher or lower than the amounts estimated here.

The total share-based payment expense for matching shares to be recognized for the financial years 2010 through 2012 and 2013, pursuant to IFRS 2, is included in the two last columns of **TABLE 159**.

Under the termination agreement concluded with René Obermann, all existing entitlements to matching shares were terminated without replacement of compensation. This resulted in income of EUR 0.5 million for the financial year as shown in **TABLE 159**.

By December 31, 2013, Deutsche Telekom had acquired 363,857 shares for the purpose of awarding matching shares to Board of Management members as part of the share matching plan.

**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 (6 percent for René Obermann) 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 (60 percent for René Obermann) of the last fixed annual remuneration will be attained.

The pension payments to be made increase dynamically, at a rate of 1 percent (3 percent for René Obermann). 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.

In addition, the Company makes contributions, including the related taxes, for term life insurance with standard coverage (EUR 1.3 million) for one Board of Management member. The related expenses are included in the figures for non-cash benefits.

**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.

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	Number of entitlements granted to matching shares since 2010 at the begin- ning of the financial year	Number of new entitle- ments to matching shares granted in 2013	Fair value of the matching shares at grant date €	Cumulative total share-based payment expense in 2013 for matching shares for the years 2010 through 2013 €	Cumulative total share-based payment expense in 2012 for matching shares for the years 2010 through 2012 €
René Obermann	184,399	0	0	(539,728)	258,458
Reinhard Clemens	93,193	25,610	174,153	166,907	129,381
Niek Jan van Damme	85,340	21,670	147,360	153,160	109,567
Timotheus Höttges	110,444	29,965	203,759	202,328	157,625
Dr. Thomas Kremer	13,057	21,670	147,360	38,270	8,753
Claudia Nemat	35,262	26,595	180,851	79,415	34,786
Prof. Marion Schick	22,862	21,670	147,360	56,276	20,249

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 entitled to the pension fund.

Service cost and defined benefit obligations for each member of the Board of Management are shown in TABLE 160 below.

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 amounts for Dr. Thomas Kremer, Claudia Nemat and Prof. Marion Schick total EUR 250,000 for each year of service.

The pension expense resulting from the company pension plan is shown as service cost. The additions to provisions for pensions recognized in 2013 amounted to EUR 3.9 million (2012: EUR 3.3 million). This amount includes interest expense totaling EUR 0.6 million (2012: EUR 0.5 million).

**Board of Management compensation for the 2013 financial year.** In reliance on legal requirements and other guidelines, a total of EUR 15.6 million (2012: EUR 15.0 million) is reported as total compensation for the 2013 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), 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 and other remuneration are totally unrelated to performance.

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	Service cost 2013	Defined benefit obligation (DBO) Dec. 31, 2013	Service cost 2012	Defined benefit obligation (DBO) Dec. 31, 2012
René Obermann	1,054,821	16,334,340	633,893	10,310,353
Reinhard Clemens	605,603	3,536,455	393,132	2,985,441
Niek Jan van Damme	305,199	1,584,901	248,106	1,260,019
Timotheus Höttges	582,852	5,607,988	306,848	2,924,289
Dr. Thomas Kremer	253,723	401,430	150,492	150,492
Claudia Nemat	275,014	605,675	191,850	349,412
Prof. Marion Schick	245,791	494,551	249,144	249,144



**Total compensation.** The compensation of the Board of Management is shown in detail in the following:

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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)	
René Obermann	2013	1,450,000	29,758	1,370,460	655,200	–	3,505,418
	2012	1,450,000	51,711	1,299,480	709,800	266,961	3,777,952
Reinhard Clemens	2013	840,000	22,366	755,950	390,000	174,153	2,182,469
	2012	840,000	22,596	688,350	422,500	158,905	2,132,351
Niek Jan van Damme	2013	794,355	24,555	647,900	330,000	147,360	1,944,170
	2012	700,000	26,023	716,100	357,500	134,458	1,934,081
Timotheus Höttges	2013	1,037,500	23,972	953,667	390,000	203,759	2,608,898
	2012	900,000	22,415	762,450	422,500	158,905	2,266,270
Dr. Thomas Kremer	2013	700,000	60,508	627,000	130,625	147,360	1,665,493
	2012	408,333	28,996	351,954	–	74,698	863,981
Claudia Nemat	2013	900,000	49,602	722,925	227,813	180,851	2,081,191
	2012	900,000	54,749	750,600	–	165,017	1,870,366
Prof. Marion Schick	2013	700,000	23,272	568,150	137,500	147,360	1,576,282
	2012	462,903	17,969	397,664	–	134,458	1,012,994
	2013	6,421,855	234,033	5,646,052	2,261,138	1,000,843	15,563,921
	2012 <sup>a</sup>	5,661,236	224,459	4,966,598	1,912,300	1,093,402	13,857,995

<sup>a</sup> Remuneration relating to Board of Management members who left the Company in the course of 2012 is no longer included in the table.

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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 2010 financial year. As they joined the Company after the commencement of the current plan tranche of Variable II, pro-rata pledges were granted to Claudia Nemat in 2011 and to Prof. Marion Schick and Dr. Thomas Kremer in 2012.

The Supervisory Board agreed to René Obermann's request to terminate his mandate as a member of the Board of Management prematurely and concluded a termination agreement effective December 31, 2013 containing the following provisions: René Obermann shall receive the full Variable I for the 2013 financial year in line with his individual level of overall target achievement. The same applies for the 2010 tranche of Variable II, which expired on December 31, 2013. René Obermann also participates in the 2011, 2012, and 2013 tranches of Variable II, each of which runs for four years, on a pro-rata basis for the length of time, during the term of the tranche, when he was Chairman of the Board of Management of Deutsche Telekom AG. All entitlements to matching shares were forfeited without replacement or compensation. The pension benefit rights accrued by René Obermann were already legally vested at the time he left the Company, meaning they are retained at December 31, 2013. Effective January 1, 2014, René Obermann shall receive one fixed annual salary as agreed compensation for the prohibition of competition.

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 and those who left in the reporting year.** A total of EUR 7.3 million (2012: EUR 7.2 million) was paid out regarding 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 139.1 million (December 31, 2012: EUR 142.5 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 compensation received by the members of the Supervisory Board is specified under § 13 of the Articles of Incorporation of Deutsche Telekom AG. Under the new 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:

- (a) The Chairman of the Audit Committee receives EUR 80,000.00, ordinary members of the Audit Committee EUR 40,000.00.
- (b) The Chairman of the General Committee receives EUR 35,000.00, ordinary members of the General Committee EUR 25,000.00.
- (c) 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. Under the old compensation system in place until December 31, 2012, members of the Supervisory Board may still be awarded variable, performance-related remuneration for the 2011 and 2012 financial years depending on the development of net profit per no par value share. The performance-related annual remuneration with long-term incentive effect amounts to EUR 1,000.00 for every EUR 0.02 by which the net profit per no par value share in the second financial year following the financial year in question (reference year) exceeds the net profit per no par value share in the financial year preceding the financial year in question. The performance-related annual remuneration as a long-term incentive is limited to a maximum of EUR 40,000.00.

Since the terms and conditions for the payment of the performance-based variable remuneration were not met as of December 31, 2013, the 2011 performance-based remuneration was not paid out.

The total compensation of the members of the Supervisory Board in 2013 amounted to EUR 2,596,666.67 (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 2013 is as follows:

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Member of the Supervisory Board	Remuneration	Meeting attendance fee	Total
Baldauf, Sari	90,000.00	10,000.00	100,000.00
Bednarski, Josef (since November 26, 2013)	13,333.34	2,000.00	15,333.34
Dr. Bernotat, Wulf	105,000.00	12,000.00	117,000.00
Dr. Beus, Hans Bernhard	101,666.67	19,000.00	120,666.67
Brandl, Monika	105,000.00	13,000.00	118,000.00
Dr. von Grünberg, Hubertus	100,000.00	10,000.00	110,000.00
Guffey, Lawrence H. (until September 30, 2013)	82,500.00	7,000.00	89,500.00
Hanas, Klaus-Dieter	70,000.00	9,000.00	79,000.00
Hauke, Sylvia <sup>a</sup>	90,000.00	11,000.00	101,000.00
Hinrichs, Lars (since October 1, 2013)	20,833.33	4,000.00	24,833.33
Holzwarth, Lothar <sup>b</sup> (November 26, 2013)	97,500.00	11,000.00	108,500.00
Kallmeier, Hans-Jürgen <sup>c</sup>	130,000.00	17,000.00	147,000.00
Kollmann, Dagmar P.	130,000.00	19,000.00	149,000.00
Kreusel, Petra Steffi <sup>d</sup> (since January 1, 2013)	110,000.00	14,000.00	124,000.00
Prof. Lehner, Ulrich (Chairman)	232,500.00	27,000.00	259,500.00
Litzenberger, Waltraud	155,000.00	27,000.00	182,000.00
Prof. Middelmann, Ulrich (until July 2, 2013)	70,000.00	4,000.00	74,000.00
Schröder, Lothar <sup>e</sup> (Deputy Chairman)	195,000.00	25,000.00	220,000.00
Dr. Schröder, Ulrich	94,166.67	9,000.00	103,166.67
Sommer, Michael	83,333.33	6,000.00	89,333.33
Spoo, Sibylle	70,000.00	9,000.00	79,000.00
Streibich, Karl-Heinz (since October 1, 2013)	20,833.33	3,000.00	23,833.33
Dr. h.c. Walter, Bernhard	150,000.00	12,000.00	162,000.00
	<b>2,316,666.67</b>	<b>280,000.00</b>	<b>2,596,666.67</b>

<sup>a</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 13,000.00 (including meeting attendance fees) in the 2013 financial year (for her mandate as member of the supervisory board of Telekom Deutschland GmbH).

<sup>b</sup> In addition to remuneration for his activities as a member of the Supervisory Board of Deutsche Telekom AG, Lothar Holzwarth also received other remuneration amounting to EUR 14,666.67 (including meeting attendance fees) in the 2013 financial year (for his 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 13,500.00 (including meeting attendance fees) in the 2013 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 11,500.00 (including meeting attendance fees) in the 2013 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 36,500.00 (including meeting attendance fees) in the 2013 financial year (EUR 21,500.00 for his mandate as member of the supervisory board of Telekom Deutschland GmbH and EUR 15,000.00 as Chairman of the Data Privacy Advisory Council).

#### 41 DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE IN ACCORDANCE WITH § 161 AktG.

In accordance with § 161 AktG, the Board of Management and the Supervisory Board of Deutsche Telekom AG have submitted the mandatory declaration of conformity and made it available to shareholders on Deutsche Telekom AG's website. The full text of the Declaration of Conformity can be found on the Deutsche Telekom website ([www.telekom.com](http://www.telekom.com)) under Investor Relations in the Corporate Governance section.

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#### 42 EVENTS AFTER THE REPORTING PERIOD.

**Agreement on the acquisition of spectrum licenses in the United States.** In January 2014, T-Mobile US entered into a purchase agreement with Verizon Wireless for the acquisition of 700 MHz A-block spectrum licenses for approximately USD 2.4 billion in cash and the exchange of certain Advanced Wireless Service (AWS) and Personal Communication Service (PCS) spectrum licenses. The acquired spectrum covers more than 150 million people in 23 markets, which corresponds to approximately 50 percent of the U.S. population or 70 percent of T-Mobile US's existing customer base. The transaction is subject to regulatory approval and expected to result in a non-cash gain upon closing in mid-2014.

**Agreements on the sale of the Scout24 group.** In November 2013, Deutsche Telekom agreed to sell 70 percent of the shares in Scout24 Holding GmbH to Hellman & Friedman LLC (H&F) on the basis of an enterprise value of EUR 2.0 billion. The relevant authorities gave their approval on January 24, 2014. In future, Deutsche Telekom will hold 30 percent of the Scout24 group, which is assigned to the Group Headquarters & Group Services segment. The transaction was completed on February 12, 2014.

Irrespective of this, by acquiring 100 percent of the shares in Scout24 International Management AG, Ringier Digital AG took over effective January 23, 2014 the 57.6 percent stake in Scout24 Schweiz AG that was held indirectly by Scout24 Holding GmbH.

These disposals are expected to generate cash inflows totaling approximately EUR 1.6 billion and book profits of around EUR 1.7 billion.

**Acquisition of residual non-controlling interest in T-Mobile Czech Republic.** On February 7, 2014, Deutsche Telekom signed a purchase agreement for the acquisition of the remaining 39.23 percent of shares in T-Mobile Czech Republic, which it did not yet own, for a purchase price of EUR 0.8 billion. T-Mobile Czech Republic had already been fully consolidated in the Europe operating segment. This transaction is not subject to regulatory approval. The transaction is scheduled to be completed at the end of February 2014.

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

TABLE 163 provides a breakdown of the auditor's professional fees recognized as expenses in the 2013 financial year:

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**PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.**  
millions of €

	2013
Auditing services	5
Other assurance services	15
Tax advisory services	0
Other non-audit services	2
	22

Professional fees for auditing services include in particular fees for the statutory auditing of annual and consolidated financial statements as well as fees for other auditing services.

Professional fees for other assurance services primarily relate to fees for the review of the interim financial statements as well as auditing activities in connection with the documentation of the internal control system for financial reporting.

Professional fees for tax advisory services primarily include professional fees for tax advisory services performed as part of current or planned transactions.

Other non-audit services mainly relate to services in connection with the Company's compliance with requirements stipulated by the Federal Network Agency and other authorities.

# 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 18, 2014

Deutsche Telekom AG  
Board of Management\*

Timotheus Höttges

Reinhard Clemens

Niek Jan van Damme

Thomas Dannenfeldt

Dr. Thomas Kremer

Claudia Nemat

\* Prof. Marion Schick is not available.

# 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, 2013.

## 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, 2013 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, 2013. 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 18, 2014

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Harald Kayser  
Wirtschaftsprüfer

Uwe Schwalm  
Wirtschaftsprüfer



# MEMBERS OF THE SUPERVISORY BOARD OF DEUTSCHE TELEKOM AG IN 2013.

## 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)
- Henkel Management AG, Düsseldorf (from 2/2008 to 3/2013)
- 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:

- Dr. August Oetker KG, Bielefeld, Member of the Advisory Board (since 3/2000)
- Novartis AG, Basel, Switzerland, Member of the Board of Directors (since 3/2002), Chairman of the Board of Directors (from 2/2013 to 7/2013)

## 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)

### Member of comparable supervisory bodies of companies in Germany or abroad:

- F-Secure Oyj, Helsinki, Finland, Member of the Board of Directors (since 3/2005)

## JOSEF BEDNARSKI.

Member of the Supervisory Board since November 26, 2013  
Deputy Chairman of the Group Works Council at Deutsche Telekom AG, Bonn and Chairman of the Central Works Council at Deutsche Telekom Kundenservice GmbH, Bonn

### Seats on the supervisory bodies of other companies:

- Deutsche Telekom Kundenservice GmbH, Bonn (since 11/2007)

## DR. WULF H. BERNOTAT.

Member of the Supervisory Board since January 1, 2010  
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 (since 5/2003)

## 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  
– no other seats –

## DR. HUBERTUS VON GRÜNBERG.

Member of the Supervisory Board since May 25, 2000  
Chairman of the Board of Directors of ABB Ltd., Zurich, Switzerland

### Seats on the supervisory bodies of other companies:

- Allianz Versicherungs-AG, Munich (from 5/1998 to 4/2013)

### Member of comparable supervisory bodies of companies in Germany or abroad:

- ABB Ltd., Zurich, Switzerland, Chairman of the Board of Directors (since 5/2007)
- Schindler Holding AG, Hergiswil, Switzerland, Member of the Board of Directors (since 5/1999)
- Sapinda Holding B.V., Schiphol, Netherlands, Chairman of the Advisory Board (since 2/2011)

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**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)

Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- Deutsche Telekom Kundenservice GmbH, Bonn (from 11/2007 to 11/2013)

**SYLVIA HAUKE.**

Member of the Supervisory Board since May 3, 2007

Member of the Central Works Council's executive committee 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)

**DAGMAR P. KOLLMANN.**

Member of the Supervisory Board since May 24, 2012

Entrepreneur, Deputy Chairwoman of the Supervisory Board, Hypo Real Estate Holding 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 (since 8/2009)
- Deutsche Pfandbriefbank AG, Unterschleißheim, Deputy Chairwoman of the Supervisory Board (since 8/2009)
- KfW IPEX Bank GmbH, Frankfurt/Main (since 5/2012)

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

Head of Executive Programs 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)

**WALTRAUD LITZENBERGER.**

Member of the Supervisory Board since June 1, 1999

Chairwoman of the Group Works Council at Deutsche Telekom AG, Bonn

– no other seats –

**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)
- 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

Chairman of the German Confederation of Trade Unions (DGB), Berlin

Member of comparable supervisory bodies of companies in Germany or abroad:

- KfW, Frankfurt/Main, Member of the Board of Supervisory Directors (since 1/2003)

\* Supervisory board seats in companies that are part of the same group, as defined in § 100 (2) Sentence 2 AktG (German Stock Corporation Act).

**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)
- MANN+HUMMEL GMBH, Ludwigsburg (since 6/2013)\*\*
- MANN+HUMMEL HOLDING GMBH, Ludwigsburg (since 6/2013)\*\*

**DR. H.C. BERNHARD WALTER.**

Member of the Supervisory Board since May 27, 1999  
 Former Chairman of the Board of Managing Directors, Dresdner Bank AG,  
 Frankfurt/Main

**Seats on the supervisory bodies of other companies:**

- Bilfinger Berger SE, Mannheim (since 7/1998),  
 Chairman of the Supervisory Board (since 5/2006)
- Daimler AG, Stuttgart (since 5/1998)

**Supervisory Board members who left in 2013:****LAWRENCE H. GUFFEY.**

Member of the Supervisory Board from June 1, 2006 to September 30, 2013  
 Senior Managing Director, The Blackstone Group International Partners LLP,  
 London, United Kingdom

**Member of comparable supervisory bodies of companies in Germany or abroad:**

- Axtel S.A.B. de C.V., San Pedro Garza Garcia, Mexico, Member of the Consejo de Administración (Board of Directors) (from 4/2000 to 6/2013)
- The Paris Review Foundation, Inc., New York, United States, Member of the Board of Directors (since 7/2006)
- TDC A/S, Copenhagen, Denmark, Member of the Bestyrelsen (Board of Directors) (from 2/2006 to 6/2013)

**Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:**

- T-Mobile US, Inc., Bellevue, United States, Member of the Board of Directors (since 5/2013)

**LOTHAR HOLZWARTH.**

Member of the Supervisory Board from November 6, 2002 to November 26, 2013  
 Chairman of the Central Works Council at Telekom Deutschland GmbH, Bonn

**Seats on the supervisory bodies of other companies:**

- PSD Bank RheinNeckarSaar eG, Stuttgart (since 1/1996),  
 Chairman of the Supervisory Board (since 6/2011)

**Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:**

- Telekom Deutschland GmbH, Bonn (from 3/2010 to 11/2013)

**PROF. H.C. (CHN) DR.-ING. E. H. DR. ULRICH MIDDELMANN.**

Member of the Supervisory Board from January 1, 2010 to July 2, 2013 (†)  
 Former Vice Chairman of the Executive Board, ThyssenKrupp AG, Duisburg and Essen

**Seats on the supervisory bodies of other companies:**

- Commerzbank AG, Frankfurt /Main (from 4/2006 to 7/2013 †)
- LANXESS AG, Leverkusen (from 3/2005 to 7/2013 †)
- LANXESS Deutschland GmbH, Leverkusen (from 3/2005 to 7/2013 †)

**Member of comparable supervisory bodies of companies in Germany or abroad:**

- Hoberg & Driesch GmbH, Düsseldorf (from 2/2001 to 7/2013 †),  
 Chairman of the Advisory Board (from 5/2004 to 7/2013 †)

**Supervisory Board members who left in 2014:****DR. HANS BERNHARD BEUS.**

Member of the Supervisory Board from December 15, 2011 to February 5, 2014  
 State Secretary, Federal Ministry of Finance, Berlin, until January 8, 2014

**Seats on the supervisory bodies of other companies:**

- Deutsche Bahn AG, Berlin (from 3/2010 to 1/2014)
- Deutsche Bahn Mobility Logistics AG, Berlin (from 3/2010 to 1/2014)
- Gesellschaft für Entwicklung, Beschaffung und Betrieb mbH, Cologne (from 8/2012 to 1/2014)
- KfW IPEX-Bank GmbH, Frankfurt/Main (from 3/2010 to 1/2014)

**Member of comparable supervisory bodies of companies in Germany or abroad:**

- Bundesanstalt für Immobilienaufgaben (Institute for Federal Real Estate), Bonn, agency under public law (not a commercial enterprise within the meaning of § 100 (2), Sentence 1, no. 1 AktG, Chairman of the Board of Governors, purely advisory body (from 5/2011 to 1/2014)

\*\* Committees with identical memberships which convene in the same meeting.

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# MEMBERS OF THE BOARD OF MANAGEMENT OF DEUTSCHE TELEKOM AG IN 2013.

## RENÉ OBERMANN.

Chairman of the Board of Management from November 13, 2006 to December 31, 2013

### Seats on the supervisory bodies of other companies:

- E.ON SE, Düsseldorf (since 5/2011)
- ThyssenKrupp AG, Duisburg and Essen (since 11/2013)

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Mobile USA Inc., Bellevue, United States (from 1/2003 to 5/2013),  
Chairman of the Board of Directors (from 12/2006 to 5/2013)
- T-Mobile US, Inc., Bellevue, United States,  
Member of the Board of Directors (from 5/2013 to 11/2013)
- T-Systems International GmbH, Frankfurt/Main,  
Chairman of the Supervisory Board (from 12/2006 to 12/2013)

## TIMOTHEUS HÖTTGES.

Chairman of the Board of Management since January 1, 2014

Board member responsible for Finance from March 1, 2009 to

December 31, 2013

Deputy Chairman of the Board of Management from January 1, 2013

to December 31, 2013

### Seats on the supervisory bodies of other companies:

- FC Bayern München AG, Munich (since 2/2010)

### 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)
- EE Limited, Hatfield, United Kingdom,  
Member of the Board of Directors (since 4/2012)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.),  
Maroussi, Athens, Greece (since 12/2011)
- 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 Service 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)

## 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)
- congstar GmbH, Cologne,  
Deputy Chairman of the Supervisory Board (from 3/2010 to 6/2013)
- EE Limited, Hatfield, United Kingdom,  
Member of the Board of Directors (since 2/2014)
- 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. THOMAS KREMER.

Board member responsible for Data Privacy, Legal Affairs and Compliance since June 1, 2012

– no other seats –

## 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 10/2011),  
Chairwoman of the Board of Directors (from 1/2013 to 12/2013)
- EE Limited, Hatfield, United Kingdom (from 10/2011 to 2/2014)
- HELLENIC TELECOMMUNICATIONS ORGANIZATION S.A. (OTE S.A.),  
Maroussi, Athens, Greece (since 10/2011)

## PROF. DR. MARION SCHICK.

Board member responsible for Human Resources since May 3, 2012

### Member of the supervisory bodies of the following subsidiaries, associates and joint ventures:

- T-Systems International GmbH, Frankfurt/Main (since 5/2012)
- Telekom Deutschland GmbH, Bonn (since 5/2012)

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# GLOSSARY.

**3G.** Third-generation mobile communications standard that supports higher transmission rates (see UMTS).

**4G.** Used to refer to the fourth-generation mobile communications standard (see LTE).

**Access.** Internet access.

**Adjacent industries.** Related industries or sectors, the products and services of which complement each other.

**ADSL.** See DSL.

**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).

**Android.** Platform for mobile devices that is based largely on Linux and Java. Android is being developed by the Open Handset Alliance, a Google initiative that counts T-Mobile among its members.

**App.** Apps (short for applications) are programs, especially for smartphones. They are available via an online shop that is usually integrated into the smartphone's operating system, and can be installed directly on the device.

**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 and 183).

**Bandwidth.** Denotes the width of the frequency band used to transmit data. The broader the bandwidth, the faster the connection.

**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 reseller pays 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.

**CRM – Customer Relationship Management.** A strategy by which a company manages its interactions with its customers and systematically structures the associated processes.

**Cyber Security.** Protection against online 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.

**Double play.** Refers to service packages combining Internet and voice communication.

**Download.** Refers to the downloading of files from a remote server over networks such as the Internet or mobile communication connections onto a local computer or other device such as a smartphone.

**DSL – Digital Subscriber Line.** In Deutsche Telekom's service portfolio as:

- **ADSL** (Asymmetrical Digital Subscriber Line) for private end-customer lines. Technology used to transmit data at fast rates (up to 8 Mbit/s downstream, 16 kbit/s to 640 kbit/s upstream) via standard copper wire pairs in the local loop within a radius of approximately three kilometers.
- **ADSL2 plus:** Successor product to ADSL that raises the maximum data rate to 16 Mbit/s (downstream) or 1 Mbit/s (upstream).
- **VDSL** (Very high speed Digital Subscriber Line): Transmission technology that allows very high bandwidths (up to 50 Mbit/s downstream, up to 10 Mbit/s upstream) on short copper access lines with a maximum length of 500 meters.

**Dynamic Computing.** A T-Systems product for the flexible procurement of ICT resources and services.

**Embedded system.** Refers to an electronic calculator or computer embedded in a technical system where the calculator either controls and monitors the system it is embedded in or is used for processing specific data or signals, for instance in connection with encryption, decryption, encoding, decoding, and filtering. Embedded systems perform functions – mostly unrecognized by users – in a variety of applications and devices such as medical equipment, washing machines, aircraft, automobiles, refrigerators, TVs, DVD players, set-top boxes, mobile phones, and other electronic entertainment devices. When used in complex systems, a wide range of otherwise autonomous embedded systems are usually combined in a network (e.g., in a vehicle or aircraft).

**Entertain.** Deutsche Telekom's Internet Protocol TV service (see also IPTV). The TV signals are transported over the digital subscriber line, facilitating interactive features such as time-shift TV or access to online video stores.

**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.

**E-TASC – Electronics Tool for Accountable Supply Chains.** E-TASC is an online information system used throughout the industry for evaluating supplier risks in terms of sustainability. As a member of the Global e-Sustainability Initiative (GeSI), Deutsche Telekom played a leading role in the development of this system and continues to be involved in its ongoing enhancement.

**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.

**Flat rate.** Rate plan for network access with unlimited online time and data volumes.

**FMC – Fixed-mobile convergence.** The integration of fixed-network and mobile technologies and/or rate plans.

**FTTB – Fiber To The Building or Fiber To The Basement.** In telecommunications FTTB means that optical fiber cable is terminated in the user's house (basement).

**FTTC – Fiber to the Curb.** In the FTTC architecture the optical fiber 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 optical fiber cable is terminated right in the user's home or apartment.

**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 accounts for 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.

**Gigabit.** 1 billion bits. Unit of measurement for data transfer rates.

**Gigabyte.** 1 billion bytes. Unit of measurement for data storage.

**GSM – Global System for Mobile communications.** Global standard for digital mobile communications.

**Hosting.** Denotes the provision of storage capacity via the Internet. An Internet service provider's most important services in relation to hosting are registering and operating domains, leasing web servers (in full or in part), and leasing space in a computing center, including Internet connections, regular and emergency power supply, etc.

**Housing sector.** Business model: partnering between Deutsche Telekom and the housing sector.

**HR.** Comprises all aspects of personnel management at all levels: employees, areas, or units, and the company as a whole. Integral part of a company's efforts to achieve its business targets.

**HSDPA – High Speed Downlink Packet Access.** Packet-based protocol that enhances data rates in UMTS networks and lifts transmission speeds into the megabit range.

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**HSPA+.** Evolved HSPA offering higher bit rates/bandwidths. HSPA+ enhances the data transfer rates further, making it an ideal standard for use in data-intensive mobile applications.

**Hybrid router.** Routers that are able to combine the customer's fixed and mobile bandwidths.

**IC – Interconnection.** Fixed-network termination. See MTR.

**ICT – Information and Communication Technology.**

**Intelligent network.** Denotes a service-oriented centralized system that piggybacks onto an existing communication network, adding intelligent network components and additional features in the process.

**Internet service provider.** An Internet service provider offers various technical services that are required to use or operate Internet services, usually in return for a fee.

**IP – Internet Protocol.** Non-proprietary transport protocol in layer 3 of the OSI reference model for inter-network communications.

**IP TV – Internet Protocol Television.** A system whereby a digital television service is delivered using the Internet Protocol. Refers to the digital transfer of television programs and films over a digital data network using the Internet Protocol (IP).

**IP-VPN – Internet Protocol Virtual Private Network.** A virtual private network or VPN – e.g., a company intranet – that uses the Internet Protocol. An IP VPN allows the connected Local Area Networks (LANs) of a company to swap data over a "secure" channel (IP tunneling). This makes it possible, for example, to provide secure access to a corporate network from any dial-up Internet access point in the world.

**IT – Information Technology.**

**Joint venture.** Two or more companies set up a joint enterprise for cooperation.

**LAN – Local Area Network.** Refers to a computer network that is restricted to company premises or a campus.

**LTE – Long Term Evolution.** New generation of 4G mobile communications technology using wireless spectrum that was previously reserved for TV broadcasting before digital TV was introduced. 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 tablet PCs.

**M2M – Machine to Machine.** Automatic exchange of information between machines. For example, in an emergency, alarm systems automatically send a signal to security or the police.

**Mbit/s – Megabits per second.** Unit of data transmission speed.

**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.

**NGA – Next-Generation Access.** Refers to access to next-generation networks such as IP networks, the optical fiber network (FTTH), and 4G mobile networks.

**NGN – Next-Generation Network.** A communication network that reflects the convergence of conventional networks (telephone networks, mobile communications networks, etc.) and IP-based networks. All services are based on the Internet.

**Optical fiber.** Channel for optical data transmission.

**Outsourcing.** The assignment of corporate tasks and units to third parties.

**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.

**PTC transaction.** For information on the agreement with the French company Vivendi, the Polish company Elektrim and Elektrim's creditors regarding PTC and its impact, please refer to the 2010 Annual Report (in particular PAGE 48) and the Interim Group Report for the period from January 1 to March 31, 2011 (in particular PAGES 7 and 64).

**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.

**Roaming.** Denotes the use of a communication device or just a subscriber identity in a different network (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.

**SCM – Supply Chain Management.** Refers to the planning and management of all aspects of supplier selection, procurement, and logistics.

**Service revenues.** Service revenues are revenues generated by mobile communications 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.

**Smart metering.** The service consists of the reading, processing, presentation, and billing of power and energy consumption, and other meters in industry and homes. Smart metering reduces costs considerably and paves the way for a mass-marketable service. In particular, the technology allows energy utilities, meter operators, and the housing sector to offer their customers innovative products and services, as it delivers consumption data virtually in real time.

**Smartphone.** Mobile handset that can be used as a cell phone, a web browser, and an e-mail reader simultaneously.

**SMS and MMS.** The Short Message Service (SMS) is a telecommunications service for the transmission of text messages. It was initially developed for GSM mobile communications and later also became available in the fixed network. The next step up from the SMS is the Multimedia Messaging Service (MMS), which allows the transmission of various media such as text, images, animations, video, and audio clips in a single message. The terms SMS and MMS refer not only to the services, but also to the messages themselves.

**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.

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**Tablet PC.** A flat portable computer with a touchscreen that can be operated with a finger or pen. These compact multimedia devices enable users to surf the Internet, check their e-mail, access photos and videos, listen to music, make phone calls, and read electronic books anytime, whether at home or on the move.

**TeraStream.** A considerably simplified IP network concept that provides all services, including conventional telecommunications services (voice, IPTV, Internet access), from the cloud rather than via a network as is the case today.

**Triple Play.** Refers to packages combining fixed-network voice, data, and TV services. Broadband networks enable customers to use the IP-based services over a single line.

**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."

**UMTS – Universal Mobile Telecommunications System.** Third-generation international mobile communications standard that unites mobile multimedia and telematics services in the 2 GHz frequency spectrum.

**Utilization rate.** Systems Integration: ratio of average number of hours billed to maximum possible hours billed per period.

**VDSL.** See DSL.

**Vectoring.** Vectoring is a noise-canceling technology that removes the 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.

**Visitor.** Visitors are customers of international mobile communications network operators who use voice or data services in a mobile network operated by a company of the Deutsche Telekom Group. The call or the transmitted data is routed via the network of the national company in question and terminated in another mobile or fixed network in the same or another country, or in the national company's own network.

**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 Deutsche Telekom PSTN line, which allows competitors to offer an all-IP product range to end customers.

**WLAN – Wireless Local Area Network.** Wireless networks for mobile Internet access. The network can also connect multiple computers to each other or to a central information system, a printer, or a scanner (often referred to as WiFi).

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## DISCLAIMER.

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

Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. They include, for instance, the progress of Deutsche Telekom's workforce reduction initiative and the impact of other significant strategic or business initiatives, including acquisitions, dispositions, and business combinations.

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If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, Deutsche Telekom's actual results may be materially different from those expressed or implied by such statements. Deutsche Telekom can offer no assurance that its expectations or targets will be achieved.

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These non-GAAP measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Non-GAAP financial performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways. For further information relevant to non-GAAP performance measures, please refer to the section "Development of business in the Group," PAGE 78 ET SEQ., in this Report or to Deutsche Telekom's Investor Relations website at [www.telekom.com](http://www.telekom.com).

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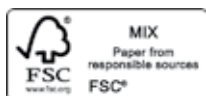
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## FINANCIAL CALENDAR.

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

Press conference on the 2013 financial statements and publication of the 2013 Annual Report	March 6, 2014
Group report as of March 31, 2014	May 8, 2014
2014 shareholders' meeting (Cologne)	May 15, 2014
Dividend payout <sup>b</sup>	June 11, 2014
Group report as of June 30, 2014	August 7, 2014
Group report as of September 30, 2014	November 6, 2014
Press conference on the 2014 financial statements and publication of the 2014 Annual Report	February 26, 2015

<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 11, 2014. Subject to approval by the relevant bodies and the fulfillment of other legal provisions.



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